A REVIEW OF

THE RURAL CREDIT SYSTEM

IN NEW ZEALAND 1964 to 1979

BY

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Research Report No. 114
August 1980
ISSN 0069-3790

THE AGRICULTURAL ECONOMICS RESEARCH UNIT
Lincoln College, Canterbury, N.Z.

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ACKNOWLEDGEMENTS

The authors would like to thank those many individuals and organisations who participated in the various surveys on which much of this Review is based.

In particular, gratitude is expressed to farmers who participated in the Lincoln College surveys of farmer opinion, to New Zealand institutions who participated in the postal survey of rural lenders, and to overseas institutions who readily provided details of the scope of their lending activity. However, a particular debt is acknowledged to those New Zealand organisations and individuals who also gave their valuable time in the personal survey of rural lenders, and whose frank observations of the current market situation were extremely helpful.

Finally, appreciation is expressed to Mrs S. M. Sheppard for her accurate and efficient typing of this Report.

CHAPTER 1

INTRODUCTION

1.1 New Zealand's Economic Climate 1964-79

Before reviewing New Zealand's rural credit system, it is necessary to consider the general economic climate prevailing during the period in question, in order that events will be perceived in an appropriate context.

Whereas the immediate World War II period of 1945-64 was one of dramatic and expanding rates of economic growth, mild inflation and comparative exchange rate stability, the subsequent period will be remembered for its disturbed economic and financial climate, a significant slowing down in economic growth in most countries, high and accelerating rates of inflation and serious exchange rate instability.

The period 1964-79 was, therefore, an eventful period for New Zealand's rural industries, dominated by economic and financial difficulties. Profitability was inadequate in certain periods, a situation which was aggravated by the adverse terms of trade in many years, the rise in inflationary pressures from the late 1960's, significant increases in livestock killing and processing charges, as well as rises in transport charges after the OPEC decision to escalate oil prices in 1973. In addition, many agricultural industries faced a new marketing situation following the United Kingdom's decision to join the European Economic Community. After the late 1960's, there was a failure of livestock units to increase, and an apparent trend away from livestock farming towards the latter part of the period.

1.2 The Rural Credit System Conceptualised

(a) The Rural Credit Market

The rural credit system in New Zealand may be conceptualised as a market with the classical demand and supply components, where allocation of funds is made via the price mechanism - in this case, the interest rate - or by other rationing criteria such as association with a lending institution, high loan security, or satisfying other conditions for favourable lending status. This market for rural credit is part of the overall credit market, and must be considered in association with it.

(b) Demand Components

The demand for long-term rural credit depends ultimately on the expected profitability of farming, where the terms of trade will be manifest in the level of farm incomes. Of more immediate concern may be the expectation of capital gain from holding farmland, which will also influence the demand for long-term credit.

The level of capital investment will determine the medium-term demand for rural credit. Once again, this will be largely dependent on the expected profitability of farming. However, other important factors include the extent to which changes in technology involve capital investment, and the extent to which government expenditure leads directly to on-farm investment.[1]

In the short-term, fluctuations in the level of farm incomes will influence credit demand, with the hypothesised relationship being that short run falls in rural income are associated with an increased demand for short-term credit.[2]

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1 For example, farmers usually make some on-farm capital investment to take advantage of government-financed irrigation schemes.

2 For example, Australian research indicates that rural consumption tends to be less responsive than that in other sectors to short-run changes in income. See Bureau of Agricultural Economics, A Review of Credit in the Australian Rural Sector, Canberra, 1977.

The extent to which these factors manifest themselves in the demand for all types of credit depends to some degree on the attitudes and aspirations of farmers. In this regard, the age of farmers, their attitudes to risk, and their present levels of indebtedness, are important.

The demand for funds from specific rural lenders depends on the extent to which these institutions lend on terms which are more favourable than those of other institutions - that is, the extent to which they offer lower interest rates and longer terms.

(c) Supply Components

The volume of funds available for lending to the rural sector by financial intermediaries depends on the total volume of funds they have available, and on their confidence in the profitability and safety of farming relative to alternative lending avenues.

The availability of funds depends on the source of lenders' funds, and on Government policy. For example, Government may vary the volume of rural lending directly through quasi-Government lending institutions, or it may exert a more indirect influence - for example, via the private banks by varying statutory reserve asset ratios.

Government may also have a strong influence on the relative profitability and security of farming through various incentive and guarantee schemes, which guarantee a basic level of farm prices and improve confidence in the farming industry.

1.3 Report Focus

This report does not purport to be a comprehensive coverage of all aspects of New Zealand's system of rural credit from 1964 to 1979.[3]

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3 The review begins in 1964 since it was approximately at this time that economic conditions in New Zealand's farming industries began to change significantly. In addition, the Report of the Finance Working Party reported its findings to the Agricultural Development Conference in 1964, thereby providing comprehensive baseline information against which any comparisons can be made.

Rather, the purpose is to highlight significant trends and events over the period, thereby facilitating a thorough perspective of the current rural credit situation.

Consequently, trends in the demand for, and supply of, rural credit are discussed within the framework established in this Chapter. The influence of Government policy is then analysed, and comment is made on back-up facilities which assist in the operation of the rural credit system.

The Rural Banking and Finance Corporation dominates the current rural lending scene in New Zealand, and is likely to continue to do so in the future. Therefore, its function and methods of operation are extremely important for the rural credit system. Consequently, a discussion of how similar overseas quasi-Government institutions function is appropriate and this is included.

Finally, issues arising from the present system of rural financing are discussed, and appropriate areas for further investigation are indicated.

1.4 Information and Data Sources

A variety of sources of information has been utilised for this Report. The first of these is the Report of the Finance Working Party[4] established in 1964 to bring down recommendations for a farm credit system that would help achieve livestock 'targets' prescribed during the Agricultural Development Conference held in the same year. This Committee dealt with many aspects of rural

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4 For a complete analysis and comprehensive list of recommendations by the Finance Working Party see 'Report, Agricultural Development Conference 1963-64, February 1966.' This report is hereinafter referred to as the 1964 APC Report.

credit including the total capital needs of the industry, the requirements of short, medium and long term finance, development finance, the various suppliers of rural finance, the importance of an adequate rural credit infrastructure including advisory services, farm accounting systems, publicity and information systems and statistical data.

In 1971, during the economic and financial crisis in the sheep farming sector, the Agricultural Production Council established a Committee to assess the extent of credit assistance needed and to plan for the future.[5] Following the Report of this Committee, the Government set up a committee of inquiry to make recommendations on the question of farm lending in general and particularly on the most desirable organisational structure for farm lending by the State and on the co-ordination between the Government's lending activities and its farm advisory services. This Committee presented its report in early 1972.[6]

To update the information provided by these sources, the authors have conducted further research on issues related to the rural credit situation. The first piece of research was a postal survey of farmer intentions, expectations and opinions, undertaken between June and August 1978.[7] This was followed by a postal survey of lending

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5 See Agricultural Production Council, Economic Position of the Farming Industry in New Zealand, April 1971. This publication is hereinafter referred to as the 1971 APC Report.

6 See Lending to Farmers, Report of the Committee of Inquiry, January 1972. This Report is hereinafter referred to as the 1972 Kirkpatrick Report.

7 This survey dealt with many issues, including financial factors affecting farmers. For further details, see Pryde, J.G., Survey of Farmer Intentions, Expectations and Opinions June - August 1978, A.E.R.U., Lincoln College, Research Report No. 96, 1978. This survey is hereinafter referred to as 'the survey of farmers.'

institutions undertaken during June and July 1979.[8] In addition to these two surveys, the authors undertook a series of personal visits during August and September 1979 to a selected sample of each type of institution lending to the rural sector.[9] The purpose of these interviews was to discuss with lenders a number of points raised by the surveys, and to elicit opinion on a wide range of issues relevant to the current system of rural credit.

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8 For a comprehensive report of the results of this survey, see Appendix 1. This survey is hereinafter referred to as 'the survey of lenders.'

9 See Appendix 2 for details of the types of institution visited.

CHAPTER 2

FACTORS INFLUENCING THE DEMAND FOR RURAL CREDIT 1964-79

2.1 Net Farm Incomes and Terms of Trade

During this interval, net farm incomes fluctuated (Table 4, Appendix 3) and New Zealand farming industries suffered adverse terms of trade for much of the period (Tables 5 and 6, Appendix 4). The 1972 Kirkpatrick Report concluded that the lack of profitability of farming was the major cause of farmers' financial problems rather than the availability of money.

2.2 Investment Levels

The 1964 APC Report suggested that \$600 m - \$1,000 m would be needed to finance investment over the decade 1964-73. However, estimates by Johnson (10) show that in money terms investment totalled almost \$1,300 m over this decade. In the years 1965-66 and 1966-67 investment reached very high levels in <u>real</u> terms but fell away dramatically in the next four years to reach, in 1970-71, almost the lowest post-war level (Table 7, Appendix 5). Thereafter it recovered to moderate levels but it was not accompanied by corresponding increases in livestock output. There is however, some evidence that a diversification of capital investment away from the traditional livestock sector occurred.

2.3 Land Values

Throughout the 1964-79 period, rural land values, as recorded by the Department of Statistics, rose substantially (and in 1973-74 dramatically) (Table 8, Appendix 6). While it would be wrong to attribute this rise to the availability of increased rural credit, there seems to be little doubt that increased credit facilitated the rise of rural land values.[10] There were, however, other factors such as the general inflationary pressures over the period,[11] the loss of confidence in money as a store of value, farm industry and government price support schemes, and the commodity boom of 1972-73.

2.4 Livestock Values

From 1963 to 1971, capital involved in increased livestock numbers had broadly kept pace with the increase in indebtedness (See the 1971 APC Report). Livestock values have since increased from early 1978.

2.5 Farmers' Indebtedness

From 1963 to 1971, total debt per farm had increased, on average, at an annual compound rate of about 11 per cent, from \$11,900 to \$24,700.[12]

By 1978, the average farm debt, according to the survey of farmer opinion was approximately \$50,000, which would imply an annual compound rate of increase of around ten per cent between 1971 and 1978.

Table 1 gives an indication of the distribution of farm debt in 1978. The distribution tends to be bimodal with 32 per cent of respondents estimating their liabilities to be between \$20,000 and

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10 The 1964 APC Report warned of the dangers of an excess supply of credit on farmland prices.

11 The annual rate of inflation in 1964 was around 3.5 per cent - 15 years later the rate was four times this level. This rise alone altered significantly the environment in which the rural credit system functioned.

12 Agricultural Production Council - 'Economic Position of the Farming Industry in New Zealand,' April 1971, p. 59.

TABLE 1

Survey of New Zealand Farmer Intentions, Expectations and Opinions - Estimated Distribution of Respondents' Liabilities at end of 1977

	Less than $5,000	$ 5,001 - 10,000	$ 10,001 - 20,000	$ 20,001 - 30,000	$ 30,001 - 40,000	$ 40,001 - 50,000	$ 50,001 - 75,000	$ 75,001 - 100,000	$ 100,001 - 150,000	$ 150,001 - 200,000	$ 200,001 - 250,000	$ 250,001 - 300,000	$ 300,001 - 400,000	$ 400,001 500,000	$ Over 500,000
Region	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1. Northland	12.9	6.1	12.9	16.7	15.9	8.3	11.4	7.6	6.8	0.8	0.0	0.8	0.0	0.0	0.0
2. Central Auckland	6.1	9.1	18.2	12.2	9.1	9.1	6.1	21.2	3.0	3.0	0.0	0.0	0.0	0.0	0.0
3. S. Auckland/ Bay of Plenty	4.9	7.3	12.7	7.8	12.7	13.0	14.1	13.5	10.0	1.4	2.2	0.3	0.3	0.0	0.0
4. East Coast	8.7	4.3	13.0	21.7	8.7	4.3	4.3	17.4	13.0	4.3	0.0	0.0	0.0	0.0	0.0
5. Hawkes Bay	4.2	2.8	18.3	7.0	8.5	8.5	9.9	9.9	15.5	5.6	4.2	4.2	1.4	0.0	0.0
6. Taranaki	9.8	13.9	13.9	14.8	4.9	9.8	12.3	9.8	6.6	2.5	1.6	0.0	0.0	0.0	0.0
7. Wellington	11.9	8.2	12.7	10.4	8.2	11.2	11.9	9.0	9.0	5.2	1.5	0.0	0.0	0.7	0.0
8. Marlborough	9.1	4.5	9.1	22.7	0.0	9.1	18.2	13.6	4.5	9.1	0.0	0.0	0.0	0.0	0.0
9. Nelson	13.6	13.6	4.5	18.2	13.6	4.5	13.6	4.5	4.5	9.1	0.0	0.0	0.0	0.0	0.0
10. Westland	0.0	0.0	0.0	27.3	18.2	36.4	9.1	9.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11. Canterbury	7.2	6.7	12.9	12.4	8.8	6.7	12.9	12.9	9.8	5.7	1.5	1.5	0.5	0.0	0.5
12. Otago	3.6	6.3	3.6	6.3	15.2	10.7	25.9	9.8	9.8	4.5	0.9	2.7	0.0	0.0	0.9
13. Southland	4.8	8.7	4.0	18.3	8.7	7.1	20.6	9.5	11.9	4.0	0.8	0.8	0.0	0.8	0.0
Type of Farm															
1. Dairy	8.4	7.8	15.7	12.6	11.5	12.0	12.0	9.5	7.5	1.8	0.9	0.2	0.0	0.0	0.0
2. Sheep/Beef	6.6	7.4	8.5	10.8	10.1	8.8	16.5	12.2	10.9	4.3	1.8	1.0	0.4	0.3	0.3
3. Cropping	3.6	8.9	10.7	21.4	8.9	5.4	5.4	16.1	5.4	7.1	1.8	5.4	0.0	0.0	0.0
Age of Farmer															
1. Under 40	3.7	4.9	5.6	9.8	9.8	9.0	17.5	14.9	14.7	5.8	2.5	1.2	0.2	0.2	0.2
2. 40-50	7.5	6.7	13.3	12.6	12.0	12.2	14.9	9.3	6.9	2.0	0.9	1.1	0.2	0.2	0.2
3. Over 50	13.0	13.9	19.3	14.8	10.2	8.7	7.8	7.5	3.0	1.2	0.3	0.0	0.3	0.0	0.0
Overall	7	7	7	11	11	10	9	13	10	9	3	1	1	0	0

Source: Pryde, J.G., op. cit;
File data from 1978 Survey of Farmer Opinion

$50,000, and a further 32 per cent with liabilities between $75,000 and $200,000.

In general, this pattern is followed in each region, although there is some variation in where the modes actually occur. However, a different pattern emerges when the type of farming is considered. In general, estimated liabilities are lower for dairy farms than for sheep-beef enterprises. This distribution of liabilities for cropping farms tends to lie between these two. As would be expected, farmers under 40 have a higher level of liabilities than farmers between 40 and 50 and farmers over 50 (see Table 1).

2.6 Demand for Additional Finance

(a) Availability of Finance The 1978 survey of farmer opinion attempted to gain details of farmers' demand for extra finance. Of overwhelming significance was the fact that 96 per cent of respondents in this survey were able to secure finance for all their farming requirements during the 1977-78 season.

(b) Renewal or Renegotiation of Loans During the 1978-79 season, respondents with mortgages or other loans to renew or renegotiate included 27 per cent with loans arranged through solicitors, 17 per cent with loans from trading banks, and 10 per cent with loans from relatives.

Those respondents having to renew mortgages or loans in 1978-79 indicated that they would approach the following borrowing sources in the first instance:

(i) Rural Banking and Finance Corporation (RBFC) - 31 per cent.

(ii) Trading Bank - 25 per cent.

(iii) Other people - through solicitor - 16 per cent.

(c) Type of Finance Required Immediate future credit needs centred on short-term finance, with 22 per cent of respondents indicating that they would require additional short-term finance (less than 3 years) in 1978-79. Five per cent indicated a need for additional medium-term finance (3-10 years) and 9 per cent were seeking long-term finance (over 10 years).

(d) Anticipated Source of Additional Finance Fifty per cent of those requiring additional finance indicated that they would approach trading banks as a first source. A further 28 per cent intended to approach the RBFC, while another 12 per cent listed stock and station agents as a first choice.

2.7 Loan Servicing

The increased price of rural finance, brought about by the Government's 1976 monetary policy measures, has raised borrowers' production costs and added to their cost of loan servicing and repayment. However, as shown in Table 9, (Appendix 7), the increased costs have not been as high as might have been expected. Admittedly, the calculations include loans at formerly lower market rates and a proportion will be a subsidised rates. Inevitably, in any change in policy such as interest rate increases, the change affects only a proportion of the total number of participants - usually the newcomers. A period of time, often many years, must elapse before the full effects of such policy changes become apparent.

This question of the increased cost of loan servicing was raised with the lending institutions visited. Concern was expressed by some of the institutions over the continuing increase in interest rates. However, these institutions reported that clients were more concerned about the availability of credit rather than its cost, which suggests that the increased cost of credit may often be outstripped by inflation in asset values.

2.8 Farm Equity

In the period 1963-71, average equity per farm had decreased from 73 per cent to 71.6 per cent.[13] However, in the period 1971-79, average equity per farm rose substantially, as can be seen from statistics based on surveys of sheep-beef farms (Table 10, Appendix 8).

2.9 Summary

The profitability of farming fluctuated over the period under review, with a trough in 1971. However, lending institutions interviewed in 1979 indicated that they felt that the profitability of rural industries at that time, was quite favourable in relation to other sectors of the economy. Real investment was at very high levels at the beginning of the period. It fell away to a very low trough in 1970-71, after which it recovered to more moderate levels. The fluctuation in farm incomes over the period caused considerable liquidity problems for some short-term lenders. This was a problem in 1970-71 particularly, when the demand for short-term finance did not fall to the same extent as the level of farm incomes.

Average indebtedness per farm increased over the period at an annual compound rate of about ten per cent. However, although equity levels declined slightly until 1971, they rose substantially over the remainder of the period. These trends may be partially explained by inflationary pressures, particularly in latter years, when land values rose dramatically. This inflationary trend accounts for some of the intense demand pressure in the latter part of the period under review.

Interest rates rose over the period, with the increase being quite substantial after 1976. However, this has not yet been felt by all farmers in their loan servicing committments. This interest

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13 See the 1971 APC Report.

rate trend has led to a widening of the interest rate gap on RBFC loans and those offered by other institutions. In addition, rising interest rates have induced a substantial shortening in the term of loans offered by some private institutions. Therefore, an intense demand for RBFC funds has built up.[14]

In general, demand pressure has fluctuated over the period. By 1971, availability of finance was not considered a problem. However, by 1979, an excess demand situation had built up, particularly for long-term finance, which was being reduced, in general, by administrative rationing criteria, rather than by the interest rate.

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14 However, the 1980 Budget measures now allow the RBFC greater flexibility in setting interest rates, thereby allowing it the option of setting rates which are more compatible with competitive market rates.

CHAPTER 3

THE SUPPLY OF RURAL CREDIT 1964-79

3.1 Sources of Farmer Liabilities

Table 2 (derived from the 1978 survey of farmer opinion) gives some indication of a recent distribution of farmer liabilities among sources of finance. The most significant sources were the RBFC, family relatives, trading banks and solicitors' funds, with these four categories accounting for 70 per cent of sources.

There is quite a variation between regions in the source of liabilities. Table 2 outlines which loan sources are relatively more important in particular regions. Similarly, there is considerable variation in sources of finance for different types of farm, and for farmers in different age groups.

Relevant points emerging from Table 2 are as follows:

(i) Trading Banks are more important as a source of finance in the North Island than in the South Island.

(ii) Stock and Station Agent activity is especially important to eastern South Island regions, in Hawke's Bay and the East Coast of the North Island.

(iii) Savings Bank lending is especially important in Westland. In this region, their loans comprised 11 per cent of farmer liabilities.

(iv) The contribution of family relatives varies between regions, ranging from 30 per cent of liabilities in the East Coast to nothing in Westland.

