

Allowing for the capitalized value of reductions in rentals, the remissions could be stated at not less than £10,000,000, of which over £8,500,000 was in respect of farm properties. In addition, there would be remissions in respect of applications withdrawn. Probably, however, in most of these cases the settlement was merely by way of extension of the term of the mortgage and, perhaps, reduction in the rate of interest. It is believed that the number of cases settled outside the Commissions was comparatively few, and it is a very probable estimate that the total of all remissions under the Act was between £10,000,000 and £10,500,000.

CONCLUSION.

As already indicated, the Adjustment Commissions were asked to answer certain questions relating to their work, and to append any general observations. It is not intended to traverse these answers in detail, but the following general observations are offered on the administration of the Act and on the mortgage system.

PROPERTY OTHER THAN FARM LAND OR STOCK ("HOME APPLICANTS").

These adjustments were based on the values subsisting on 1st October, 1936. Fundamentally, the future maintenance of these values depends on the continuation of a state of general employment at a wage-level and on the maintenance of a price-level not less than ruling in October, 1936, and so long as these conditions exist or do not materially change there should be no call for any further adjustment.

Briefly, the causes of the difficulties of urban property owners were—

- (a) Excessively high purchase price ;
- (b) Lack of capital ; and
- (c) Loss of employment.

The third factor precipitated the crisis in many cases. The first two factors were directly related to a shortage of the supply of houses for sale or available for renting. Excessively high purchase price was a direct source of trouble. Lack of capital involved a low deposit and the holding of the property under an agreement for sale and purchase. When property held under agreement was subject to short-term mortgages and a mortgage fell due, the purchaser was immediately in grave difficulties. Many purchasers of this type should never have bought properties at all, and should have remained tenants, but they were forced into purchasing because of their inability to rent.

Whatever the ultimate position of these particular applicants, it is clear that unless an adequate supply of rental houses is made available at a rate proportionate to the income level of the people the difficulties due to the purchase of houses on low deposits must inevitably occur. Where people in the lower-income groups cannot rent houses, they are forced to purchase them, and their means, or lack of means, necessitates low deposit. A vendor who sells on a low deposit will do so only if he is getting more than the property is worth.

It is, of course, beyond the scope of this report to go into this problem in detail. Special attention has been directed to this problem by the Auckland City (No. 1) Adjustment Commission.

Generally speaking, the Commissions reported that, except as to isolated cases, the adjustments would enable the applicants to retain the possession of their properties. Some of the Commissions in their reports advert to the possibility of a financial crisis in about three to four years' time, when some thousands of mortgages will fall due together. The matter of refinancing will constitute a problem that will require careful consideration.

In the majority of cases advances on first mortgage arranged on a trustee basis proved sound, and, while there were remissions of interest in some cases, the property generally sustained the amount of the principal sum due under the mortgage. Second mortgages advanced on the usual basis of 50 per cent. of the equity over and above the "trustee" first mortgage were not so well secured, and it was found that arrears of interest had to be remitted, and, as was estimated by one Commission, about one-half of the principal sum had also to be written off. Advances on a more liberal basis on second mortgage or on third mortgage, and sums due under agreements for sale and purchase, suffered fairly severely. These amounts, however, usually represented unrealized and unrealizable vendor profits.

One Commission was impressed with the number of private investors of small means in short-term mortgages. It thought that many mortgagees of that type were attracted by the higher interest-rate and by the nominally limited term of the advance—that is, they placed considerable reliance and importance on the covenant to repay the principal sum at the expiration of the term. The Commission thought that reliance on repayment of the principal sum at the expiration of the term of the mortgage was unwarranted, as the mortgagor could not make arrangements for repayment or refinancing. The short-term mortgage is undoubtedly an expensive form of financing.

All the Commissions were of the opinion that mortgagors had in general honestly tried to meet their commitments.

I make one final observation on this subject. If in the future extensive price fluctuations occur—that is, if there is a period of high prices and high wages, followed by a period of lower prices and lower wages—a problem identical with that at present under discussion will recur in connection with mortgages on properties purchased during the period of the high price-level. The prices of farm commodities are reflected in all spheres of economic life, and if these are fixed at the rates ruling during the last war the prices of town properties will inevitably soar, and immediately those farm prices drop the mortgage structure will once again become an acute problem.