TABLE 2

Survey of New Zealand Farmer Intentions, Expectations and Opinions - Estimated Distribution of Sources of Respondents' Liabilities at end of 1977

	Trading Bank	Stock & Station Agent	Dairy Company	Finance or Hire Purchase Company	Savings Bank	Family Relatives	Other people through your Solicitor	Trust/ Trustee Company or Office	Insurance Company including Govt Life	Marginal Lands Board	RBFC	Other
Region	%	%	%	%	%	%	%	%	%	%	%	%
1. Northland	9.9	2.4	2.3	0.5	1.0	11.1	7.0	1.8	5.4	5.8	46.0	6.8
2. Central Auckland	5.7	1.2	4.2	1.0	0.5	15.6	18.9	0.0	9.9	0.0	33.0	10.1
3. S. Auckland/ Bay of Plenty	11.1	1.6	2.6	1.2	2.6	15.8	10.3	2.4	5.8	0.6	38.4	7.5
4. East Coast	6.9	8.8	0.0	0.0	0.0	29.8	8.6	1.7	11.8	4.1	28.3	0.0
5. Hawke's Bay	7.7	11.6	0.6	1.5	0.9	17.2	5.9	3.8	12.9	0.2	31.9	5.8
6. Taranaki	12.7	2.8	0.1	0.4	4.6	16.4	10.0	7.8	2.3	3.8	30.0	8.9
7. Wellington	16.0	4.9	0.0	1.1	0.9	16.9	9.4	4.5	8.0	1.8	33.9	2.5
8. Marlborough	8.3	13.9	0.0	0.0	0.0	22.7	4.7	10.1	2.0	0.5	33.8	3.7
9. Nelson	14.2	2.4	0.2	4.8	0.8	6.5	7.9	7.3	0.7	6.3	45.1	3.7
10. Westland	4.7	1.1	0.1	0.9	11.2	0.0	3.7	0.0	0.0	17.0	61.3	0.0
11. Canterbury	7.5	10.4	0.0	1.1	0.1	23.4	7.4	5.4	5.7	1.1	31.0	7.0
12. Otago	4.9	8.2	0.0	1.1	1.6	14.9	7.9	12.3	6.9	0.2	36.1	5.9
13. Southland	6.5	10.6	0.0	1.0	4.2	18.1	5.7	3.3	9.0	1.9	32.3	7.4
Type of Farm												
1. Dairy	9.5	1.0	2.5	1.2	2.5	14.8	9.7	3.4	5.3	2.5	40.7	6.8
2. Sheep/Beef	9.8	8.6	0.1	0.8	1.6	17.6	7.9	5.3	7.3	1.6	33.3	6.2
3. Cropping	11.1	9.0	0.4	3.2	1.2	26.1	8.8	4.4	5.4	0.7	21.2	8.5
Age of Farmer												
1. Under 40	7.3	5.9	1.0	1.2	1.3	23.7	5.8	4.3	6.0	1.8	36.4	5.3
2. 40-50	9.9	4.9	1.4	0.9	2.3	14.1	12.8	4.2	6.5	1.5	34.9	6.4
3. Over 50	13.7	6.1	0.8	1.0	2.6	8.4	7.9	5.3	7.0	2.7	35.6	8.8
Overall	9.7	5.6	1.1	1.0	2.0	16.8	8.6	4.5	6.4	1.9	35.8	6.5

Source: Pryde, J. G., op cit;
File data from 1978 Survey of Farmer Opinion.

(v) The contribution of solicitors' funds also varies between regions, amounting to 19 per cent of liabilities in Central Auckland, but only 5 per cent in Marlborough.

(vi) The operation of Trust Companies is strongest in Otago, and also of significance in Marlborough and Taranaki.

(vii) Insurance companies make a significant contribution in Hawke's Bay, East Coast, Central Auckland and Southland.

(viii) Marginal Lands Board activity is strong in Westland, and, to a lesser extent, Nelson and Northland.

(ix) RBFC funds are more important than average for Westland, Nelson and Northland. In other regions the proportion of liabilities owed to the RBFC does not vary greatly from the national average of 36 per cent.

(x) The liability distribution for the East Coast differs from the national pattern to the extent that family relatives dominate as a source of funds. Family relatives, the RBFC and insurance companies account for 70 per cent of liabilities in this region.

(xi) The pattern of liabilities in Marlborough is also different, with the RBFC, family relatives, stock and station agents and trust companies accounting for 80 per cent of loans.

(xii) Institutional lenders dominate in Westland, with the RBFC and the Marginal Lands Board accounting for 78 per cent of liabilities.

(xiii) Stock and Station agents account for 9 per cent of sheep/beef and cropping farm liabilities but only 1 per cent of dairy farm liabilities.

(xiv) Family relatives are an important source of finance for cropping farmers, accounting for 26 per cent of liabilities.

(xv) The RBFC is a lender of greater significance to dairy farmers (where it accounts for 41 per cent of liabilities) than for cropping farmers, where the comparable figure is only 21 per cent.

(xvi) Trading Banks account for a greater proportion of the liabilities of older farmers.

(xvii) The survey of farmer opinion also showed that the average annual premium paid to insurance companies was $678, and the average amount owed to these companies was $27,294. The level of loans tended to vary quite substantially between regions and types of farms and were not necessarily related to the level of premiums paid which also showed interregional and farm-type variation (see Table 11, Appendix 9).

3.2 Private Sector Lending 1964-79

(a) Level of Private Lending During this period, all private institutions increased the absolute level of their lending, but there was a decline in the relative contribution from insurance companies and private individuals.[15] The 1964 APC Report had stressed the importance of retaining the participation of the non-farm sector. However, the 1971 APC Report and the 1972 Kirkpatrick Report both noted a declining proportionate contribution of farm loans

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15 Tables 12 and 13 (Appendix 10) provide some indication of this trend but the table was discontinued in 1975 as the Department of Statistics considered it was not possible to distinguish accurately between rural and urban mortgages. However, the series was subsequently revived for the Ministry of Agriculture and Fisheries as shown in Tables 12 and 13 (Appendix 10). The 1971 APC Report makes note of this trend also.

from the private sector.[16]

(b) Purpose of Loans The survey of rural lenders showed that, currently, most types of institutions - with the exception of co-operative dairy companies - are prepared to lend for all types of farming activity, with appropriate regard being taken of risk and repayment factors. However, stock and station agents and trust companies tend not to lend for fruit-growing and horticulture, or for poultry, pig-farming and beekeeping. Life offices tend not to lend for poultry, pig-farming and beekeeping also. Most types of institution are expecting increased growth in horticultural output and, consequently, expect an increased demand for funds in this area.[17]

However, it became apparent from personal interviews, that private sector lenders - in particular, insurance companies - tend to favour the provision of finance for well-developed properties rather than for the more difficult developing properties.

(c) Loan Terms

1. Seasonal and Short-term Lending

A. Seasonal Finance Over the period, seasonal finance was provided by stock and station agents and trading banks, with co-operative dairy companies also making a contribution. This seasonal finance from both the trading banks and the stock

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16 The 1971 APC Report recommended some changes aimed at ensuring greater private sector participation in the supply of farm credit.

17 Because of lack of data, it is difficult to ascertain whether and how the purpose of rural loans granted has changed over the period.

and station agents expanded considerably during the period. But there were periods (e.g. 1970-71) of considerable 'squeeze' when the stock and station agents experienced severe liquidity problems. Some of these problems arose from the fact that a significant proportion of the advances of the stock and station agents had become 'hard core' debt. This problem, associated traditionally with seasonal lending to farmers, has been said to be due in part to 'inadequate supervision' on the part of the lender.[18]

B. Short-term Finance Over the period, trading banks and stock and station agents were an important source of loans to the farming and farm servicing sector.[19]

In recent years it appears that trading banks have increased the level of their advances to the rural sector (see Table 14, Appendix 11). However, it appears that the proportion of total bank advances destined for agriculture has fallen slightly over the same period. It also appears that some banks may be aiming eventually at phasing out the overdraft system and replacing it with term loans. Such a development would increase the cost of finance to rural borrowers, as interest would be charged on the total amount of the loan, rather than on the actual level of the overdraft exercised.

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18 See Stanbridge, R.J., An Explanatory Investigation into the Farm Credit Market in New Zealand, 1972, Unpublished PhD Thesis, Victoria University of Wellington. The 1964 APC Report also stressed the need to ensure that the activities of short-term lenders did not develop into hard-core indebtedness.

19 This was noted in the 1972 Kirkpatrick Report. See Table 14, (Appendix 11) for trading bank lending to the farming sector. Co-operative dairy companies also make a contribution in the area of short-term financing.

The 1971 APC Report noted that a sharp increase in the level of short-term debt (especially with stock and station agents) had occurred in recent years, which it attributed to an increase in seasonal advances, an increase in prices paid by farmers and an increase in capital as a consequence of a diversion into cattle.

The short-term credit market was in a liquidity crisis situation at certain times during the period, especially following downturns in net farm incomes (e.g. 1969-70).[20] Emergency measures were taken by Government and these involved the short-term lending institutions and the State Advances Corporation (SAC).

As a result of the downturn in farm incomes in 1977-78, the stock and station industry again faced a liquidity crisis. In an address to the 1978 Lincoln Farmers' Conference (13), a representative of the New Zealand Stock and Station Agents' Association attributed the situation to factors which included a compounding of farm cost increases since 1973-74, skimming-off of farmers' revenue into stabilisation and income stabilisation accounts, the effects of livestock price increases and development programmes, heavy taxation payments that the agents made on behalf of clients in March 1977 - payments which many clients had not been able to repay - a noticeable lack of suitable outside term loan finance other than that provided by the RBFC and, finally, an inadequate cash flow due to lower wool and lamb prices.

To overcome their liquidity problems some suggestions were put forward by the Stock and Station Agents Association to Government.

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[20] Table 15 (Appendix 12) sets out the farm lending operations of Stock and Station Agents over the period under consideration.

These included the restructuring on a long-term basis of indebtedness that was 'hard core', a policy of tax benefits or the issue of rural bonds to institutional lenders, trustee companies and life assurance companies.[21]

C. Medium-Term Finance Medium-term finance is currently provided by the trading banks and the RBFC, with some trustee savings banks and building societies also operating in this area.

Although the 1972 Kirkpatrick Report concluded that there was a shortage of medium-term loan finance for credit-worthy borrowers for the purchase of stock and plant, there was little evidence that this was considered a problem when interviews of lending institutions were undertaken in mid-1979.

D. Long-Term Finance Current sources of long-term finance are building societies, trustee savings banks, life offices and the RBFC, with the RBFC providing a large proportion of these funds.

The most significant trend in long-term financing over the period concerns the shortening of loan terms. The accelerating rate of inflation over the latter part of the period caused lenders to demand that their loans be of shorter duration to give them greater opportunity to protect the purchasing power of the funds involved. Therefore, different types of institutions are now making a significant volume of finance available on a short-term renewable

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21 The suggestion of 'a commercial wing' for the Rural Banking and Finance Corporation was also made but the proposal gained support neither from Government nor from the farming community.

basis for purposes such as land purchase - for which long-term finance has been sought traditionally. Some trust companies, life offices and building societies fall into this category. Funds from solicitors' trust accounts and nominee companies, and from finance companies, are also made available on a short-term basis for land purchase. In the case of finance companies, some of this funding may even be seasonal.

This situation has created problems for those farmer borrowers whose operations were programmed to allow for repayment only after a certain stage of development was reached. More frequent interest rate reviews reduced some of the problems but the whole situation highlighted several important principles. One of these was that the term of farm loans remains a key factor in any viable farm credit system. In this regard the RBFC's lending policy during the period made an important contribution.

3.3 Government Sector Lending 1964-79

(a) Government Lending Agencies Government lending to the farming sector is undertaken through the Marginal Lands Board, the Department of Maori Affairs, the Land Settlement Scheme of the Lands and Survey Department and the Rural Banking and Finance Corporation (formerly the State Advances Corporation).[22] However, the vast majority of lending is undertaken through the

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22 In the early part of the period, most Government lending was channelled through the State Advances Corporation (SAC). However, this institution was abolished and replaced in 1974 with the Rural Banking and Finance Corporation (RBFC). The primary role of the RBFC was to be the major Government lending institution for the agriculture and fishing sectors in New Zealand. Its secondary function was to be an instrument of Government agricultural policy in such areas as the administration of incentive schemes aimed at increasing the volume of exports from the agricultural and fishing sectors.

Rural Banking and Finance Corporation.[23]

(b) Priorities in Lending by the RBFC The 1964 APC Report supported the SAC policy of financing farm development and recommended that it accord finance for this purpose as its first priority.[24] Over the decade following this Report, SAC authorisations for development rose, but then fell away. However, by 1978-79, with the expansion of the Land Development Encouragement Scheme, development authorisations had again risen markedly.[25]

The 1972 Kirkpatrick Report stressed the need for an order of priorities for public sector loans to the farming industry, and laid down an initial set of suggested priorities for applications for Government farm loan resources. First priority was accorded farm purchase with emphasis on assisting young men on to the land. This was followed by development, amalgamation for restructuring purposes, refinancing, and, finally, medium-term lending of five to fifteen years for plant and stock. However, the 1972 Kirkpatrick Report did emphasise that priorities would need to be reviewed continually to keep pace with changing conditions.

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23 The 1964 APC Report had recommended an increased vote and increased publicity for the Marginal Lands Board. Although Government granted some additional funds to the Marginal Lands Board, annual total lending did not exceed much over $4 million. Government had obviously decided to concentrate resources in the SAC, and although these other Government lenders are currently important in providing financial assistance of a specialised type, they cannot be regarded as significant rural lenders overall.

24 The Report also stressed the importance of the continuity of finance for development purposes and the need for adequate financial support for New Zealand's rapidly expanding agricultural contracting services.

25 As shown in Table 16, authorisations for development comprised 27 per cent of the total in 1963-64, but fell away to below 20 per cent over the next decade. By 1978-79, the proportion had risen to over 40 per cent.

The recent surveys conducted showed wide support for the role of the RBFC and the services provided by it.[26] A number of institutions visited during 1979 saw the role of the RBFC as providing subsidised finance for 'first-time' farmers, although some concern was expressed that subsidised interest rates may be pushing up land values. However, other institutions acknowledged that the RBFC had a much more generalised financing role.

(c) <u>Flexibility in RBFC Lending Policies</u> The 1964 and 1971 APC Reports and the 1972 Kirkpatrick Report all recommended a greater degree of flexibility in SAC lending.[27]

In the years following the 1971 APC Report, the SAC and, subsequently, the RBFC introduced further flexibility and diversity into their operations.[28] All the activities were in accordance with its broad function of assisting the primary industries and related service industries. They related to the rural sector generally and

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26 In the survey of farmer opinion, it was suggested that the RBFC could improve its services to farmers by 'a more liberal lending policy' (24 per cent), 'more personal service incorporating better publicity of services available' (20 per cent), 'lower rates of interest' (17 per cent) and 'speeding up the processing of loans' (13 per cent). The processing time for some loan applications was the only real criticism which lending institutions had of the RBFC.

27 The 1964 APC Report stressed the importance of ensuring that credit terms were of sufficient duration for the projects financed, while the 1971 APC Report recommended some flexibility in loan limits and also the examination of the priority of securities with the object of granting extended assistance to credit-worthy, well-qualified young farmers where it is in the national interest and could be achieved on a satisfactory basis under normal financing policies. In addition, the 1972 Kirkpatrick Report recommended that SAC loan limits be removed in order to give greater flexibility to farm lending and to remove the restrictive application of the (then) present limits. The 1972 Kirkpatrick Report also suggested that some SAC lending should be on a flat mortgage basis to help the borrowers to achieve 'greater financial stability'. (Although the Corporation did not alter its policy of table mortgages, it did develop greater flexibility in the capital repayment and interest payment conditions).

28 See Appendix 13 for RBFC policies in those years.

were not confined to the financing of farms and farming. They included, for example, loans to rural industries processing primary products. In addition the RBFC provided loans to the fishing industry.

The RBFC's policy was one of consolidation, and also responding to changing conditions, needs and demands. Flexibility and innovation were characteristics of its performance during the period under review.

(d) Relationship of the RBFC to Private Lenders The 1964 APC Report was concerned at the danger of an expansion of SAC lending at the expense of private lenders. However, SAC/RBFC activities in the following years did expand relative to those of private lenders as a dual result of a greater demand by the farming sector for SAC/RBFC funds, and lower investment by the private sector in farming industries.[29]

This increased demand for SAC/RBFC funds resulted from the lower cost of its finance, and from the tendency of the private institutions to shorten their terms. With regard to the latter point, it is essential to have adequate long-term credit if farming is to have a satisfactory financial basis.[30]

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29 As previously suggested, this falling investment was largely due to the attractivness of investing in the non-farm sector during this period.

30 For example, in the non-farm sector, many firms do not even contemplate repayment of much of their borrowings - they operate on a basis that involves repeated conversions of their debt when it falls due.

In fact, as Australian studies have shown, the term of rural credit is of greater significance to farmers than the rate of interest.[31]

(e) Financing RBFC Activities Currently, all RBFC funds consist of Treasury appropriations and loan repayments although the 1974 legislation establishing the RBFC empowered this institution to accept deposits (with the approval of the Minister of Finance).

From time to time, a broader base for the funding of agriculture has been suggested.[32] The most recent proposal was that the RBFC should develop a commercial arm, a joint venture between Government and private finance organisations but administered by the RBFC. The stock and station industry envisaged member companies, banks and insurance companies taking up equity capital. Other organisations and individuals would participate through the sale of Rural Bonds which could be sold as

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31 See Bureau of Agricultural Economics, Rural Credit in Australia, Canberra, 1972. This report commented that lengthening the term of a loan is a more effective way of reducing the annual repayment burden of borrowing, than is reducing interest rates. For terms of up to 20 years, the lengthening of the loan terms has considerably greater effect than on equivalent proportionate reduction in interest rates. Although this longer term involves increased total interest payments, these are a tax deduction for the farmer, thereby reducing the cost of interest to him, although increasing the cost to the taxpayer.

32 For example, the 1964 APC Committee recommended that Government consider the issue of bonds for farm development.

a competitive investment security on the market. Farmers themselves could be involved through investment of some funds from the various farm stabilisation accounts, and private investors would be encouraged to deposit funds with the RBFC by receiving tax concessions on interest.

Despite the intimation that the Stock and Station Agents were discussing the proposal with a wide range of interests, a commercial arm of the RBFC did not eventuate. It appears that neither Government nor the farm organisations were impressed with the proposal nor was it clear as to the precise functions of the new organisation.[33] In fact the RBFC's 1974 legislation already empowered it to undertake the activities that appeared to be envisaged.

The question of bond issues by the RBFC was raised with the lending institutions visited. There was general support for the idea of the RBFC issuing bonds as an additional source of funds, although it was pointed out that rates on these bonds would have to be competitive. Therefore, the RBFC would have to re-examine its position on concessional interest rates. Several thought that the position of the RBFC was more vulnerable than it should be because of its dependence on only two sources of funds - government and the loan repayments of its clients.

Most institutions indicated that they would be willing to subscribe to such a bond issue, but pointed out that the farming community itself might not be so enthusiastic, since surplus funds are more likely to be invested in land. The Reserve Bank would

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33 However, when farmers were questioned on this proposition in the survey of farmer opinion, support was expressed for an RBFC Deposit Scheme (69 per cent) and 62 per cent of respondents maintained that they would use such a scheme sometime in the future. Fifty-six per cent of respondents indicated that they would be likely to use such a deposit scheme if it was introduced.

not likely favour the classification of such bonds as statutory reserve deposits, since it considered that this would downgrade the status of such deposits. It feels that tax concessions on any bonds held with the RBFC would be a better method of encouraging investors to take up bond issues.

Therefore, although the RBFC's role was widened as a result of the 1974 legislation, so far its function as a finance corporation accepting deposits has not been activated. This is in direct contrast to the Development Finance Corporation, which was established in 1964 to finance the development of industry in New Zealand. This Corporation has widened its functions considerably from its original 'lender of last resort' role, and has secured resources from the money market both in New Zealand and overseas, as it is authorised to do.

(f) Administrative Status of the RBFC In discussions with the lending institutions the question of the status of the RBFC in the eyes of the commercial world arose on numerous occasions. It was obvious from the qualifications to some of the comments made by private sector lenders that they considered that certain factors were inhibiting the RBFC from being recognised as an institution of equal status with other major finance organisations.

For example, some saw the apparent continued association of the RBFC with the administrative arm of the Public Service (through the Housing Corporation) as implying inevitable involvement with subsidisation and 'lender of last resort' status. To many in the major financial institutions there is no reason, apparent or implied, why the RBFC should continue to be administered under the State Services legislative authority whose special role is public administration. The Reserve Bank of New Zealand, the Bank of New Zealand and the Development Finance Corporation were all cited as major government-owned institutions that have remained independent of the State Services control. These were also seen as independent and possessing a high status in the financial community, despite the fact that they are subject to Ministerial direction.

Lending institutions considered that if the RBFC were to actively seek funds in the money market, that an association with the administrative arm of the Public Service would be an impediment. They appeared to be of the view that successful bond issuing activity would require that the RBFC have a status at least equal to that of any major commercial undertaking.

In view of the importance of the RBFC's administrative status and methods of financing in New Zealand's rural credit scene, these questions are explored further in Chapter 6, where a review of these issues is undertaken for major agricultural financing institutions in selected overseas countries. This is particularly pertinent since, in the New Zealand National Party Manifesto for the 1978 General Election, specific assurances were given that the RBFC would be given greater independence.[34]

3.4 The Impact of Rising Interest Rates

On the supply side, one of the consequences of Government's 1976 interest rate policy decision, has been for loan periods to contract (particularly in the case of private lenders operating through solicitors) or that provision has been made for a review of interest rates after relatively short periods. Finance companies interviewed and those contacted through the postal survey of rural lenders in late 1979 reported that the demand for their relatively high-cost funds increased during periods in which institutional lending at lower interest rates is restrained.

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34 The relevant extract from the Election Manifesto of the National Party is set out in Appendix 14.

3.5 Establishment of a Mortgage Market

The 1972 Kirkpatrick Report commented that the time seemed appropriate to examine more closely the establishment of a mortgage market. The Report added that prior to the provision of the SAC mortgage guarantee, a mortgage market could only have operated on heavily discounted terms. But with the risk of loss eliminated a soundly-based mortgage market should be possible and should enable the holder of a long-term (25-30 year) mortgage to sell his security on reasonable terms.

Since the 1972 Kirkpatrick Report, an informal mortgage market appears to have developed but only on a minor scale for rural credit. The fact that private sector lenders to agriculture have shortened their terms during the period would tend to confirm that a mortgage market has not really emerged. The 1972 Kirkpatrick Committee claimed with justification that a weakness in farm borrowing is that private lenders in general prefer a shorter term mortgage than is in fact suitable to the farmer's need. The farmer was, in the circumstances, often forced to 'borrow short to invest long'. It was to help eliminate this weakness that the suggestion of the establishment of a mortgage market was put forward.

However, it should be mentioned that in 1969 the introduction of the device known as the 'solicitors nominee company' not only assisted in the mobilisation of small savings held by solicitors but it also facilitated to a minor degree the extension of loan terms. But the shortening of terms by institutional lenders was not only due to uncertainty over future levels of inflation. It suited these organisations to have a more rapid turnover of their funds as it enabled them to expand their clientele. In the case of insurance company lenders, this in turn increased the prospects of selling more insurance.

An issue related to the question of the establishment of a mortgage market concerns the concept of financial intermediation. Some institutions still adhere to the principle that funds raised in a particular sector should be mainly lent in that sector. This principle can create a great deal of stress: for example, stock and station agents face periods in which acute pressure is placed on funds available for borrowing. Such problems arise because the rural sector provides a significant proportion of stock and station agents' funds, and deposits by the rural sector are likely to be lowest when the demand for the financial services of stock and station agents is highest. Such a problem could be partially alleviated if some form of financial intermediation was encouraged, since this would give access to funds raised in the non-farming sector.

3.6 Prospects for Rural Sector Financing

Throughout much of the period, avenues for more profitable investment in the non-farm sector persisted, encouraged by the generally high levels of protection that Government extended to many segments of the industrial sector in New Zealand. The financial attractiveness of investing in these and other non-farm industries appeared to be one of the important reasons why private sector lending to agriculture appeared not to increase over the period.

The 1971 APC Report noted during the early 1970's that the relative declining profitability of farming would encourage private investors to reduce their future financial commitment to the farming industry, thereby placing an additional burden on the State to fill the demand for farm finance.

However, by July 1979, the relative attractiveness of other sectors as recipients of loan finance had declined. Postal survey respondents expected the pastoral industry to maintain present growth levels, and other types of agriculture, such as horticulture, were expected to exhibit increased growth tendencies. Lending to agriculture was seen to be a 'safe investment', since, in most cases, security over land - which is rapidly rising in value - is preferred. The claim which is often made that it is more costly to lend to the rural sector was not borne out during personal interviews of lenders.

The postal survey of lenders also indicated that there was a general awareness of a contraction in the demand for home finance, and many institutions indicated that this might lead to increased financial resources being made available to the farming sector. However, it emerged from personal interviews that some uncertainty exists as to the future financial demands of the energy sector, which may begin to absorb resources at the expense of other sectors, especially agriculture.

Therefore, prospects for an increased flow of funds to the rural sector in the immediate future seem favourable. However, a gap in finance availability may be discerned with respect to long-term finance. In particular, young persons without family farming connections find it extremely difficult to raise adequate long-term finance, and this has emerged as the most serious gap in the current system of rural credit.[35] In this respect, the RBFC and trustee savings banks are acutely aware of the problems faced by young farmers and often adopt a flexible approach towards repayment in the early years of a loan.

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35 For example, insurance companies and legal firms tend to be selective in their lending and their loans are of relatively large amounts. In the case of insurance companies, a great deal of emphasis is placed on lending to established clientele, a situation which automatically debars many young farmers.

3.7 Summary

Over the period reviewed, the absolute level of funds supplied to the farming sector rose. However, within the private sector, the relative contribution of insurance companies and private institutions fell.

Loan finance provided directly by Government, particularly through the RBFC, increased dramatically over the period. This institution tended to lend in a flexible manner on terms which were highly favourable to borrowers, in comparison with those offered by other lenders. It is not surprising to find that the proportion of funds lent to the rural sector by Government (through the RBFC) increased over the period, and that the proportion from the private sector declined. This increased participation by the RBFC in the market for rural loan finance raises the question of whether the present administrative structure and methods of financing of this institution are appropriate to the role played by it.

In the earlier part of the period, the farming sector was in a poor competitive position relative to other borrowing sectors in the loan market. However, this position has changed in more recent years. The freeing of interest rates in 1976 has been an important factor in this regard, since, with the prospect of higher returns from lending to farming, supply institutions are considering loans to this sector in a more favourable light. As well as receiving higher rates of return, lenders are shortening their terms, and making provision for more frequent interest rate reviews.

The competitive position of the rural sector has also improved in recent years with the recent downturn in industries which represent alternative lending avenues; this applies to housing in particular.

In addition, from the lender's viewpoint, the security involved in lending to farming has improved, since shorter loan terms and rising land values have reduced the lending risk considerably.[36]

Therefore, the farm sector is now in a much more favourable position in the loan market. But the shortening of loan terms by the private sector tends to provide an unsatisfactory base for farming enterprises. This situation will put even greater pressure on the RBFC, which has emerged as the dominant rural lending institution over the period.

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36 Land is almost invariably first security for long-term loans. The risk of lending to the rural sector has been further reduced by particular Government policies. These are discussed in Chapter 4.

CHAPTER 4

GOVERNMENT POLICIES 1964-79

4.1 Monetary Measures

(a) Public Sector Security Ratios During the period, the use of public sector security ratios developed considerably. They were used to assist Government to secure additional funds, as a monetary policy instrument and as a means of ensuring adequate liquidity for financial institutions. Institutions that were traditional lenders to the rural sector, such as trading banks, savings banks and building societies, were affected by the imposition of, and changes to, these ratios. On some occasions, they were required to make greater investments in Government securities, while on other occasions, reductions in security ratios were made by Government to permit more money to be available for private sector mortgage finance. Specific measures directed at farming include the 1977 decision to apply a special housing/farming ratio to the life insurance offices, and the March 1978 decision to reduce the security ratios of trustee and private savings banks in order to make more of their resources available for farm finance. However, apart from the above and a few other instances, the ratio technique was not used specifically to divert increased financial resources into the farming industry.

(b) Interest Rate Policy

(i) The March 1976 Measures In what were described as the most significant measures since the establishment of the Reserve Bank of New Zealand in 1934, Government in March 1976 announced a series of measures aimed, inter alia, at:

'Strengthening the ability of key financial institutions to compete for funds, and thereby improving the quality of business finance, and promoting a more efficient and effective financial system.'[38]

The moves included the abolition of many of the interest rate regulations existing at that time. In addition the interest rates on government and local authority securities were sharply increased. In the 1977 Budget the Savings Banks were also permitted to set their own interest rates plus the terms and conditions attached to their investment accounts and term deposits.

The moves were not aimed specifically at New Zealand's rural credit market but they have affected it markedly. With interest rates firming, institutions in the private sector have become more interested in lending to the farming industry, especially following the downturn in the demand for housing finance.

(ii) Interest Rate Trends At the beginning of the period, interest rates generally were at a level which was well below the so-called market rate, with the margin between rates on SAC loans and those from the private sector being relatively small. However, by the end of the period, this gap had opened up with interest rates at what seemed to be historically record high levels and still firming (see Table 19, Appendix 15). Yet by this time the demand for funds continued to be so intense that they were still being rationed by administrative procedures. It has been observed that one of the side effects of the relatively low RBFC rates has been that more developed farms tend to be financed by the private sector while the RBFC's borrowers are those that are not so financially strong.[39]

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38 Reserve Bank Bulletin, March, 1976.

39 The RBFC has tended to be identified with the young farmer whose main assets are his talent, initiative and determination.

4.2 Direct Assistance to Agriculture

(a) Subsidies to Agriculture At the beginning of the period under review Government financial support to agriculture was relatively small. It was mainly concerned with taxation exemptions for certain farm capital expenditure items plus the system of nil standard values for livestock. However, in the 1970's more direct assistance measures were introduced in the form of the Livestock Incentive Scheme and the Land Development Encouragement Loan Scheme. These provide for suspensory loans when approved development programmes are undertaken.[40]

The 1979 Budget (18) death duties decision by the Government appears to have had some impact on the demand for insurance from the rural sector, although it remains to be seen whether any reduced demand is a temporary phenomenon or not. It must be noted that the average annual premium paid by farmers (see Table 11, Appendix 9), is less than the tax-free limit for insurance premiums, a factor which may influence the future demand for insurance to some extent.

On the general question of subsidies, a number of lenders interviewed felt that subsidies to farming were being capitalised in land values, and stated they were concerned about such a development.

(b) Specific State Guarantees

(i) Supplementary Minimum Prices In its 1978 Budget, Government introduced the Supplementary Minimum Price Scheme, which provided farmers with guaranteed product prices for two

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40 Details of the amounts involved are included in Table 16, Appendix 13.

years ahead. This move has given private sector lenders more confidence to lend to the farm sector. During personal interviews conducted in late 1979, suppliers of funds to the rural sector expressed the opinion that the Supplementary Minimum Price schemes (and income and price stabilisation schemes in general), reduced uncertainty with respect to future returns in the farming sector and tended to stabilise the demand for rural credit.

(ii) Farm Mortgage Guarantee Scheme Both the 1964 and 1971 APC Reports recommended that a scheme of State guarantees be investigated to ensure that the level of rural lending was maintained or increased. In 1971, Government introduced the Farm Mortgage Guarantee Scheme. The 1972 Kirkpatrick Report further recommended that life insurance companies, to reduce the cost of borrowing, be requested to take up these guarantees as collaterial security and to dispense with compulsory life insurance.

The private sector has made considerable use of the scheme since its introduction,[41] although there has been a fall-off in usage since 1974,[42] indicating either that the scheme has lost its appeal, or need, or that the private sector has decided not to use it so much.[43] This subject was therefore raised during personal interviews with lenders, who confirmed that the RBFC's Farm Mortgage Guarantee Scheme is not currently received with a great deal of

41 See Table 18 (Appendix 13) for the amounts and loan numbers involved since the introduction of the scheme.

42 In the year ended March 1974, the highest level of 423 loans amounting to $18.75 m was reached.

43 The scheme did not replace life insurance as collateral security and insurance company officials interviewed indicated that it was unlikely to do so.

enthusiasm. Weaknesses cited by these lenders included the fact that the guarantees were not cheap and were of limited duration, and it was alleged that the administration involved was 'messy'. One enterprise said that they would not lend unless a proposition was economically viable, in which case a guarantee was not really necessary given flexible policies available to its Board of Directors.

4.3 Summary

Over the period, Government diverted some private loan funds to the farm sector through the use of public security ratios, but this did not significantly increase private lending to the rural sector.

However, the Government's 1976 interest rate measures have raised returns to lenders to the rural sector and allowed farming industries to compete more successfully in the market for loan finance.[44]

Through a set of State guarantees, Government has reduced the risk involved in lending to rural industries. In particular, the introduction of Supplementary Minimum Prices has considerably boosted confidence in farming, since this guarantees a certain level of farm prices two years in advance.

In general, Government measures over this period were of profound importance, not only to the RBFC which acts as Government agent in administering many of the policies, but also to the whole rural credit scene. The assistance provided by various Government measures would appear at times to have affected the demand for, and supply of, credit from traditional sources.

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[44] See Section 2.7 for a discussion of the effect of increased interest rates on borrowers.

CHAPTER 5

BACK-UP FACILITIES FOR THE RURAL CREDIT SYSTEM

5.1 Introduction

The 1964 APC Report made a number of recommendations regarding facilities which would assist in the provision of rural credit. These concerned the use of advisory services and the provision of field staff, the use of accounting services, publicity for rural credit facilities and the adequacy of statistics on rural credit. In this chapter trends in the provision and use of these (and other) facilities are reviewed.

5.2 Advisory Services and the Provision of Field Staff

The 1977 and 1979 Lincoln College Surveys of farmer opinion indicated the extent to which farmer respondents made use of the main types of advisory services. These responses showed that 56 per cent of respondents used the service provided by the Ministry of Agriculture, 16 per cent used the advisory services provided by private firms such as fertiliser companies, 12 per cent used the services of Producer Boards (mainly Dairy Board), 9 per cent engaged consultants, while 6 per cent were members of Farm Improvement Clubs.[45]

Since 1964, the adequacy and use of advisory officers to best advantage was the subject of numerous discussions and reports over the period. At no stage, did the numbers appear to be considered fully adequate by farm organisations, while discussions on the optimum utilisation of the officers was a subject of continuing

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45 Pryde, J.G., Survey of New Zealand Farmer Intentions and Opinions, July - September 1979 A.E.R.U. Research Report No. 106, April 1980, p. 73.

debate, especially among professional organisations involved in farm extension work.[46]

5.3 Services Provided by Trading Banks

Respondents to the 1979 survey of farmer opinion indicated that they were satisfied with trading bank services, with almost 90 per cent indicating this. They also considered that the bank could not improve its service to them as farmers (77 per cent). Of those who felt some improvement could be made, almost 40 per cent suggested more personal service, involving better manager communication with the farmer, and a better understanding of farming. A further 35 per cent cited increased overdraft facilities or a lower rate or interest as assisting in this regard.

5.4 Services Provided By Stock and Station Agents

The 1979 survey of farmer opinion showed that most respondents were satisfied with services provided (over 80 per cent), with 65 per cent also considering that their stock and station agent could not improve its services to them. Where improvements were suggested, they centred on more personal attention, involving more visits to farms and better service (45 per cent). A further 13 per cent felt lower commission rates would be helpful, while 10 per cent mentioned that better trained staff would be an improvement.

5.5 Publicity for Rural Credit Facilities

After the 1964 APC Report, committees were established throughout New Zealand, with one of their functions being to inform farmers of available rural credit facilities. However, by 1972, most of these committees had gone into recess, and very

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46 Hill Country Research, Report of Hill Country Research Working Party to National Research Advisory Council, January 1978, pp 31-32.

few now operate. However, although the lending institutions themselves have since extended their publicity arrangements, the diversity of rural credit resources means that few farmers are fully acquainted with complete knowledge of the facilities available. However, personal interviews of lending institutions in 1979 indicated that when these institutions were unable to provide the finance sought, they endeavoured to suggest alternative sources to the applicant.

5.6 Rural Expertise in Lending Institutions

Personal interviews indicated that, while some institutions, such as the RBFC and stock and station agents, have field staff well-versed in the problems of rural industries, in general it was found that there was an absence of farm expertise in many agencies. Many of the institutions visited considered this to be one of the strengths of the RBFC and several stated that farms in receipt of such technical supervision enhanced their status as a security for additional finance.

5.7 Accounting Services

There are no statistics available which indicate whether farmers were making constructive use of accounting services during the period under review. But it could be said that while more farmers today make use of better accounting services there is still a significant proportion who 'make do' with returns prepared solely for taxation purposes.

5.8 Statistics

Over the period 1964 to 1979, major progress on building up data on farm investment, indebtedness, etc., was achieved with the Ministry of Agriculture and Fisheries and Lincoln College making a contribution through research, investigation and farm surveys. However, as Johnson (10) has observed, many statistics, particularly on capital expenditure, are still inadequate. In addition, it was found when compiling the current review that inadequate data meant that more precise evaluation could not be made on the volume and significance of private lending.

CHAPTER 6

THE OPERATION OF QUASI-GOVERNMENT INSTITUTIONS IN SELECTED OVERSEAS COUNTRIES

6.1 Introduction

In Chapter 3, the appropriateness of current methods of financing RBFC activities, and the administrative status of this institution, were discussed. This Chapter reviews specific aspects of the operation of quasi-Government rural lending agencies in a number of countries - namely, Canada, South Africa, Denmark, Sweden, The Netherlands, the Federal Republic of Germany, the United States, the United Kingdom and Australia.[47]

6.2 Source of Funds

The different institutions studied relied on a variety of funding options. These include loans from Government sources, which are important in the case of the Primary Industry Bank of Australia and the Farm Credit Corporation of Canada, the Landwirtschaftliche Rentenbank in the Federal Republic of Germany (in the case of funds for short-term loans), and, to a far lesser extent, the Land and Agricultural Bank of South Africa. New Zealand's Rural Banking and Finance Corporation falls into this category exclusively, and, unlike most other funding agencies studied, receives all funds from Government sources, or from the repayment of loans.

However, for most other institutions studied, the most important source of funds appears to be the issue of bonds or debentures. In the case of the South African Bank and the

47 Appendix 16 outlines the operation of these institutions in these countries in greater depth than that presented in this Chapter.

Agricultural Mortgage Corporation in the United Kingdom, the issue of debentures falls into this category. The Farm Credit Administration in the United States relies on the issue of bonds and notes, as does the West German institution. The United Kingdom's Agricultural Mortgage Corporation also issues short-term bonds. The Australian agency has recently issued securities on the money market and the Canadian institution is contemplating a bond issue.

The Dansk Landbrugs Realkreditfond (DLR) of Denmark sells bonds on a basis different from the traditional method. In their case, loans are made by the DLR via the disbursement of bonds to the borrower. These bonds must then be disbursed by the borrowers themselves.

The West German and United Kingdom agencies also take out non-Government loans to finance the distribution of money to rural borrowers. In the case of Sweden, the Co-operative Bank finances loans and advances to agricultural producers by utilising deposits made with the Bank.

As regards the disbursement of loan monies, the Australian and West German institutions tend not to allocate loans to farmers directly, as is traditional with such institutions. Instead, they act as 'wholesale' banks by granting credit to primary producers via other banks.

6.3 Interest Rates

The objectives of different agencies and the methods by which they raise their funds tend to determine whether individual agencies offer loans which carry rates of interest which are similar to those offered by commerical lenders, or whether they offer loans at concessional rates of interest. For example, the Rural Banking and Finance Corporation in New Zealand is funded from Government sources and tends to make loans at concessional interest rates.

The question of concessional interest is causing concern to some institutions. For example, the Land and Agricultural Bank of South Africa points out that this issue will need to be reviewed if an expansion in their lending activity is contemplated. Their Board does not regard it as sound policy for subsidised interest to be built into the cost structure of farming. In Canada the Farm Credit Corporation operated at a loss for some years until it was authorised to maintain a 1 per cent margin between borrowing and lending rates of interest.

In most countries studied, lending rates tended to be at levels competitive with rates for private lending. However, in some cases an element of interest subsidy may be built into lending rates, because, as is the case in the United Kingdom, the Government may guarantee debenture or bond issues. In this way, securities acquire a gilt-edged status which may reduce the return necessary to induce investors to buy them. As a result, loans may be made to farmers at rates which are lower than might otherwise be the case.

An interest subsidy also operates in The Netherlands, where the use of the Security Fund reduces the risk on loans made to farmers because security is offered on part of these loans. In addition, the Government also operates a direct interest subsidy scheme, but does not make this available for land purchase in view of the likely price-raising effect.

6.4 Board Representation

The composition of controlling Boards varies considerably between countries. In some cases, all Board Directors are appointed by the Head of State, or his Minister responsible for the activities of the lending agencies. For example, in New Zealand, the directors of the RBFC are appointed by the Minister of Finance, with two of their directors being appointed after consultation by him with New Zealand's general-purpose farm organisation, Federated Farmers of New Zealand (Inc.). Other institutions studied fall into this category, such as the South African Bank, where all Board directors are appointed by the President. In the case of the United States agency, twelve members, one from each credit district, are appointed by the President, and the thirteenth by the Secretary of Agriculture.

Other Boards comprise a mixture of Government-appointed representatives and delegates appointed or elected by other sectional interests. In the United Kingdom, three of the eight Board directors are appointed by the Ministry of Agriculture and the Treasury. In Australia, four appointees are designated by the Treasurer to represent the Commonwealth Government and primary producers. The remaining delegates represent the Trading Banks and the State Banks. In West Germany, the Board of Directors comprises representatives from agriculture, trade unions, the various federal banks, regional ministers of agriculture and experts in credit financing.

In Denmark, members of the Board of Directors of the Dansk Landbrugs Realkreditfond are appointed by the Central Bank, the Commerical and Savings Banks, the Farmers' Unions and the Small-holders' Association.

The Co-operative Banking System in Sweden has a democratic method of appointing Boards of Directors. Persons who become members of the local co-operative banks elect Boards of Directors and delegates to the regional co-operative bank meetings. In the same manner, these delegates elect Boards and delegates to the national Federation of Swedish Co-operative Banks. These delegates, in turn, elect a Board at the national level.

6.5 Relationship with Government

Most of the credit agencies studied tend to be independent of their governments in their operations, but tend to be influenced by them to a greater or lesser extent. Those countries where credit institutions fall into this category include the United States, where the Farm Credit Administration is an independent agency of the Executive Branch of the Government. In the Federal Republic of Germany, the Landwirtschaftliche Rentenbank is supervised by the Federal Government, while in South Africa, the Land and Agricultural Bank is an autonomous institution responsible to Parliament through the Minister of Finance. The Rural Banking and Finance Corporation in New Zealand falls into this category, although this organisation is unique to the extent that it is administratively linked with another quasi-Government agency, the Housing Corporation. The RBFC is required to give effect to Government policy as communicated to the Corporation from time to time in writing by the Minister of Finance.

Where borrowing from Government comprises a major source of funds available for lending, an agency's activity will be influenced by the fiscal policy of Government, as is the case in Canada and New Zealand.

In Denmark, the Dansk Landbrugs Realkreditfond is an independent organisation operating under the jurisdiction of the Ministry of Agriculture, although the Ministry is not represented on its Board. In Sweden, the Co-operative Banking System operates as an autonomous co-operative movement.

CHAPTER 7

SUMMARY AND ISSUES RAISED

7.1 Summary

During the period under review, New Zealand faced a disturbed economic situation which was reflected in the behaviour of the rural credit market.

Farm incomes, and hence, profitability and investment, fluctuated over the period. Values of these variables fell initially, but recovered over the latter part of the period. Inflationary pressures in recent years have raised farmers' equity levels, but have increased the absolute level of indebtedness per farm and increased the demand for loan finance. Rising interest rates have led to a shortening of loan terms and more frequent interest rate reviews, and have meant a heavier demand for RBFC loan funds, which are offered on terms which are more suitable and more favourable for borrowers. Therefore, by 1979, an excess demand situation had built up, particularly for long-term finance.

On the supply side, the relative contribution of the private sector declined, and that of the Government sector - through the RBFC - rose. By the end of the period, the farming sector was in a relatively strong position relative to other borrowing sectors in the loan market. This has resulted from the recent downturn in industries which represent alternative lending avenues, and has been assisted by the interest rate measures of 1976.

Government measures have influenced the rural loan finance market. In particular, direction to lenders and the use of public security ratios has led to a small increase in funds made available to the farming sector in recent years. Of greater significance, however, has been the introduction of guarantees such as the Supplementary Minimum Price Scheme, which have greatly reduced the risk involved in lending to the farming sector.

As a result of these trends in recent years, the administrative status and methods of financing of the RBFC require closer scrutiny. A review of similar quasi-Government lending institutions in selected overseas countries revealed that an important source of funds was the issue of bonds. These institutions have therefore been forced to consider the question of whether interest rates should be subsidised, and, if so, for what loan purposes should such a subsidy apply.

The administrative status of different institutions tended to vary, although most appeared to have more independence from Government than does the RBFC.

7.2 Issues Raised

(a) Financial Needs of the Farming Sector Lack of resources prevents any indepth analysis of the future demand for rural credit. However, variables which might influence the aggregate demand for credit include the level of farm incomes and the extent to which changes in technology involve capital investment. A further factor in this regard would be the influence of government policy and expenditure. For example government-financed irrigation schemes will affect the demand for farm development finance, since a substantial amount of on-farm investment is required before benefits can be fully utilised by the farmer.

To enable a more rigorous treatment of likely future credit demands, it would be useful to evaluate the success of any demand modelling exercises conducted overseas, and if warranted, undertake an exercise in modelling the demand for rural credit in New Zealand. Important variables could be identified, the system could be modelled, and the sensitivity of the model to parameter changes could then be assessed.

In addition to the above exercise, research is needed into the broad financial needs of the rural sector in the 1980's, and an appraisal undertaken to ascertain to what extent these needs are being met by the current system of rural financing. In particular, the industries servicing agriculture need greater attention, as does the effect of the energy crisis, and the degree to which the demands of the energy sector are leading to a diversion of capital from agriculture. The provision of adequate finance for energy crops also warrants investigation.

In addition, a general assessment of methods of assisting farmers with their credit needs should be undertaken. For example, the effect of concessional interest rates should be considered in relation to alternative methods of assistance such as longer loan terms and flexible repayment systems. Within such a context, the implications for the agricultural credit system of a system of farm leasing could be investigated.[48]

Interviews with representatives of the private lending sector suggested that a gap in the current rural credit system involves the provision of finance for young farmers without family backing. The special needs of these farmers deserve attention and alternative forms of assistance should be investigated and evaluated.

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48 In the 1979 Lincoln College survey of farmer opinion, a large proportion of respondents indicated their support for a system of farm leasing.

(b) Government Sector Financing Research conducted for this Report appears to show an expansion of the activities of the RBFC and a contraction of private sector rural credit. However, before judgement can be passed on this trend, it would seem that research should be undertaken for the compilation of a set of principles for rural lending that will assist towards a viable expansion of output from New Zealand agriculture. This would assist the RBFC, since the 1974 Rural Banking and Finance Corporation Act emphasised that the new institution's role was to assist in financing the broad needs of the rural sector.

Such an assessment is particularly important for the RBFC, since it would give guidance as to how that institution could expect to cope with future demand for its funds. This demand depends on the total demand for rural finance, and on the extent to which the RBFC lends on special terms; that is, the extent to which it lends at lower interest rates and for longer terms than do other lenders. If present RBFC policies are continued and there are no further changes in the terms and conditions of loans from other sources, one would expect the future demand for RBFC funds to continue to be heavy.

In this respect, an investigation of whether current methods of financing institutions such as the RBFC are flexible enough, would seem warranted. This is particularly important where future demand is uncertain, and where it might prove sensitive to factors such as changes in Government policy. An allied issue concerns whether the current administrative structure of the RBFC is appropriate to the role it plays, and might be expected to play in the future. Since the DFC is approximately to industry what the RBFC is to agriculture in New Zealand, a comparative review of these two organisations should be undertaken with special emphasis on the control of their administration and their ability to mobilise resources for their respective sectors.

(c) Private Sector Lending In this Report, reference has been made to the difficulties into which short-term lenders, especially stock and station agents, appear to become involved periodically as a result of lack of liquidity in their loan operations. As the consequences of 'hard-core' indebtedness are of importance not only to the farming industry but to government and the banking system also, there is a need for a closer study of the causes and to the introduction of procedures that will prevent such undesirable developments in the future.

In addition, it appears that the trading banks in their lending to the rural sector have been increasing their term loans and de-emphasising their advances. The implications of such a development are of major importance to agriculture with its widely fluctuating short-term credit needs. Research is needed into this trend.

The establishment of a rural mortgage market (in which both the Government and private sectors could participate), is now of greater importance. It would assist towards the development of a more mature rural credit market and encourage the investment of more non-farm money into agriculture. Before any administrative decisions are taken there should be some research undertaken into the preconditions for such a market and the 'climate' in which one would develop.

(d) Government Policies The revised industry price stabilisation schemes and the Government's own supplementary minimum price schemes are of major relevance to the credit needs of the agricultural sector. Therefore, an assessment of their influence so far, and their implications for the rural credit sector should be made.

On several occasions during interviews with financial institutions, the farm mortgage guarantee scheme was cited as having important weaknesses. This scheme is designed to assist the farming industry and it is essential that its shortcomings be understood and investigation undertaken into ways and means by which it can be made more acceptable to the private institutional lenders.

The question of whether interest rates paid by the farming sector to the RBFC should be at concessional rates or at market rates has been raised in this Report. If this issue is to be considered in its appropriate context, it would be useful for an analysis of the role of interest rates in the farming sector to be conducted.

(e) Statistics It has become increasingly obvious that the statistics on capital investment in agriculture and the supply of rural credit are inadequate. For an economy whose main industry is primary production, better documentation is essential if weaknesses in the rural credit situation are to be detected and improvements effected.

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APPENDICES

APPENDIX 1

POSTAL SURVEY OF RURAL LENDING INSTITUTIONS 1979

A. Survey Details

(a) Postal Survey Content The postal survey was conducted to gain information on the basic credit facilities available to the rural sector. Therefore, information was sought on the term of loans made, volumes lent, the type of farming activity lent to, the purpose for which loans are made, security requirements, interest rates charged and details of repayment arrangements. In addition, details were requested on the proportion of funds lent to different industries, and on respondents' assessment of the risk, growth potential and their expected future lending in these industries.

The initial questionnaire was sent on 12 June 1979. This was followed, where appropriate, by a first reminder on 2 July 1979 and a second reminder on 26 July 1979.

(b) Postal Survey Coverage The following table shows the type and number of institutions surveyed.

Type of Institution	No. of Institutions Surveyed
Building Societies - terminating	10
- permanent	37
Trust Companies	5
Government Agencies	4
Finance Houses	13
Banks - trading	5
- savings	13
Co-operative Dairy Companies	69
Stock and Station Agents	28
Life Assurance Companies	37
Solicitors	158

In the case of building societies, trust companies, government agencies, banks, co-operative dairy companies and life assurance offices, the total population was surveyed. With respect to stock and station agents, a list was compiled from telephone directories and questionnaires were sent to all agents on this list. Finance houses which were known to be lenders to the rural sector were surveyed. In the case of solicitors, a list of law firms with five or more partners listed in the 1979 New Zealand Law Register was compiled. It was assumed that larger firms were more likely to be lending larger volumes of money, and were therefore more likely to be of importance for the purpose of this project. All of these larger law firms were then surveyed.

AGRICULTURAL ECONOMICS RESEARCH UNIT
LINCOLN COLLEGE, CANTERBURY

(c) Postal Survey Questionnaire

Dear Sir/Madam

Because access to adequate finance plays such a critical role in increasing agricultural production and exports, the Agricultural Economics Research Unit at Lincoln College is undertaking a comprehensive review of the types of finance currently available to the rural sector.

We would be most grateful, therefore, if you would answer the nineteen attached questions and return it to us in the enclosed franked addressed envelope. We are primarily interested in the aggregate trends for different types of lending institutions, and you may rest assured that any individual details which you furnish us will remain confidential to those Lincoln College staff involved in this project.

After we have processed your reply, we would like to visit you to discuss some of these questions in greater depth, and to gain your opinion on further aspects of the rural credit situation. In the meantime, please do not hesitate to contact us if you have any queries regarding the questionnaire. We believe that your co-operation is vital to us in gaining a comprehensive picture of the overall situation with respect to rural finance.

Thank you for your help.

Yours sincerely

John Pryde

John Pryde
Senior Research Fellow

Enc.

Postal and telegraphic address: AERU, Lincoln College, Canterbury, New Zealand
Telephone Halswell 8029

RURAL CREDIT SURVEY OF LENDING INSTITUTIONS

PART A: Current Lending Policies

1. *What is the name of your institution?*

____

____

2. *What type of institution are you?*

Private Savings Bank	☐
Trustee Savings Bank	☐
Trading Bank	☐
Insurance Company	☐
Lawyer's Nominee Company	☐
Trust Company	☐
Building Society	☐
Finance Company	☐
Co-operative Dairy Company	☐
Rural Banking & Finance Corporation	☐
Government Department	☐
Stock and Station Agent	☐
Other (Please specify) ____________	☐

(Please tick one box)

3. *Are you prepared to offer loans of the following types to farmers?*

Long-term loans (over 15 years)	☐
Medium-term loans (5-15 years)	☐
Short-term loans (1-5 years)	☐
Seasonal loans (less than 1 year)	☐

(Tick appropriate boxes)

4. *What volume of loan money did you authorise to farmers in the latest year for which you have data available?*

Long-term loans (over 15 years) $____________

Medium-term loans (5-15 years) $____________

Short-term loans (1-5 years) $____________

Seasonal loans (less than 1 year) $____________

(Please fill in the appropriate amounts)

5. *Do you make the following types of loans for these different farming activities?*

	Long-Term Loans	Medium-Term Loans	Short-Term Loans	Seasonal Loans
Dairying				
Sheep farming				
Cattle farming				
Mixed cropping				
Fruit growing/horticulture				
Poultry, pigfarming and beekeeping				

(Please tick appropriate boxes. For example, if you make seasonal loans to dairy farms, place a tick in this box.)

6. *Are you prepared to offer loans to farmers for the following purposes*

	Long-Term Loans	Medium-Term Loans	Short-Term Loans	Seasonal Loans
Initial purchase of land				
Amalgamation of holdings				
Refinancing existing mortgage				
Financing development work (e.g. clearing, grassing, fencing, topdressing, roading, planting, water supply, irrigation)				
Erection of farm buildings				
Financing purchase of plant and machinery				
Financing purchase of stock				
Private purposes				
Financing tax payments				
Paying expenses when losses expected in poor year/years				
Pay expenses until income received				
Other (specify) ____________ ____________				

(Please tick the appropriate boxes. For example, if you are prepared to make long-term loans for the initial purchase of land, then tick that box.)

7. *Could you please indicate the* *__proportion__* *of loan money you authorised to farmers for each of the following terms in the latest year for which you have information available?*

Year ending.............. 19........
(month) (year)

(Please complete)

	Long-Term Loans %	Medium-Term Loans %	Short-Term Loans %	Seasonal Loans %
Initial purchase of land				
Amalgamation of holdings				
Refinancing existing mortgage				
Financing development work (eg clearing, grassing, fencing, topdressing, roading, planting, water supply, irrigation)				
Erection of farm buildings				
Financing purchase of plant and machinery				
Financing purchase of stock				
Private purposes				
Financing tax payments				
Paying expenses when losses expected in poor year/years				
Pay expenses until income received				
Other (specify)____________ ____________				
Total	100	100	100	100

(Please fill in the appropriate details. For example, if 50% of your long-term loans were for the initial purchase of land, then place 50 in that box. If 70% of your seasonal loans were for paying expenses until income received, then place 70 in that box.)

8. *Do you offer farmers:*

	Long-term Loans	Medium-term Loans	Short-term Loans
First mortgages			
Second mortgates			
Third mortgages			

(Please tick the appropriate boxes. For example, if you offer second mortgages on a medium term basis, then tick this box.)

9. *What security do you require when issuing loans to farmers?*

	Long-Term Loans	Medium-Term Loans	Short-Term Loans	Seasonal Loans
No security				
Security over land				
Collateral security over stock				
Collateral security over other chattels				
Assignment of life policies				
Liens or charges over Govt stocks, shares, local body debentures				
Mortgage Repayment Insurance				
Endowment insurance of same amount and term loan required				
Bill of sale over live-stock				
Other (please specify)_____ ______________________ ______________________				

(Please answer by indicating the order of importance of each type of security in the appropriate box. For example, if your major form of security asked on long-term loans is security over land, then place 1 in this box. If you further ask for assignment of life policies on long-term loans, then place 2 in this box, and so on. Leave the box blank if a form of security does not apply.)

10. *What security margin do you require when making loans to farmers?*

	% of valuation of asset used as security
Long-term loans	
Medium-term loans	
Short-term loans	
Seasonal loans	

(Please fill in the appropriate boxes. For example, if you require a security margin of 2/3 land value when making long-term loans, then place 67 in this box.)

11. *Whose valuation of the asset used as security is acceptable to you?*

Your institution's valuation	
Government valuation	
Other independent valuation	

(Tick the appropriate box or boxes)

12. *What rate of interest were you charging on different types of loans as at 30 April 1979?*

Long-term loans (over 15 years)

First Mortgage ____________ %

Second Mortgate ____________ %

Other ____________ %

Medium-term loans (5-15 years)

First Mortgage ____________ %

Second Mortgage ____________ %

Other ____________ %

Short-term loans (1-5 years) ____________ %

Seasonal loans (less than 1 year) ____________ %

(Please fill in the appropriate figures)

13. *On what basis is the principal on different types of loans offered to farmers normally repaid?*

	Long-Term Loans	Medium-Term Loans	Short-Term Loans	Seasonal Loans
Regular annual instalments				
Regular half-yearly instalments				
Regular quarterly instalments				
Regular monthly instalments				
Full principal repayments at the end of the loan period				
On demand				
Dairy order				
Crop liens				
Wool liens				
Other (please specify)_____ ______________				

(Tick the appropriate boxes)

14. *On what conditions do you make loans to farmers?*

	Long-Term Loans	Medium-Term Loans	Short-Term Loans	Seasonal Loans
<u>Insurance Companies</u>				
Loans to existing policy holders only, or				
Loan preference given to existing policy holders, or				
No distinction between policy holders and non-policy holders				

(Question 14 continued..)

	Long-Term Loans	Medium-Term Loans	Short-Term Loans	Seasonal Loans
Building Societies				
Loans to those who hold shares in the Society only, or				
Loan preference given to those who hold shares in the Society, or				
No distinction between shareholders and non-shareholders				
Trading Banks				
Loans to those who hold an account with you only, or				
Loan preferences given to account holders, or				
No distinction made between account holders and those who do not hold accounts with you				
Trustee Savings Bank				
Loans to those who hold an account with you only, or				
Loan preferences given to account holders, or				
No distinction made between account holders and those who do not hold accounts with you				
Stock and Station Agents				
Loans only to those who do business with you, or				
Preference given to those who do business with you, or				
No distinction made between those who do business with you and those who do not				

(Tick the appropriate boxes)

15. *During 1978, what proportion of your term loans authorised (i.e. loans for more than 1 year) went to:*

	%
Agriculture	
Fishing and Forestry	
Manufacturing	
Heavy construction, engineering, mining and quarrying	
Residential construction, property development	
Transport, storage	
Motor cars	
Wholesalers, importers	
Retailers	
Others (please specify)	
______________________________	
______________________________	

(Please fill in the appropriate percentages)

16. *During 1978, what proportion of your seasonal loans authorised (i.e. loans for less than 1 year) went to:*

	%
Agriculture	
Fishing and Forestry	
Manufacturing	
Heavy construction, engineering, mining and quarrying	
Residential construction, property development	
Transport, storage	
Motor cars	
Wholesalers, importers	
Retailers	
Others (please specify)	
______________________________	
______________________________	

(Please fill in the appropriate percentages)

17. *In the next five years, do you expect the following industries to exhibit greater growth, to remain at present growth levels, or to have declining growth levels?*

	Greater Growth Levels	Present Growth Levels	Declining Growth Levels
Agriculture			
-pastoral			
-horticulture			
-other agriculture			
Fishing			
Forestry			
Manufacturing			
Heavy construction, engineering, mining and quarrying			
Residential construction, property development			
Transport, storage			
Motor Cars			
Wholesalers, importers			
Retailers			
Others (please specify)________ ________________________________			

(Answer by ticking the appropriate boxes. For example, if you feel that the manufacturing industry will experience declining growth levels in the next five years, then tick the box reserved for this answer.)

18. *Do you consider lending to the different industries shown below, to be:*

1. Very risky
2. Moderately risky
3. Moderately safe
4. Very safe

	Term Loans	Seasonal Loans
Agriculture		
- pastoral		
- horticulture		
- other agriculture		
Fishing		
Forestry		
Manufacturing		
Heavy construction, engineering, mining and quarrying		
Residential construction, property development		
Transport, storage		
Motor cars		
Wholesalers, importers		
Retailers		
Other (please specify)		
______________________		
______________________		

(Answer by putting the appropriate number in the appropriate box. For example, if you feel that term lending to Manufacturing is moderately safe, then place a 3. in the box reserved for this category.)

19. In the next five years, do you expect to lend:

1. A greater proportion
2. The same proportion
3. A smaller proportion

of your total loans to each of the industries shown below.

	Term Loans	Seasonal Loans
Agriculture		
- pastoral		
- horticulture		
- other agriculture		
Fishing		
Forestry		
Manufacturing		
Heavy construction, engineering, mining and quarrying		
Residential construction, property development		
Transport, storage		
Motor cars		
Wholesalers, importers		
Retailers		
Others (please specify)		
______________________		

(Answer by putting the appropriate number in the appropriate box. For example, if you feel that you will lend the same proportion of term loan money to Manufacturing in the next five years, then place a 2. in the box reserved for this category).

You have now completed the nineteen questions.

Please place the questionnaire in the franked addressed envelope provided and mail it to us as soon as possible.

Finally, thank you very much for the effort you have made and the consideration you have shown us in giving up your time to assist in our research.

AGRICULTURAL ECONOMICS RESEARCH UNIT
LINCOLN COLLEGE, CANTERBURY

<u>To Barristers and Solicitors</u>

Dear Sir/Madam,

As explained in the letter attached to the following questionnaire, the Agricultural Economics Research Unit at Lincoln College is undertaking a comprehensive review of credit facilities currently available to the rural sector.

Therefore, we are attempting to survey all institutions which may be involved in rural lending. We are hesitant to impose on law firms who are, we realise, extremely busy. However, a recent survey of farmers which we conducted indicated that loans from solicitors constituted the fourth most important source of farmers' borrowed funds.

We would be extremely grateful, therefore, if you could complete our questionnaire, since we realise that we must gain an adequate response from our sample of lawyers for our general conclusions to be valid. Also, we would hope our results, when published, will be of value to people such as yourselves in your financing of the rural sector in New Zealand.

Thanking you in anticipation.

Yours sincerely

John Pryde
<u>Research Fellow in Agricultural Policy</u>

Postal and telegraphic address: AERU. Lincoln College. Canterbury. New Zealand
Telephone Halswell 8029

AGRICULTURAL ECONOMICS RESEARCH UNIT
LINCOLN COLLEGE, CANTERBURY

(d) Postal Survey Reminders

Dear Sir/Madam

Two weeks ago we sent you a questionnaire dealing with the rural credit facilities you make available to farmers.

To those who have already returned the questionnaire, we wish to express our thanks for your co-operation. The information you have supplied will provide a useful basis for our review of the rural credit situation in New Zealand.

If you have not yet found time to answer the nineteen questions, we would be extremely grateful if you could do so, since your answers are vital to our research, the results of which we believe will be of value to institutions and people involved in the financing of New Zealand's rural sector.

Yours sincerely

John Pryde
Senior Research Fellow

Postal and telegraphic address: AERU. Lincoln College. Canterbury. New Zealand
Telephone Halswell 8029

AGRICULTURAL ECONOMICS RESEARCH UNIT
LINCOLN COLLEGE, CANTERBURY

Dear Sir/Madam

Five weeks ago we sent you a list of questions dealing with your role in the rural credit situation, but we do not appear to have received a reply from you. In case your questionnaire did not arrive, or was misplaced, we have taken the liberty of enclosing another questionnaire and franked addressed envelope.

We would be extremely grateful if you could answer the nineteen questions, since the information you provide us with will form a firm basis for a comprehensive review of the current rural credit situation in New Zealand.

It is our intention to combine all information received from institutions and individuals who supply rural credit with any available details of the demand for finance by the farming sector. In this way, we hope to obtain a broad, general picture of the credit market for rural finance, which we trust will be of interest to all participants in this market. As you will realise, without your co-operation, the effectiveness of such a study would be reduced.

We trust you will find time to send us your reply, even if you do not lend to the rural sector to any significant extent, since this information in itself is of some use.

Thank you.

Yours sincerely

John Pryde

John Pryde
Senior Research Fellow

Postal and telegraphic address: AERU, Lincoln College, Canterbury, New Zealand
Telephone Halswell 8029

(e) Postal Survey Responses The raw response rate is indicated by the following table. Calculations include returns from respondents who did not lend to the rural sector in 1978-79, returns which were partially completed because data were unavailable and for reasons of confidentially, and returns which were fully completed.

Type of Institution	Response Rate %
Building Societies - terminating	100
- permanent	76
Trust Companies	100
Government Agencies	100
Finance Houses	69
Banks - trading	100
- savings	100
Co-operative Dairy Companies	77
Stock and Station Agents	57*
Life Assurance Offices	78
Solicitors	50

* It tended to be the smaller, more regionally based stock and station agents listed in the telephone directory who did not respond.

Returns from institutions to which the questionnaire was applicable were then analysed. Because of variation in the standard of replies received, and also for reasons of confidentiality, the general results of the survey have been presented in a more descriptive form.

B. Results of Postal Survey

(a) Stock and Station Agents

1. Term of Loan: In general, lending is on a short-term and seasonal basis.

2. Type of Farming: Basically, they lend for dairying, sheep farming, cattle farming and mixed cropping. However, a few won't lend for dairying, but these appear to be from non-dairying areas. A few are prepared to lend for fruit growing/horticulture and poultry/pig farming/beekeeping, but this is not the normal practice.

3. Purpose of Loans: In general, they are prepared to lend for financing development work, paying expenses until income received, financing purchase of stock, financing purchase of plant and machinery, financing tax payments, paying expenses when losses are expected in poor years, erection of farm buildings and private purposes. A few are prepared to lend for purchase, amalgamation and refinancing, but this is not a general practice.

Larger proportions appear to be lent for the purchase of stock and for paying expenses until income is received. A significant proportion also appears to be lent for development purposes.

4. Type of Mortgages Offered: In general, many of them are prepared to lend on a second mortgage basis. A few are also prepared to lend on first and third mortgage bases.

5. Security Required: The first security normally asked for is a bill of sale over livestock. The second most common form of security appears to be security over land. Other security asked

for is collateral security over stock and chattels. To a lesser extent, they may ask for the assignment of life policies and liens over stocks, shares, etc. or crops and dairy orders. Some agents ask for no security, particularly for seasonal loans.

6. Security Margin: This varies between 50 per cent and 75 per cent.

7. Valuation of Security Assets: Most rely on their own institution's valuation, although a few will accept a Government or independent valuation.

8. Interest Rates: Interest rates vary from 11 per cent to 15 per cent.

9. Method of Repayment: The most popular form of repayment appears to be on demand, followed by dairy orders and crop and wool liens. A few ask for regular annual repayment or full repayment at the end, although, in general, this does not appear to be too common.

10. Loan Preferences: An overwhelming majority of agents will lend only to those who do business with them, although a few are prepared to consider those who are not clients, but give preference to clients.

11. Lending to Different Industries: In all cases, 100 per cent (or almost 100 per cent) of term and seasonal lending is to agriculture.

12. Expected Growth in Different Industries: The following table summarises agents' attitudes:

Industry	Expected Growth Level
Agriculture - pastoral	Present or Greater
Agriculture - horticulture	Greater
Agriculture - other	Present or Greater
Fishing	Greater
Forestry	Present or Greater
Manufacturing	Divergent - all possibilities expected
Heavy construction, engineering, mining and quarrying	Declining
Residential construction, property development	Declining
Transport, storage	Present
Motor cars	Present or Declining
Wholesalers, importers	Present or Declining
Retailers	Present or Declining

13. Riskiness: Pastoral agriculture is generally considered very safe. Horticulture is considered moderately risky to moderately safe. Other agriculture is considered moderately safe to very safe. Fishing is considered moderately risky, and forestry moderately safe. They appear to consider most other industries moderately risky or very risky.

14. Future Lending: Most of the bigger agents expect to lend more to agriculture in the next few years. The smaller ones feel that they will be lending either the same amount or less than they do now.

(b) Trust Companies

1. Term of Loan: Lending appears to be largely on a short-term basis, but loans are rolled over.

2. Type of Farming: Trust companies lend for dairying, sheep-farming and cattle farming and a couple also lend for mixed cropping.

3. Purpose of Loans: All companies are prepared to lend for purchase, amalgamation and refinancing. Most are also prepared to lend for development work, the erection of buildings and for private purposes. However, the majority of their actual lending appears to be for purchase, amalgamation and refinancing.

4. Type of Mortgages Offered: All trust companies lend on a first mortgage basis.

5. Security Required: All trust companies require security over land.

6. Security Margin: Most companies lend to 50 per cent.

7. Valuation of Security Assets: Most accept the Government or an independent institution's valuation.

8. Interest Rates: Interest rates vary between 11 per cent and 13.5 per cent.

9. Method of Repayment: The method of repayment varies, with full repayment of principal at the end of the loan period, and regular quarterly payments of principal being the predominant methods. Principal repayments are also made on a regular annual or six-monthly basis.

10. Lending to Different Industries: This tends to vary. However, lending to agriculture appears to be an important part of the portfolios of those companies answering this question, with the proportion of their total lending going to agriculture varying from 30 per cent to 75 per cent.

11. Future Lending: All companies expect their future lending to all types of agriculture to remain at the same level or to increase.

(c) Life Offices

1. Term of Loan: Most lending by life offices is long-term. Some offices lend for short terms on a five-year renewable basis.

2. Type of Farming: Virtually all life offices lend for dairying, sheepfarming, cattle farming and mixed cropping. Most are also prepared to lend for fruit growing/horticulture, but only a few are prepared to consider lending for poultry/pig farming and bee-keeping.

3. Purpose of Loans: All insurance companies are prepared to lend for purchase, amalgamation or refinancing. Many also lend for the erection of buildings, and for private purposes and development. A few also lend for the purchase of stock and plant and machinery.

For most companies, the vast bulk of funds actually loaned are for the purpose of purchasing, amalgamation and refinancing.

4. Type of Mortgages Offered: Most life offices are prepared to lend on a first mortgage basis. Quite a few are also prepared to lend on a second mortgage basis.

5. Security Required: The first security asked for is security over land. However, a number may also accept the assignment of life policies. In a couple of cases, mortgage repayment insurance and endowment insurance of the same amount and term as the loan required, may also be asked for. In addition, a Rural Bank guarantee is necessary.

6. Security Margin: This varies from 40 per cent to 75 per cent, although most offices seem to set a margin of 50 per cent.

7. Valuation of Security Assets: Most offices rely on an independent valuation, although a few accept Government valuation, or their own valuation.

8. Interest Rates: Interest rates range between 11.5 per cent and 13 per cent, depending on whether the mortgage is on a first or second mortgage basis, and on whether recent interest rate adjustments were made before or after the date indicated in the questionnaire.

9. Method of Repayment: The most common method of repayment is by regular quarterly instalment, although a few offices require regular monthly repayments, or full principal repayments at the end of the loan period.

10. Loan Preference: The majority of offices will lend only to existing policy-holders; however, a significant proportion are prepared to lend to non-policy holders, but give preference to existing policy-holders.

11. Lending to Different Industries: Lending to agriculture as a proportion of total term lending fluctuated widely between offices, varying from 7 per cent to 100 per cent. The major alternative use of funds appears to be for residential loans.

12. <u>Expected Growth in Different Industries</u>: The following table summarises the attitudes of life offices:

Industry	Expected Growth Level
Agriculture - pastoral	Present or Greater
Agriculture - horticulture	Greater
Agriculture - other	Present or Greater
Fishing	Present or Greater, mainly Greater
Forestry	Present or Greater, mainly Greater
Manufacturing	Present or Greater
Heavy construction, engineering, mining and quarrying	Present or Declining
Residential construction, property development	Present or Declining
Transport, storage	Divergent - all possibilities expected
Motor cars	Present or Declining mainly Declining
Wholesalers, importers	Present or Declining
Retailers	Present or Declining, mainly Present

13. Riskiness: The following table summarises the views of life offices on the relative riskiness of different industries:

Industry	Riskiness
Agriculture - pastoral	Very safe to moderately safe
Agriculture - horticulture	Moderately safe to moderately risky
Agriculture - other	Moderately risky
Fishing	Moderately risky to very risky
Forestry	Moderately safe
Manufacturing	Moderately safe
Heavy construction, engineering, mining and quarrying	Moderately risky
Residential construction, property development	Moderately risky to very risky
Transport, storage	Divergent - from very risky to moderately safe
Motor cars	Moderately risky to very risky
Wholesalers, importers	Moderately safe to moderately risky
Retailers	Moderately safe

14. Future Lending: The following table summarises the expected future lending patterns of life offices in the next five years:

Industry	Expected Future Lending
Agriculture - pastoral	Same or Greater Proportion
Agriculture - horticulture	Same or Greater Proportion
Agriculture - other	Same or Greater Proportion
Fishing	Same or Greater Proportion
Forestry	Same or Greater Proportion
Manufacturing	Same or Greater Proportion
Heavy construction, engineering, mining and quarrying	Same or Reduced Proportion
Residential construction, property development	Same or Reduced Proportion
Transport, storage	Divergent - same, greater or smaller
Motor cars	Same or Reduced Proportion
Wholesalers, importers	Same or Reduced Proportion
Retailers	Same or Reduced Proportion

(d) Trustee Savings Banks

1. Term of Loan: All Trustee Savings Banks lend on a long-term basis; however, a significant minority also lend for medium and shorter periods.

2. Type of Farming: Most banks are prepared to lend for all types of farming activity in their region.

3. Purpose of Loans: All banks are prepared to lend for purchase and refinance purposes. In addition, most also lend for development work and for the erection of buildings. A few are prepared to lend for the purchase of plant and machinery and of stock, and also for private purposes.

The vast majority of actual lending is for purchase and refinance, with the bulk of the remainder being lent for the erection of buildings.

4. Type of mortgages Offered: In all cases first mortgages are offered. In addition, about half of the banks are also prepared to offer second mortgages.

5. Security Required: In all cases, first security is over land. Collateral security over stock, the assignment of life policies and liens or charges over Government stocks, shares and local body debentures may also be required in some cases.

6. Security Margin: This tends to very between 60 per cent and 75 per cent.

7. Valuation of Security Assets: Most banks conduct their own security valuation, or accept an independent valuer's estimate.

8. Interest Rates: Interest rates varied from 9.5 per cent to 14 per cent.

9. Method of Repayment: Most repayments are made on a regular, quarterly basis, although in a couple of cases, repayment is made at monthly intervals, or on demand.

10. Loan Preferences: In most cases, loans are granted only to those holding accounts, although in a significant minority of cases, non-account holders may be considered for loans, although preference is given to those with accounts.

11. Lending to Different Industries: The proportion of term lending to agriculture varies between banks, although in the majority of cases it ranges from 10 per cent to 25 per cent. The majority of Trustee Savings Bank lending goes into housing.

12. Expected Growth in Different Industries:

Industry	Expected Growth Level
Agriculture - pastoral	Present
Agriculture - horticulture	Greater
Agriculture - other	Present or Greater
Fishing	Greater
Forestry	Present or Greater
Manufacturing	Present or Greater, mainly Present
Heavy construction, engineering, mining and quarrying	Present
Residential construction, property development	Present or Declining
Transport, storage	Present
Motor cars	Present or Declining mainly Present
Wholesalers, importers	Present or Declining
Retailers	Present or Declining, mainly Declining

13. Riskiness: Pastoral agriculture is considered very safe. Horticulture is thought to be moderately safe to very safe; in most cases, moderately safe. Opinions on the riskiness of other types of agriculture vary, although most banks felt they were moderately safe to moderately risky. Housing was considered to be moderately safe to very safe.

14. Future Lending: Expectations as to future lending to all types of agriculture and horticulture varied. Some expected to lend a greater proportion, some the same proportion and some a smaller proportion. Most banks expect to lend the same or a greater proportion to housing in the next five years.

(e) Trading Banks

1. Term of Loan: The Trading Banks lend on a medium-term, short-term and seasonal basis.

2. Type of Farming: Trading Banks are prepared to lend for all types of farming activity.

3. Purpose of Loans: Banks are prepared to lend for most purposes with the possible exception of refinancing. However, it was not possible to get any indication of actual lending for different purposes.

4. Type of Mortgages Offered: Most banks are prepared to consider first and second mortgages, and, in some cases, third mortgages.

5. Security Required: Security over land is the major form of security. Collateral security over stock or a bill of sale over livestock may also be required, as may collateral security over other chattels. Liens or charges over Government stocks, shares, or local body debentures may also be required.

6. Security Margin: Security margins are between 60 per cent and 70 per cent.

7. Valuation of Security Assets: Most banks accept their own, Government or independent valuations.

8. Interest Rates: Interest rates vary between 9.5 per cent and 13 per cent, depending on terms.

9. Method of Repayment: A variety of repayment methods appear to be acceptable, including regular annual, half-yearly or monthly payments and, in the case of seasonal loans, payment on demand.

10. Loan Preferences: Preference is given to account-holders, although non-account holders may be considered.

11. Lending to Different Industries: Approximately 10 per cent of both term and seasonal lending is to agriculture.

12. Expected Growth in Different Industries: Pastoral agriculture is expected to grow at present levels, while it is largely expected that other forms of agriculture and horticulture will achieve greater growth levels. Fishing and forestry are expected to achieve increased growth levels, while manufacturing and heavy construction type activities are expected to maintain present growth levels. Residential construction, transport and storage, motor cars, wholesalers and imports, and retailers, are expected to experience declining growth levels.

13. Riskiness: Pastoral agriculture is seen to be very safe by banks, while other agriculture and horticulture are considered moderately safe to very safe, as is forestry. On the other hand, fishing, residential construction and property development, motor cars, wholesalers and importers and retailers, are seen to be moderately safe to moderately risky. Manufacturing and transport and storage are thought to be moderately safe, while the assessment of heavy construction, engineering, mining and quarrying varies from moderately safe to very risky.

14. Future Lending: The Trading Banks expect to lend the same or a greater proportion of funds to all types of agriculture and horticulture. The same position applies to fishing and forestry, although, on balance, they expect to lend more to these industries. They expect to lend the same proportion for manufacturing, wholesalers and importers, and transport and storage. However, they will probably lend less for heavy construction, residential construction, transport and storage and motor cars.

(f) Building Societies

1. Term of Loan: Lending terms tended to be variable, ranging from long-term to medium-term to short-term. However, the majority are prepared to lend on a medium-and short-term basis.

2. Type of Farming: Most building societies are prepared to lend for any type of farming activity.

3. Purpose of Loans: Most building societies are prepared to lend for initial purchase and refinance and the erection of buildings. Some are also prepared to lend for development. The vast majority of actual lending is for purchase and refinance, with lesser proportions for the erection of buildings.

4. Type of Mortgages Offered: All building societies offer first mortgages. A number also offer second mortgages, and a few are also prepared to offer third mortgages.

5. Security Required: Building Societies ask for their first security over land. A few also require mortgage repayment insurance.

6. Security Margin: The security margin varies from 50 per cent to 70 per cent, with the majority of building societies requiring 67 per cent.

7. Valuation of Security Assets: Most building societies rely on their own or an independent valuation of the asset used as security.

8. Interest Rates: Interest rates range from approximately 11 per cent to 13 per cent.

9. Method of Repayment: Most building societies require repayment at regular monthly intervals.

10. Loan Preference: Most building societies will make loans only to those who hold shares in their societies, although a couple will consider lending to those who do not hold shares, but give preference to shareholders.

11. Lending to Different Industries: In most cases, lending to agriculture does not form a significant proportion of total loans, although in a few cases this proportion reaches 35-40 per cent.

12. Expected Growth in Different Industries: The following table summarises the attitudes to building societies:

Industry	Expected Growth Levels
Agriculture - pastoral	Present to Greater
Agriculture - horticulture	Greater
Agriculture - other	Present or Greater
Fishing	Greater
Forestry	Greater
Manufacturing	Present or Greater, mainly Greater
Heavy construction, engineering, mining and quarrying	Divergent - all possibilities expected, although mainly Present to Greater
Residential construction, property development	Present or Declining, mainly Present
Transport, storage	Present or Declining
Motor cars	Present or Declining, mainly Declining
Wholesalers, importers	Present
Retailers	Present

13. Riskiness: The following table summarises the views of building societies on the relative riskiness of different industries:

Industry	Riskiness
Agriculture - pastoral	Moderately safe to very safe
Agriculture - horticulture	In general, moderately safe
Agriculture - other	In general, moderately safe
Fishing	Moderately risky
Forestry	Safe to moderately safe
Manufacturing	Moderately safe to moderately risky
Heavy construction, engineering mining and quarrying	Divergent - from moderately safe to very risky
Residential construction, property development	Very safe to moderately safe
Transport, storage	Divergent - from moderately safe to very risky
Motor cars	Moderately safe to moderately risky
Wholesalers, importers	Moderately safe to moderately risky
Retailers	Moderately safe

14. Future Lending: The following table summarises the expected future lending patterns of building societies in the next five years:

Industry	Expected Future Lending
Agriculture - pastoral	Same or Greater Proportion
Agriculture - horticulture	Same or Greater Proportion
Agriculture - other	Same or Greater Proportion
Fishing	Same Proportion
Forestry	Same Proportion
Manufacturing	Same Proportion
Heavy construction, engineering, mining and quarrying	Divergent - same, greater or smaller
Residential construction, property development	Divergent - mainly the same proportion
Transport, storage	Same Proportion
Motor cars	Same Proportion
Wholesalers, importers	Same Proportion
Retailers	Same Proportion

(g) Finance Companies

1. Term of Loan: All finance companies lend for short-term and seasonal purposes.

2. Type of Farming: Most finance companies appear to be willing to lend for most types of farming activity, although a couple of companies specialise in lending small amounts for horticulture and poultry and pig-farming.

3. Purpose of Loans: Different companies are prepared to lend for different purposes; in particular, for purchase, amalgamation and refinancing, the erection of buildings, and the purchase of plant and machinery and stock.

It is not possible to generalise on the purpose of actual lending. A few companies lend exclusively for the purchase of plant and machinery, whereas other firms specialise in lending for purchase.

4. Type of Mortgages Offered: Finance companies seem prepared to offer first, second and third mortgages on a short-term basis.

5. Security Required: The first security asked for is security over land. Subsequent security required includes collateral security over stock and other chattels, the assignment of life policies, mortgage repayment insurance, endowment insurance and a bill of sale over livestock.

6. Security Margin: Security margins vary from 67 per cent to 80 per cent.

7. Valuation of Security Assets: Companies accept their own or an independent valuation of security assets, and may, in some cases, also accept Government valuation.

8. Interest Rates: Some rates of interest tend to vary between 15 per cent and 20 per cent.

9. Method of Repayment: Methods of repayment tended to vary, and included regular annual, quarterly or monthly payments, full repayment at the end of the loan period and dairy orders, as well as a series of flexible repayment programmes tailor-made to suit particular clients.

10. Lending to Different Industries: The finance companies interviewed were known to be important lenders to agriculture. Consequently, a significant proportion of their total lending is to agriculture.

11. Expected Growth in Different Industries: The following table summarises the attitudes of finance companies.

Industry	Expected Growth Level
Agriculture - pastoral	Divergent - generally, Present or Greater
Agriculture - horticulture	Present or Greater
Agriculture - other	Present or Greater
Fishing	Greater
Forestry	Greater
Manufacturing	Present or Greater
Heavy construction, engineering, mining and quarrying	Divergent - generally Present
Residential construction, property development	Present or Declining
Transport, storage	Present
Motor cars	Present or Declining
Wholesalers, importers	Present
Retailers	Present

12. Riskiness: The following table indicates the assessment by finance companies of the risk associated with different industries.

Industry	Riskiness
Agriculture - pastoral	Moderately safe to very safe
Agriculture - horticulture	Divergent - in general, moderately safe
Agriculture - other	Moderately safe
Fishing	Moderately safe to moderately risky
Forestry	Divergent - in general, moderately safe
Manufacturing	Moderately safe to very safe
Heavy construction, engineering, mining and quarrying	Moderately safe to moderately risky
Residential construction, property development	Moderately risky
Transport, storage	Moderately safe to moderately risky
Motor cars	Divergent - in general, moderately safe
Wholesalers, importers	Moderately safe
Retailers	Moderately safe

13. Future Lending: The following table summarises expected future lending by finance companies.

Industry	Expected Future Lending
Agriculture - pastoral	Same or Greater Proportion
Agriculture - horticulture	Same Proportion
Agriculture - other	Same or Greater Proportion
Fishing	Same Proportion
Forestry	Same Proportion
Manufacturing	Same Proportion
Heavy construction, engineering, mining and quarrying	Same Proportion
Residential construction, property development	Smaller Proportion
Transport, storage	Same Proportion
Motor cars	Same or Greater Proportion
Wholesalers, importers	Same Proportion
Retailers	Same Proportion

(h) Co-operative Dairy Companies

1. Term of Loan: Lending is on a short-term or seasonal basis.

2. Type of Farming: All lending is for dairying.

3. Purpose of Loans: Many co-operative dairy companies lend for a variety of purposes from the purchase of property to the payment of expenses until income is received. However, the predominant purposes of lending appear to be for the purchase of stock, the purchase of plant and machinery, development work and the payment of expenses until income is received. The majority of actual lending appears to be for the purchase of stock, with significant loans also being made for the payment of expenses until income is received.

4. Type of Mortgages Offered: Very few co-operative dairy companies are prepared to offer mortgages.

5. Security Required: The predominant form of security required appears to be a bill of sale over livestock, although a variety of other forms of security, such as collateral security over stock or a lien on the proceeds of milk sales, are also acceptable.

6. Security Margin: The security margin varies quite markedly from 50 per cent to 100 per cent, although the vast majority offer 67 per cent or higher.

7. Valuation of Security Assets: Most companies rely on their own valuation of the assets used as security.

8. Interest Rates: Interest rates vary from 7.5 per cent to 13.75 per cent depending on the length of loan, and the purpose for which the money is lent. The majority of companies charge between 9 per cent and 11 per cent.

9. Method of Repayment: The majority of loans are repaid on a regular monthly basis or by dairy order.

10. Lending to Different Industries: All lending is to the dairy industry.

11. Expected Growth in Different Industries: Co-operative Dairy Companies expect present or greater growth levels in pastoral agriculture in the next five years.

12. Riskiness: Co-operative dairy companies see pastoral agriculture as moderately safe to very safe.

13. Future Lending: All dairy companies expect to lend either the same or a greater level of funds for dairying in the next five years.

(i) Lawyers

1. Term of Loan: All lending through lawyers' nominee companies and lawyers' trust funds is on a short-term basis.

2. Type of Farming: The vast majority of lawyers' funds lent are available for all types of farming activity.

3. Purpose of Loans: Most lawyers' funds are available for most purposes. However, virtually all funds actually lent are for purchase and refinancing.

4. Type of Mortgages Offered: Lawyers' funds are predominantly on a first mortgage basis, although some are prepared to lend for second mortgages.

5. Security Required: Security over land is always asked for.

6. Security Margin: This varies from 50 per cent to 67 per cent, with a large proportion of funds being lent at 67 per cent.

7. Valuation of Security Assets: Most lawyers require an independent valuation, although many are also prepared to accept Government valuation.

8. Interest Rates: Interest rates on first mortgages vary from 12 per cent to 14 per cent.

9. Method of Repayment: Lawyers require full repayment of loans at the end of the loan period.

10. Lending to Different Industries: The proportion of total funds lent which are destined for agriculture varies quite markedly between firms depending on whether a practice is predominantly country-based or city-based. Of the firms surveyed who lend to agriculture, this proportion varied from 1 per cent to 60 per cent.

11. Expected Growth in Different Industries: The following table summarises the attitudes of lawyers:

Industry	Expected Growth Level
Agriculture - pastoral	Present or Greater
Agriculture - horticulture	Greater
Agriculture - other	Present or Greater
Fishing	Present or Greater, mainly Greater
Forestry	Present or Greater, mainly Greater
Manufacturing	Present or Greater, mainly Present
Heavy construction, engineering, mining and quarrying	Present or Declining
Residential construction, property development	Present or Declining, mainly Declining
Transport, storage	Present or Declining
Motor cars	Declining
Wholesalers, importers	Present or Declining
Retailers	Present or Declining

12. Riskiness: The following table summarises the views of lawyers on the relative riskiness of different industries.

Industry	Riskiness
Agriculture - pastoral	Very safe
Agriculture - horticulture	Moderately safe to very safe
Agriculture - other	Moderately safe to very safe
Fishing	Divergent - moderately safe to moderately risky to very risky, mainly very risky
Forestry	Moderately safe to moderately risky
Manufacturing	Moderately safe to moderately risky
Heavy construction, engineering, mining and quarrying	Moderately safe to moderately risky, mainly moderately risky
Residential construction, property development	Divergent - very safe to moderately safe to moderately risky, mainly moderately safe
Transport, storage	Moderately safe to moderately risky
Motor cars	Moderately risky to very risky
Wholesalers, importers	Divergent - moderately safe to moderately risky to very risky
Retailers	Moderately risky

13. Future Lending: The following table summarises the expected future lending patterns in the next five years:

Industry	Expected Future Lending
Agriculture - pastoral	Same or Greater
Agriculture - horticulture	Same or Greater
Agriculture - other	Same
Fishing	Same
Forestry	Same
Manufacturing	Same
Heavy construction, engineering, mining and quarrying	Same
Residential construction, property development	Same or reduced, mainly the same proportion
Transport, storage	Same
Motor cars	Same
Wholesalers, importers	Same
Retailers	Same

(j) Department of Maori Affairs

1. Term of Loan: The Department of Maori Affairs is prepared to lend on a long, medium, short-term and seasonal basis. Last year they lent $270,000 on a seasonal basis and $3.7 m on a term basis.

2. Type of Farming: They are prepared to lend for all types of farming with the exception of mixed cropping and poultry, pig-farming and beekeeping.

3. Purpose of Loan: They are prepared to lend on a long-term basis for purchase, development work, the erection of buildings and the purchase of stock. Medium-term loans are available for amalgamation and refinancing, and for the financing of development work, the erection of buildings and the purchase of plant and machinery and stock. Short-term funds are lent for refinancing, development work, the erection of buildings, and the purchase of plant and machinery and stock. Seasonal lending is for development work, the erection of buildings, the purchase of stock, financing tax payments, the payment of expenses when losses are expected in bad years, and the payment of expenses until income is received.

4. Type of Mortgages Offered: First mortgages are offered on a long-term, medium-term and short-term basis.

5. Security Required: First security for long and medium-term loans is security over land. A bill of sale over livestock is the second security required for these types of loans, and the assignment of life policies is the third type of security asked for. The first security for short-term loans is a bill of sale over livestock with a second security being that the land is subject to a provision of the Maori Affairs Act.

6. Security Margin: Each case is judged on its merits, but not much is lent over 85 per cent.

7. Valuation of Security Assets: The Maori Affairs Department require their own valuation of the asset used as security.

8. Interest Rates: Interest is charged at 8.5 per cent, with these rates being rebatable depending on circumstances.

9. Method of Repayment: Repayment may be asked for either on a regular annual basis, by dairy order, or by disposal of surplus while running under budget control.

10. Lending to Different Industries: All lending by the Department of Maori Affairs is to agriculture.

11. Expected Growth: The Department of Maori Affairs expects greater growth in pastoral agriculture and in horticulture.

12. Riskiness: Pastoral agriculture is seen as moderately safe, while horticulture is seen as moderately risky.

13. Future Lending: In the next five years, they expect to lend less to pastoral agriculture and more to horticulture.

(k) Marginal Lands Board

1. Term of Loans: The Marginal Lands Board lends for long, medium and short-term periods, and also on a seasonal basis. In 1978-79 it lent $4.6 m in total.

2. Type of Farming: It is prepared to make term loans for all types of farming and seasonal loans for dairying, sheepfarming and cattle farming.

3. Purpose of Loans: Long-term loans are available for purchase, amalgamation, refinancing, development work, and the erection of buildings. Medium-term lending is for these purposes, and, in addition, for the purchase of plant and machinery and stock. Short-term loans are available for the purchase of stock.

In the 1978-79 year, 41 per cent of their actual lending was for the purpose of additional land, 10 per cent for the purchase of uneconomic land, 19 per cent for refinance, and 30 per cent for development work.

4. Type of Mortgages Offered: The Marginal Lands Board is prepared to offer first, second and third mortgages on long, medium and short-term basis.

5. Security Required: Security asked for includes security over land, collateral security over stock and other chattels and a bill of sale over livestock.

6. Security Margin: No margin of security is insisted on.

7. Valuation of Security Assets: The Marginal Lands Board requires their own valuation of the asset used as security.

8. Interest Rates: For long and medium-term loans, the interest rates vary from 9.5 - 10 per cent for refinancing, to 8.5 per cent to 9 per cent in other circumstances. For short-term loans, the rate is 8.5 - 9 per cent and 8.5 per cent for seasonal loans.

9. Method of Repayment: Repayment for all types of loan is on a regular, six-monthly basis. Where necessary, dairy orders, crop liens and wool liens are operated.

10. Lending to Different Industries: All term and seasonal lending by the Marginal Lands Board is for agriculture.

11. Expected Growth in Different Industries: The Marginal Lands Board expects pastoral agriculture to grow at present levels, horticulture to exhibit increased growth and other types of agriculture to maintain their present growth patterns.

12. Riskiness: Pastoral agriculture, horticulture and other forms of agriculture are all viewed as moderately safe.

13. Future Lending: The Marginal Lands Board expects to provide the same proportion of seasonal funds to pastoral agriculture. As far as term lending is concerned, they expect to lend a smaller proportion to pastoral agriculture, a greater proportion to horticulture and the same proportion to other types of agriculture.

(1) Land Settlement Board

1. Term of Loan: Lending is on a long-term basis.

2. Extent of Lending: In 1978-79 the Land Settlement Board offered 28 sheep and 16 dairy farms as going concerns with deposits based on approximately 15 per cent on a leasehold basis. In the same year also, approximately $475,000 was advanced to settlers by way of additional loans.

3. Type of Farming: The Board is prepared to lend for dairying, sheepfarming, cattle farming and horticulture.

4. Type of Mortgages Offered: Loans are used for purchase, development work, the erection of buildings, and the purchase of plant and machinery and stock.

5. Type of Mortgages Offered: The Land Settlement Board is prepared to offer first mortgages on a long-term basis.

6. Security Required: Security which may be required includes security over land, collateral security over stock and other chattels, and a bill of sale over livestock.

7. Security Margin: No margin of security is insisted on.

8. Valuation of Security Assets: The Board accepts its own valuation of the assets used as security.

9. Interest Rates: Interest is charged at 8.5 - 9 per cent with concessional interest rates being available over the initial term of the loan.

10. Method of Repayment: Repayment is made on a regular six-monthly basis, and, where necessary, dairy orders and wool liens are operated.

11. Lending to Different Industries: All lending by the Land Settlement Board is to agriculture.

12. Expected Growth in Different Industries: The Board expects present growth levels to continue in pastoral agriculture, increased levels to prevail in horticulture, and present growth levels to remain in other forms of agriculture.

13. Riskiness: All types of agriculture are seen as moderately safe.

14. Future Lending: The Land Settlement Board expects to lend a small proportion to pastoral agriculture, and a greater proportion to horticulture in the next five years.

(m) Rural Banking and Finance Corporation

1. Term of Loan: The RBFC is prepared to lend on a long, medium, short-term and seasonal basis. In 1978-79 it lent $148.8 m on a long-term basis, $65.7 m on a medium-term basis, $50 m on a short-term basis, and $6.9 m in seasonal loans.

2. Type of Farming: They are prepared to lend to all types of agriculture on a long, medium, short-term and seasonal basis.

3. Purpose of Loans: The RBFC is prepared to make long-term loans for purchase, amalgamation, refinancing, development work, the erection of buildings, the purchase of stock, and the payment of estate duty.

Medium-term loans are available for purchase, amalgamation, refinancing, development work, the erection of buildings, the purchase of plant and machinery and stock, the payment of estate duty, and paying expenses when losses are expected in poor years.

Short-term loans are made for development work, the erection of buildings and the purchase of plant and machinery and stock, paying expenses when losses are expected in poor years, and paying expenses until income is received. Seasonal finance is available for paying expenses until income is received.

The following table gives a summary of actual lending for the year ending March 1979.

Purpose	Long-Term Loans (%)	Medium-Term Loans (%)	Short-Term Loans (%)	Seasonal Loans (%)
Initial purchase of land	55	-	-	-
Amalgamation of holdings	6.8	3.2	-	-
Refinancing existing mortgage	4.6	7.6	-	-
Financing development work	13.4	61	16.3	-
Erection of farm buildings	18.2	16.4	6.0	-
Financing purchase of plant and machinery	-	-	3.7	-
Financing purchase of stock	1.3	8.5	72.0	-
Private purposes	-	-	-	-
Financing tax payments	-	-	-	-
Paying expenses when losses expected in poor year/years	-	2.7	2.0	-
Pay expenses until income received	-	-	-	100
Estate duty	0.7	0.6	-	-

4. Type of Mortgages Offered: The RBFC is prepared to offer first, second and third mortgages on a long, medium and short-term basis.

5. Security Required: For long and medium-term loans the first security asked for is security over land, with collateral security over stock as second security, and collateral security over other chattels as third security. This also applies to short-term and seasonal loans but, in addition, a bill of sale over livestock may be acceptable as security for these types of loans. In some cases no security may be required for seasonal loans.

6. Security Margin: The RBFC will lend up to 85 per cent for long, medium and short-term loans. The security margin for seasonal loans is up to 100 per cent.

7. Valuation of Security Assets: They require their own valuation of security assets.

8. Interest Rates: For long, medium and short-term loans, the interest rates ranged from 6 per cent to 12 per cent, with 8.5 per cent being the standard rate. For seasonal loans, the rate is 9 per cent.

9. Method of Repayment: For long, medium and short-term loans, principal may be repaid in regular quarterly instalments and by dairy order. In addition, short-term and seasonal loans may be repaid by crop liens, wool liens, or a seasonal surplus.

10. Lending to Different Industries: All of the Rural Banking and Finance Corporation's seasonal lending is to agriculture, as is 89 per cent of its term lending. Five per cent of term lending is to fishing and forestry and the remaining 6 per cent is to manufacturing.

11. Expected Growth in Different Industries: The RBFC expects growth levels to increase for all types of agriculture, fishing, forestry and manufacturing. They expect present growth levels to be maintained in heavy construction, engineering, mining and quarrying, and transport and storage, and declining growth levels to be experienced in residential construction and property development, motor cars, wholesalers and importers, and retailers.

12. Riskiness: The RBFC sees pastoral agriculture as very safe, and horticulture and other forms of agriculture as moderately safe.

13. Future Lending: The following table summarises the RBFC's expectations as to future lending in the next five years.

Industry	Expected Future Term Lending	Expected Future Seasonal Lending
Agriculture - pastoral	Same as present	Greater than present
Agriculture - horticulture	Greater than present	Greater than present
Agriculture - other	Greater than present	Same as present
Fishing	Same as present	Same as present
Forestry	Greater than present	Same as present
Rural Manufacturing	Same as present	Same as present

APPENDIX 2

PERSONAL INTERVIEWS OF LENDING INSTITUTIONS 1979

During August and September 1979, personal visits were made to a range of lending institutions to discuss a number of points raised by the postal survey of rural lenders,[48] and to elicit opinion on a wide range of issues relevant to the current system of rural credit.

On the basis of information obtained by the postal survey, the more significant lenders to the rural sector within each type of institution were selected for interview, subject to the proviso that the data they initially furnished were of sufficient quality to allow a more detailed response to questions raised initially in the postal survey.

The following table shows the different types of institution visited.

TABLE 3

Personal Survey of Lending Institutions

Type of Institution Visited	No. Visited
Building Societies	4
Trust Companies	2
Finance Houses	4
Banks - trading	3
- savings	3
Co-operative Dairy Companies	1
Stock and Station Agents	3
Life Assurance Offices	3
Solicitors	3

48 See Appendix 1 for postal survey results.

Information resulting from these interviews has been incorporated into the text of the main Chapters.

APPENDIX 3

FARM INCOMES

TABLE 4

Net Farm Income 1964-65 to 1978-79

March Year	Total ($m)
1964-65	167
1965-66	164
1966-67	302
1967-68	291
1968-69	319
1969-70	287
1970-71	328
1971-72	443
1972-73	515
1973-74	544
1974-75	268
1975-76	524
1976-77	840
1977-78	607
1978-79	835*

* Estimated

Source: New Zealand Institute of Economic Research Quarterly Predictions.

APPENDIX 4

FARMING TERMS OF EXCHANGE

TABLE 5

Sheep Farmers' Terms of Exchange at Farm Gate

1965-66 to 1978-79

(Base 1965/66=1000)

Year	Prices Received Index	Prices Paid Index	Terms of Exchange Index
1965/66	1 000	1 000	1 000
1966/67	947	1 032	918
1967/68	938	1 068	878
1968/69	1 035	1 102	939
1969/70	1 191	1 136	1 048
1970/71	1 105	1 192	927
1971/72	1 074	1 268	847
1972/73	1 810	1 333	1 358
1973/74	1 857	1 520	1 222
1974/75	1 308	1 724	759
1975/76	1 958	1 933	1 013
1976/77	2 516	2 293	1 097
1977/78	2 354	2 651	888
1978/79*	2 905	2 892	1 004

* Provisional

Source: Annual Review of the Sheep and Beef Industry.
N.Z. Meat and Wool Boards' Economic Service.

TABLE 6

Terms of Exchange for Dairy Farmers

1967-68 to 1977-78

(Base 1967/68=1000)

Year	Prices Received Index	Prices Paid Index	Terms of Exchange Index
1967/68	1 000	1 000	1 000
1968/69	1 013	1 024	989
1969/70	1 100	1 077	1 021
1970/71	1 150	1 215	1 057
1971/72	1 394	1 204	1 158
1972/73	1 578	1 302	1 212
1973/74	1 621	1 509	1 074
1974/75	1 542	1 699	907
1975/76	1 721	1 936	889
1976/77*	2 063	2 222	928
1977/78*	2 293	2 517	911

* 1976/77 and 1977/78 base 1970/71 =1000

Source: N.Z. Dairy Board
An Economic Survey of Factory Supply Dairy Farms in New Zealand.

APPENDIX 5

NET INVESTMENT TRENDS IN AGRICULTURE

TABLE 7

Real Net Investment 1963-64 to 1978-79

($ million)

Base: 1949-50

March Year	Land & Buildings	Plant	Livestock	Total
1963-64	23.5	0.1	5.6	29.2
1964-65	24.6	- 0.4	15.2	39.4
1965-66	27.4	0.4	30.1	57.9
1966-67	29.4	- 1.7	29.0	56.7
1967-68	25.4	- 0.9	17.2	41.7
1968-69	22.5	- 0.7	7.7	29.5
1969-70	18.1	- 0.8	16.0	33.3
1970-71	17.6	1.2	-14.4	4.4
1971-72	13.4	8.7	8.3	30.4
1972-73	21.3	15.3	-12.0	24.6
1973-74	26.9	11.3	5.8	44.0
1974-75	21.3	1.2	4.2	26.7
1975-76	21.3	3.2	9.3	33.8
1976-77	21.4	4.3	4.4	30.1
1977-78	23.7	1.2	- 4.2	20.7
1978-79	23.9	- 0.2	- 4.4	19.3

Source: Johnson, R.W.M.,
Capital in New Zealand Agriculture,
Ministry of Agriculture and Fisheries, Wellington, 1978.

APPENDIX 6

RURAL LAND PRICES

TABLE 8

Farmland Sale Price Index 1964 to 1978

Base 1960=1000

Year Ended 31 December	Index	% Change Each Year
1964	1192	
1965	1375	15.4
1966	1515	10.2
1967	1587	4.8
1968	1569	- 1.13
1969	1647	5.0
1970	1715	4.1
1971	1754	2.3
1972	1880	7.2
1973	2346	24.8
1974	3478	48.3
1975	3999	15.0
1976	4404	10.1
1977	4951	12.4
1978	5421	9.5

Sources: State of Agriculture Report,
Valuation Department Report.

APPENDIX 7

INTEREST BURDEN ON FARMERS

TABLE 9

Changes in Interest Payments by Farmers

1963-64 to 1978-79

Year	Sheep Farmers		Dairy Farmers	
	% Increase in Interest	Interest as % of Farm Expenditure	% Increase in Interest	Interest as % of Farm Expenditure
1963-64	0.2	N/A	N/A	N/A
1964-65	-0.2	N/A	N/A	N/A
1965-66	2.6	N/A	N/A	N/A
1966-67	1.2	8.4	N/A	N/A
1967-68	1.5	8.5	N/A	N/A
1968-69	0.0	9.4	N/A	N/A
1969-70	0.0	10.7	N/A	12.0
1970-71	0.0	11.6	10.8	11.9
1971-72	7.0	12.1	15.0	11.2
1972-73	6.2	12.5	9.8	10.7
1973-74	2.4	13.1	12.8	11.0
1974-75	4.5	12.9	14.0	11.9
1975-76	3.0	12.4	6.7	11.7
1976-77	9.2	12.2	36.4	13.2
1977-78	17.1	12.6	18.1	14.6
1978-79	5.6	12.9	9.1	7.9

Source: N.Z. Meat and Wool Boards' Economic Service,
'Annual Review of the Sheep and Beef Industry';
N.Z. Dairy Board,
'Economic Survey of Factory Supply Dairy Farms in New Zealand'.

APPENDIX 8

NET WORTH AND LIABILITIES OF FARMERS

TABLE 10

Changes in Net Worth (Equity) and Liabilities of Sheep and Beef Farmers By Farm Class 1964/65 to 1977/78

Farm Class	1964/65		1977/78		Change	
	Liabilities $('000)	Net Worth $('000)	Liabilities $('000)	Net Worth $('000)	Liabilities $('000)	Net Worth $('000)
1. S.I. High Country	23	125	122	425	+ 99	+300
2. S.I. Hill Country	27	76	121	367	+ 94	+291
3. N.I. Hard Hill Country	21	94	75	312	+ 54	+218
4. N.I. Hill Country	22	66	62	283	+ 40	+217
5. N.I. Intensive Fattening	18	73	73	294	+ 55	+221
6. S.I. Fattening Breeding	24	84	87	286	+ 63	+202
7. S.I. Intensive Fattening	19	75	72	273	+ 53	+198
8. S.I. Mixed Fattening	26	72	136	331	+110	+259
All Classes Average	21	76	81	296	+ 60	+220

Source: N.Z. Meat and Wool Boards' Economic Service
Sheep and Beef Farm Surveys 1964/65 and 1977/78.

APPENDIX 9

INSURANCE COMPANY ACTIVITY

TABLE 11

Survey of New Zealand Farmer Intentions

Expectations and Opinions -

Average Borrowings from, and Average Annual Premiums paid to Life Insurance Organisations at Mid 1978 - By Provincial Land District and Overall

	No. of Valid Observations	Average Borrowings at Mid 1978 $	No. of Valid Observations	Average Annual Premium $
North Island				
1. Northland	18	14,217	133	551
2. Central Auckland	8	16,388	43	557
3. Sth Auckland-Bay of Plenty	61	31,515	388	670
4. East Coast	7	17,629	27	665
5. Hawkes Bay	16	31,312	77	785
6. Taranaki	16	13,230	121	994
7. Wellington	22	45,203	150	636
South Island				
8. Marlborough	1	44,000	24	680
9. Nelson	1	3,000	22	416
10. West Coast	-	-	10	384
11. Canterbury	38	20,082	222	567
12. Otago	19	46,411	116	825
13. Southland	31	20,739	127	687
	236		1460	
Type of Farm:				
1. Dairy	84	20,037	561	718
2. Sheep/Beef	129	32,503	788	659
3. Cropping	11	18,773	64	580
	224		1413	
Age of Farmer:				
1. Under 40	99	26,589	587	637
2. 40-50	79	29,026	451	821
3. Over 50	46	25,157	375	573
	224		1413	
Overall		27,154		679

Source: A.E.R.U. Research Report No. 96

APPENDIX 10

SOURCES OF RURAL FINANCE

TABLE 12

Sources of Finance (Rural) 1964 to 1979 - Based on Mortgages Registered
- Amount $ (millions)

Year Ended 31 March	Government	Local Authorities	Trading Banks	Trustee Savings Banks	Building Societies	Insurance Coys. & Pension Funds	Private Individuals	All Other	Total
1964	30.0	0.2	0.6	3.7	4.1	13.8	46.9	18.1	117.4
1965	48.0	0.1	0.8	3.4	5.4	19.9	64.0	21.1	162.8
1966	45.8	0.3	1.1	4.8	5.6	19.9	80.6	22.0	180.0
1967	52.6	0.2	0.6	3.8	4.3	20.5	81.8	21.8	185.6
1968	35.7	0.1	0.6	2.3	4.4	19.3	70.9	19.2	152.4
1969	33.3	0.1	1.6	4.2	5.2	19.0	62.8	21.8	148.0
1970	47.8	0.1	2.5	4.8	6.5	22.4	72.3	29.2	185.6
1971	67.4	0.1	1.9	6.2	7.8	18.0	76.1	37.0	214.6
1972	78.6	0.1	1.4	4.8	6.5	15.5	72.7	35.7	215.3
1973	83.9	0.1	1.4	8.3	7.9	19.0	82.6	53.4	256.7
1974	79.7	0.2	2.3	9.7	13.3	28.8	106.5	102.2	342.7
1975	82.9	0.3	2.9	7.1	11.8	28.7	160.6	115.8	410.1
1976	102.5	0.7	3.0	5.1	7.2	27.0	143.2	109.9	398.5
1977	125.1	0.2	3.2	8.9	11.8	30.4	187.2	127.5	494.4
1978	162.2	0.4	2.7	8.9	8.1	38.0	211.4	114.4	546.1
1979	229.3	0.6	6.2	29.7	10.6	38.6	214.3	134.2	663.4

Source: N.Z. Official Yearbooks and Ministry of Agriculture and Fisheries.

APPENDIX 10 (cont'd)

TABLE 13

Sources of Finance (Rural) 1964 to 1979 - Based on Mortgages Registered
Percent of Total

Year Ended 31 March	Government	Local Authorities	Trading Banks	Trustee Savings Banks	Building Societies	Insurance Companies	Private Individuals	All Other
1964	25.6	0.2	0.5	3.2	3.5	11.8	40.0	15.4
1965	29.5	0.1	0.5	2.3	3.3	12.2	39.3	13.0
1966	25.4	0.2	0.6	2.7	3.1	11.1	44.8	12.2
1967	28.3	0.1	0.3	2.1	2.3	11.1	44.1	11.8
1968	23.4	0.1	0.4	1.5	2.9	12.7	46.5	12.6
1969	22.5	0.1	1.1	2.8	3.5	12.8	42.4	14.7
1970	25.8	0.1	1.4	2.6	3.5	12.1	39.0	15.7
1971	31.4	0.1	0.9	2.9	3.6	8.4	35.5	16.6
1972	36.5	0.1	0.7	2.2	3.0	7.2	33.8	16.6
1973	32.7	0.0	0.6	3.2	3.1	7.4	32.2	20.8
1974	23.3	0.1	0.7	2.8	3.9	8.4	31.1	29.8
1975	20.2	0.1	0.7	1.7	2.9	7.0	39.2	28.2
1976	25.7	0.2	0.8	1.3	1.8	6.8	35.9	27.6
1977	25.3	0.0	0.7	1.8	2.4	6.2	37.9	25.8
1978	30.0	0.1	0.5	1.6	1.5	7.0	38.7	24.6
1979	34.6	0.1	0.9	4.5	1.6	5.8	32.3	20.2
Mean 1964-1979	27.5	0.1	0.7	2.5	2.9	10.7	38.3	19.1

Source: N.Z. Official Yearbooks and Ministry of Agriculture and Fisheries.

APPENDIX 11

TRADING BANK ACTIVITY

TABLE 14

Trading Banks Total Credit Limits $(M) 1964-1979

Farming, Forestry, Hunting and Fishing

Date	Mainly Dairy Farming	Mainly Sheep Farming	Other Farming	Farm Services	Forestry Hunting & Fishing	Credit Limits to Agriculture	Total Credit Limits	Credit Limits to Agriculture as % of Total Credit Limits
8 Jan. 1964	32.8	40.6	12.6	3.1	2.4	91.6	719.1	12.7
13 Jan. 1965	32.0	41.2	12.2	3.4	2.4	91.2	771.9	11.8
12 Jan. 1966	29.2	42.3	12.0	3.2	2.5	89.2	758.8	11.8
11 Jan. 1967	29.0	47.4	12.4	3.4	2.7	95.0	789.4	12.0
10 Jan. 1968	27.1	47.4	15.4	3.7	3.6	97.1	732.6	13.3
8 Jan. 1969	31.7	47.1	19.0	4.1	3.4	105.2	772.8	13.6
14 Jan. 1970	30.7	45.4	24.6	5.9	5.2	111.8	836.3	13.4
13 Jan. 1971	31.6	50.2	32.0	7.6	7.7	129.0	930.0	13.9
12 Jan. 1972	29.8	55.3	36.0	8.7	8.7	138.5	1,010.9	13.7
10 Jan. 1973	30.7	49.4	36.4	9.0	8.8	134.3	1,114.0	12.1
9 Jan. 1974	36.6	52.9	45.7	11.4	11.3	157.9	1,448.1	10.9
8 Jan. 1975	37.0	57.9	50.3	12.9	9.9	168.0	1,599.4	10.5
14 Jan. 1976	40.9	58.6	56.4	15.2	10.6	181.7	1,718.2	10.6
12 Jan. 1977	42.5	61.8	67.6	18.1	14.0	204.0	2,062.2	9.9
11 Jan. 1978	46.8	74.5	82.3	21.6	17.1	242.3	2,328.8	10.4
10 Jan. 1979	58.2	102.2	110.5	26.6	22.6	320.1	2,809.9	11.4

Source: Reserve Bank of New Zealand, Bulletins and Long-Term Statistical Series.

APPENDIX 12

STOCK AND STATION AGENT ACTIVITY

TABLE 15

Stock and Station Agents -
Selected Assets and Liabilities 1964 to 1978 ($M)

Year Ended 30 June	LIABILITIES			ASSETS			
	Customers Credit Balances	Deposits Held	Bank Overdrafts	Advances to Customers[1]	Cash Balances	Investments	Merchandise Stocks
1964	37.4	13.5	6.8	80.0	4.2	20.7	30.4
1965	37.1	20.5	14.0	101.0	4.0	15.6	33.9
1966	36.6	22.6	11.7	107.2	4.0	14.7	35.1
1967	30.0	24.2	17.8	107.2	1.8	16.0	35.0
1968	32.2	26.2	11.6	103.7	4.1	16.9	34.3
1969	37.4	31.2	11.2	108.3	7.2	18.4	36.6
1970	40.0	35.5	18.7	112.5	4.9	24.3	39.0
1971	35.5	36.8	24.7	138.0	3.0	11.9	42.9
1972	38.5	37.8	16.8	121.8	6.6	34.0	44.8
1973	75.1	58.0	17.4	107.8	9.9	85.7	44.8
1974	57.8	43.9	49.5	154.5	2.7	23.5	62.2
1975	47.5	36.2	36.9	143.5	1.2	19.8	60.6
1976	80.0	38.8	24.0	123.8	0.6	40.2	69.3
1977	86.8	37.8	65.9	157.5	4.0	42.3	94.3
1978	69.1	40.1	49.3	160.3	5.1	44.6	100.1

[1] Includes secured and unsecured advances.

Source: New Zealand Official Yearbooks.

APPENDIX 13

SAC AND RBFC RURAL LENDING POLICY SINCE 1964

31 March 1964 SAC lending policy: enlarged in direction of providing loans for development and for other purposes which will lead to worthwhile increased production.

1966 shifting of emphasis from loans to purchase farms to loans to existing farmers for the purpose of increasing production. SAC now accepts as security for development loans, security other than first mortgage.

1968 decreasing export prices: SAC gave temporary relief to 374 farmers, having difficulty in meeting mortgage repayments and Special Assistance to Sheep Farmers introduced for two year period.

Guarantee Scheme: SAC prepared to consider guaranteeing any deficiency which may occur in a seasonal account providing that expenditure and income follow as far as possible a budget drawn up early in season.

1969 Special Assistance to farmers - Guarantee Scheme - extended to dairy farmers.

Scheme designed to maintain and if possible increase production.

1970 As from 1 July 1969 loans limits to purchase farms were increased by 25 per cent.

	New Limit $	Old Limit $
Dairy Farms	25,000	20,000
Sheep or mixed farms	40,000	32,000
Back country sheep farms	50,000	40,000

reducing and deferring mortgagors' payments due to severe drought conditions.

Special Assistance to farmers - Guarantee Scheme - extended to sheep farmers for 1969/70.

1971 1970 Budget - additional funds provided for amalgamation of uneconomic units and strengthening existing marginal farms by the addition of more land.

1970 Budget - Special Agricultural Assistance Fund: $10 m to assist primary producers encountering financial difficulties through circumstances beyond their control.
- administered by SAC, Department of Lands and Survey and Department of Maori and Island Affairs.

- Special Assistance to farmers - Seasonal Finance Guarantee Scheme - still in operation because of continued low wool prices.

Mortgage Guarantee scheme introduced to encourage greater participation in Rural Lending by the private sector.

1972 Sheep Farmers Supplementary Finance Scheme - provided for loans up to $3,000 to certain classes of sheep farmer experiencing financial difficulty.

Stock Retention Incentive Scheme - payments to sheep farmers facing low wool and lamb prices.

1973 1972 Budget: Loan limits for initial loans to purchase farms and for stock loans to share milkers were increased:

	New Limit $	Old Limit $
Dairy farms	30,000	25,000
Sheep farms	50,000	40,000
High country farms	60,000	50,000
Stock for sharemilkers	10,000	8,000

March 1974 Climatic relief assistance from Government and introduction of a special suspensory loan in cases of severe hardship up to $500 of interest due on climatic relief loans may be set aside and written off after five years.

Jan. 1974: Change in dairy loan limits giving an average loan of $40,000.

- averaging of loans allows flexibility in dealing with cases where applicants need small additional amounts to complete their financing arrangements for purchasing and limits for medium-term stock loans mainly for sharemilkers were increased from $10,000 to $12,000 - reflects trend in increasing herd size.

1975 New Policies:

(a) Flexible loan limits for farm purchase: previous policy of maximum loan limits was modified to a system of average amounts for particular types.

Dairy	-	$45,000 average amount
Sheep	-	$65,000

Loans to competent workers in the farming industry to buy smaller units provided total income (including off-farm earnings) is sufficient to service total borrowing.

(b) Rural Export Suspensory loan scheme: (1974 budget): promote export of agricultural and horticultural products and further develop markets. Projects between $10,000-$100,000 : loan of up to 40 per cent; and provided 40 per cent of the estimated increased output is achieved within a specified time the loan is converted to a grant and subsequently written off.

(c) Extensions to Industrial Lending
- processing industries with export potential or an aspect of regional development, especially small co-operative ventures.
- extended to include producer boards.

(d) Finance to agricultural contractors for housing and bases from which to operate.

(e) Loans to co-operatives, producer and marketing boards for the manufacture, storage and handling of produce.

(f) Loans to agricultural contractors and farmers for field evaluation of special plant.

(g) Seasonal finance for tobacco growers.

(h) Seasonal Finance Support Scheme 1974/75 to ensure sheep and beef cattle farmers sufficient seasonal finance to meet normal farm expenditure - later extended to include pip-fruit growers and grain and seed producers.

Advances up to a maximum of $5,000 interest free to 1 January 1977 and no principal repayments prior to 1 July 1977.

(i) More flexible attitude in settlement of farm workers and the development of small holdings.

(j) Farm Ownership Savings Scheme - purchase grants 25 per cent - 50 per cent of savings.

1976 Suspensory loans for sharemilkers purchasing dairy farms
- interest free loans equivalent to $30 per cow with a maximum of $7,000 to compensate tax liability faced as a result of selling stock when moving to first farm purchase - herd size must have been reduced by more than 20 cows, to qualify for loan.

- Seasonal Finance Support Scheme continued.

- Flexible loan limits for the purchase of horticulture units - average loan of $40,000.

- Flexibility in lending: average loans available were increased to:

Dairy	-	$50,000
Sheep	-	$70,000

- Seasonal finance for pip fruit growers

- Financial assistance to beekeepers.

- Loans for farm workers purchasing "stepping stone" units with suitable housing.

March 1977 - Loans to farmers for co-operative fertiliser spreading facilities.

- Livestock Incentive Scheme introduced 1976-77 to achieve a permanent increase in number of livestock carried on properties.

either an interest-free suspensory loan or a special deduction from assessable income for income tax purposes.

- Loan Option: interest free suspensory loan of $12 stock unit (additional) - written off if increase is sustained for two years and is non taxable.

- Tax Option: deduction from assessable income of $24 for each qualifying stock unit carried - used in whole or in part in any of the three tax years after increase has been sustained for two years.

- Special Settlement Loans: Rural Bank will lend up to 85 per cent of assessed value of land, buildings, stock and essential plant.

- interest charges are at the prevailing farm purchase rate; repayment terms are flexible to accommodate fluctuations: farm incomes and development needs of the property.

Special Farm Ownership Savings Scheme:

- may receive a tax rebate of up to 45 per cent of eligible savings.

  eligible savings limited to $40,000 per year and a maximum for tax rebates of $50,000.

- Lending to Maori land incorporations.

March 1978 - An extension to existing farm worker settlement policy to enable "bona fide" farm workers who were already adequately housed to purchase an area of land as a "stepping stone" towards eventual economic farm ownership. - These holdings are not fully economic units in their own rights.

- Introduction of a new loan scheme to enable farmers to purchase or build houses in nearby rural towns for farm employees.

- Introduction of Farm Vendor settlement finance schemes to encourage retiring farmers to invest in the industry and assist settlement of suitably qualified farmers on their first farm.

- Bond option - vendor accepts seven year Bond from Reserve Bank for at least 50 per cent of sale price - maximum 80 per cent of value or $150,000 whichever is lesser. Rural Bank provides equivalent mortgage finance to borrower. Interest rate payable to vendor limited to Rural Bank's rate for standard settlement and 50 per cent of interest earned exempt from tax.

- Guarantee option - vendor has 50 per cent of interest earned on the guaranteed mortgage exempt from income tax.

Mortgage must be on a table basis, of a term not less than 7 years and interest for minimum 7 years must not exceed standard Rural Bank settlement rate.

Maximum amount of loan eligible for guarantee is $150,000 or 80 per cent of borrower's mortgagable interest in the land.

- Introduction of Dairy Export Suspensory loans scheme for manufacturers of new export products.

  Eligible products include whey, varietal cheese types and instant products.

31 March 1979 (1978 Budget) Land Development Encouragement loans aimed at the development and permanent improvement of unproductive land.

Minimum development blocks = 10 ha.

Loans up to $250/ha to meet the development expenses up to the stage of sowing down in permanent pasture.

Term of loan = 15 years; interest rate = 8.5% if conditions of scheme are observed, interest for first five years is rebated to 6 per cent and for the next five years 7.5 per cent.

Provided development program has been completed and maintained, interest will be accumulated in the account and written off at end of each five year period. One half of principal will become repayable in six monthly instalments over 10 year term after the fifth year of loan - remaining half will be written off after tenth year of loan.

- Introduction of drainage suspensory loans to assist the development of West Coast swamp lands.

- Introduction of loans for the purchase of plant and machinery by farmers' agricultural contractors and farmer co-operatives. (RBFC personal communication 20 November 1979.)

- Average loan limits increased to:

Sheep	-	$95,000
Dairy	-	$70,000
Horticulture	-	$60,000

APPENDIX 13 (cont'd)

TABLE 16

RBFC Loans Authorisation by Type - 1964 to 1979 ($ millions)

(not including Suspensory Loans or Special Assistance)

Year Ended 31 March	Settlement Purchase: Std Settlement	Settlement Purchase: Special Settlement	Additional Land	Development: Concession	Development: Non Concession	Refinance	Stock	RIC (Stock)	Irrigation	Estate Duty	Lands Dept Settlement	Climatic Relief	Livestock Inc've Scheme	Family Transactions	Workers' Holding: + House	Workers' Holding: - House	Vendor Additional: Std Settlement	Vendor Additional: Special Settlement	Land Development Encouragement	Seasonal Finance: No. 1	Seasonal Finance: No. 2	TOTAL
1964	21.2			8.0				0.5														29.2
1965	30.3			11.4				0.7														41.7
1966	22.9			17.1				0.7														40.0
1967	16.8			24.6			2.8	0.9														44.3
1968	5.8			15.0			2.9															23.7
1969	6.1			18.4				2.9			0.6											30.0
1970	11.5		16.3	11.9		4.3	2.4	1.0			0.5											47.9
1971	10.0		20.4	14.1		5.7	2.3	0.8			0.1											53.3
1972	10.5		22.9	18.7		16.3	2.6	1.3			0.6											72.7
1973	16.1		28.2	12.8		4.8	3.7	1.7			0.6											67.8
1974	21.7		12.6	12.7		7.2	3.8				0.5											58.5
1975	34.1		4.8	25.3		7.8	4.8	1.8			1.0	0.6								11.3		91.5
1976	43.8		6.6	31.2		16.1	7.1	2.2	3.3		0.8	0.2								11.2	0.2	122.7
1977	46.1	8.9	8.2	38.1		8.6	8.0	1.9	3.8	1.1	1.4	0.4	9.8								0.3	136.5
1978	52.4	12.1	11.0	51.9	10.5	22.2	10.3	1.7	3.2	1.4	1.3	0.7	28.4									207.4
1979	50.4	12.7	12.1	70.9	9.5	10.5	12.6	1.3	4.4	1.4	1.8	2.8	21.0	12.3	3.4	0.8	0.4	0.1	29.6			257.4

Source: State Advances Corporation of New Zealand - Annual Reports.

APPENDIX 13 (cont'd)

TABLE 17

RBFC Loans Authorisations by Borrower

- 1964 to 1979 ($ millions)

Year Ended 31 March	Dairy	Sheep	Other	Stock & Plant (RIC)	Sub Total	Total (includes Suspensory Loans)
1964				0.5	29.2	30.2
1965				0.7	41.7	43.0
1966				0.7	40.0	40.7
1967	20.5	23.3	0.4	(1.0)	44.3	44.6
1968	13.0	10.3	0.4	(1.3)	23.7	24.1
1969	12.8	13.8	0.7		27.3	27.6
1970	14.5	22.8	0.9		38.4	
1971	21.4	29.4	1.8		53.3	
1972	24.8	43.8	2.8		72.7	
1973	27.6	35.9	2.6		67.8	
1974	34.5	30.2	4.1		61.4	61.4
1975	34.9	37.5	6.0		91.8	91.5
1976	51.3	50.1	9.9		122.7	123.2
1977	57.0	65.8	13.4		136.5	136.9
1978	72.9	117.6	16.9		207.4	208.0
1979	81.4	151.8	24.6		257.9	258.7

RBFC Suspensory Loans Authorisations by Borrower - Amount

Year Ended 31 March	Dairy	Sheep	Other	Total
1976	0.3	0.2		0.5
1977	0.3	0.1	0.0	0.5
1978	0.4	0.2		0.6
1979	0.3	0.5	0.0	0.8

Source: State Advances Corporation of New Zealand - Annual Reports.

APPENDIX 13 (cont'd)

TABLE 18

Farm Mortgage Guarantee Scheme 1971-72 to 1978-79

Year	Dairy		Sheep		Other		Total	
	No.	$(M)	No.	$(M)	No.	$(M)	No.	$(M)
1971-72	N/A	N/A	N/A	N/A	N/A	N/A	86	1.91
1972-73	N/A	N/A	N/A	N/A	N/A	N/A	288	9.00
1973-74	N/A	N/A	N/A	N/A	N/A	N/A	423	18.75
1974-75	85	2.15	157	7.66	31	0.98	273	10.74
1975-76	103	2.83	122	4.81	23	0.78	248	8.42
1976-77	139	4.33	150	5.85	13	0.42	302	10.60
1977-78	94	2.42	75	3.36	10	0.37	179	6.15
1978-79	153	5.49	113	7.01	32	1.61	298	14.12

Source: Annual Reports of the Rural Banking and Finance Corporation of New Zealand.

APPENDIX 14

NATIONAL PARTY MANIFESTO 1978:

(EXTRACT):

AGRICULTURE - FINANCE

"National believes that the State has an important role to play in providing loan finance, at concessional rates of interest, through the Rural Bank, for the settlement of young farmers and for land development. However, we do not believe the Rural Bank should become the sole source of finance for these purposes.

National will:

* Continue to encourage and facilitate the trading banks and the stock and station agencies in the provision of seasonal and short and medium-term finance for farming.

* Continue to provide adequate finance to the Rural Bank to enable it to carry out its functions as a provider of finance for land settlement and development (including irrigation).

* Through the Rural Bank, give greater emphasis to lending on stepping-stone units, units with horticulture potential, and Maori land, including Maori lease land; and for share milking and share farming.

* Provide the Rural Bank with a greater degree of independence by separating the Bank from the Housing Corporation.

* Continue to provide finance to freezing and dairy companies and co-operatives to enable them to upgrade plant and machinery and to meet the hygiene requirements of the countries to which we export.

* Continue to provide finance to producer organisations to assist with the establishment of processing and packing facilities.

* Make finance available to companies and co-operatives for the provision of cool store facilities specifically for the storage of ewe mutton, to ensure that old ewes are not being unnecessarily retained on farms because of insufficient cool store space."

APPENDIX 15

INTEREST RATE COMPARISONS

TABLE 19

Mortgage Interest Rates 1964 to 1978

Year Ended March	Average Rate for all Mortgages	Excluding Government[1]
1965	5.8	6.3
1966	6.1	6.4
1967	6.3	6.7
1968	6.6	7.0
1969	6.7	7.1
1970	6.8	7.2
1971	6.9	7.3
1972	7.4	7.9
1973	7.6	8.1
1974	7.6	8.2
1975	8.3	8.8
1976	8.6	9.7
1977	9.9	10.6
1978	10.4	11.2

1 Government includes Housing Corporation, Rural Banking and Finance Corporation, Government Life Office, State Insurance and other Government agencies.

Source: The Demand for Housing in New Zealand - Part I, National Housing Commission.

APPENDIX 16

THE OPERATION OF RURAL CREDIT AGENCIES IN SELECTED COUNTRIES

This Appendix reviews details of the operation of selected institutions which lend to the rural sector in Canada, South Africa, Denmark, Sweden, The Netherlands, the Federal Republic of Germany, the United States, the United Kingdom and Australia.

A. CANADA

The important institutional lender to the rural sector in Canada is the Farm Credit Corporation. Pertinent points relating to the operation of this organisation are as follows:

1. Source of Funds: Sources of funds consist of capital contributed by Federal Government and loans from the Minister of Finance. The Corporation is legally entitled to lend twenty-five times its capital. In order to allow itself to adapt more readily and efficiently to changes in the longer-term farm credit demand in Canada the Corporation has been investigating access to more flexible financial sources. Amendments to the Farm Credit Act were introduced in the House of Commons in March 1979. These amendments would enable the Farm Credit Corporation to borrow not only from the Department of Finance but also directly on the financial markets. However, the Bill was not passed because of the dissolution of Parliament.

2. Interest Margins: In 1977-78, the Farm Credit Corporation made its first profit since 1958-59. The reason for losses in the intervening years was that the difference between the interest rate paid to the Minister of Finance and the interest received from borrowers was not sufficient to cover administration costs. However, in 1968 the Corporation was authorised to maintain a margin of

one per cent between the two rates. In the last few years, unprofitable loans incurred before 1968 are gradually being repaid, and the Corporation expects to operate at a profit in future.

3. Status with Respect to Government: Since most funds borrowed currently are received from the Minister of Finance, the Corporation is quite vulnerable to Government fiscal policy. For example, because of the Government budget restrictions at present, the Corporation's ability to meet the existing demand for farm credit is restricted. Therefore, it is hoping that other lending institutions will meet the demand caused by its lack of funds.

4. Lending Criteria:

(a) In general, applicants must be less than 35 years of age.

(b) Applicants must offer the required level of security and show sufficient repayment capacity.

(c) Applicants must show that they do not have the resources to establish their enterprises, and cannot borrow sufficient funds from other traditional credit resources.

5. Administration: The Corporation has a Head Office and seven regional offices across Canada.

There are six members of the Corporation, consisting of a Chairman, Vice-Chairman, a Secretary to the Corporation and three other members. Board members are appointed by Order-in Council based on ministerial recommendation. There is also an Advisory Committee whose numbers represent specific regions.

In each region, an Appeal Board has been set up to hear appeals from farmers who are not satisfied with the Corporation's decision on any loan application. These Boards are composed of practical farmers of proven ability and judgement.

B. SOUTH AFRICA

The Land andAgricultural Bank of South Africa is the major institutional lender to the rural sector in that country. Relevant details of this organisation are as follows:

1. Source of Funds: Although capital is still made available to the Bank from time to time by the State under parliamentary loan appropriations, the Bank has, for the past two decades, been mainly dependent for its long-term loan funds upon debenture loans raised in the open capital and money markets.

Since it is the Bank's policy to keep its lending rates as advantageous to farmers as possible, the Bank cannot raise capital by way of debenture loans at excessive rates of interest. Therefore, the Bank is becoming, to a large extent, dependent on the flow back of capital under existing loans for its long-term funds.

The Bank also finances agricultural co-operatives. In this regard, it utilises funds to a large extent which are invested in it by the agricultural sector via the Control Boards and other agricultural organisations. The balance of the funds which the Bank must find annually to provide for these growing short-term requirements of co-operatives, is obtained under overdraft facilities arranged with commercial banks, by the discounting of Land Bank bills, and by debenture loans raised in the capital market.

2. Interest Margins: It appears that a large scale extension of the Bank's activities is envisaged in some quarters, in order to encompass all the requirements of the agricultural industry. However, this would require a radical expansion in the capital structure of the Bank. Since the Bank is dependent on the capital markets for additional loan funds, and is compelled to pay competitive interest rates on these

funds, the role of concessional interest rates on funds lent by the Bank would need to be reviewed should any expansion occur. Loan funds have previously been made available by the State under Parliamentary appropriations and therefore the Bank has been able to make loans available to farmers at relatively low interest rates.

The Board does not regard it as normal policy that subsidised interest should be a built-in factor in the cost structure of a farming venture, although it does see a place for concessional interest rates where problems such as adverse weather conditions lead to temporary setbacks.

3. Status with Respect to Government: The Land and Agricultural Bank of South Africa is an autonomous institution responsible to Parliament through the Minister of Finance, and is not a Department of State.

Land Bank debentures qualify for the Statutory investments of banking institutions, building societies and other financial institutions and, in terms of the Estate Duty Act, are also included in the amount of R80,000 which may be deducted from the dutiable amount of an estate. Furthermore, Land Bank debentures, with a maturity of not more than three years, qualify as liquid assets.

4. Lending Activity: The Bank is authorised to advance money to farmers, co-operative agricultural societies and companies, regulatory boards, and other statutory agricultural institutions.

Although the Bank has wide lending powers, its funds are not unlimited, and the Board therefore, from time to time, formulates its loan policy is such a way as to not only meet the most essential needs of the agricultural sector, but also to comply with Government monetary policy.

5. Administration: The operations of the Land Bank are controlled by a Board appointed by the State President. This Board consists of a Chairman (Managing Director), and at least six, but not more than ten, other members. The General Manager is also appointed by the President of the Republic of South Africa but all other staff members are appointed by the Board. Persons are appointed to represent different types of farming activities and on the basis of their experience and knowledge in the field of agriculture in general.

The Bank has a number of qualified field officers with a specialised knowledge of farming. These officers visit farmers and other persons connected with agriculture, and also undertake investigation into matters causing concern in agriculture.

C. DENMARK

The Dansk Landbrugs Realkreditfond is an important lender to the rural sector in Denmark.

1. Administration and Status with Government: The DLR is an independent foundation operating under the jurisdiction of the Ministry of Agriculture which inspects DLR affairs but is not represented on the Board of Directors of the DLR.

The DLR has no branches; contacts with clients are administered by commercial and savings banks. A condition of a DLR loan is that the application must be recommended by a commercial or savings bank which must be prepared to underwrite a guarantee covering five per cent of the outstanding balance of the loan. These banks are also involved in necessary documentation for the issue of loans and in collecting half-yearly repayments of DLR loans.

The governing and managing bodies of the DLR consist of the Board of Representatives, the Board of Directors, and the Management. Members of the Board of Representatives and the Board of Directors are appointed by the central bank, the National Organisation of Danish Commercial Banks, the National Association of Danish Savings Banks, the Federation of Farmers' Unions and the Federation of Danish Small-Holders' Associations.

2. Source of Funds: The DLR appears to gain the majority of its funds from the issue of bonds. Loans are made by DLR via the disbursement of bonds to the borrower. These bonds must then be disbursed by the borrowers themselves.

A legal requirement is that DLR reserves must amount to at least ten per cent of the volume of its bond circulation plus any other liability. These reserves consist of the DLR's own capital, the guarantee pool of the commercial and savings banks, and the initial foundation fund (subscribed at the start of the DLR by the commercial and savings banks and by the central bank).

3. <u>Repayment:</u> Loans are issued as series loans on the equal capital method. This means that scheduled half-yearly payment of instalments are of equal amounts throughout the repayment period. Full redemption of loans may only be made through the debtor's purchase of bonds of the series of original issue and by submission of such bonds to the DLR.

4. <u>Lending Criteria</u>: The DLR is permitted to lend to a higher proportion of the value of security assets than are other institutions engaged in lending to agriculture. This prerogative has been given because the DLR establishes a special type of security, and because it grants loans primarily for new investment and modernisation, and for the initial settlement of young farmers.

5. <u>Interest</u>: The effective interest yield from bonds issued by the DLR for new mortgage loans in agricultural properties is about the same as that from bonds issued by mortgage credit associations.

D. SWEDEN

Much lending to the rural sector in Sweden is done by the Co-operative Bank, which originates from the old agricultural fund movement. The granting of credit to farmers has long been, and still is, the dominant activity. However, the majority of new members belong to groups outside farming.

1. Organisation: The Co-operative Bank operates in the form of an economic association. The organisation of the bank consists of the local co-operative banks (450), which associate with the regional co-operative banks (12), which associate with the national Federation of Swedish Co-operative Banks. The Co-operative Bank also includes the Föreningsbankernas Bank, which is essentially a clearing house for the transactions of the other banks and deals in foreign transactions and securities, and makes trust arrangements.

2. Membership: Individuals, enterprises and associations may become members of a co-operative bank. Membership is mandatory for those wishing to obtain a loan, but not for depositors.

Local bank members elect a board of directors and delegates to be sent to the regional co-operative banks' annual meetings. Similarly, these delegates elect a board and delegates to the annual meeting of the Federation. This meeting elects a new board of directors of the Federation of Swedish Co-operative Banks.

3. Source of Funds: The main source of funds used for loans and advances to the public are deposits made with the Bank.

4. Loans and Advances: The granting of credit is governed by the same rules as in other banks. Generally, some kind of security is required for a loan, although in special circumstances loans may be granted against no security.

5. Interest: Because of the keen competition among the banks of the country, the margin between advances and deposits is small by international standards. The interest charged on various types of loans and on deposits follows changes in the official bank rate.

Members holding loans are entitled to a partial refund of interest annually which represents their share in the annual profit earned by their association.

6. Relationship with Agricultural Interests: The Federation of Swedish Co-operative Banks is a member of the head organisation of the agricultural co-operative movement, the Federation of Swedish Farmers. This membership facilitates the communication between the Co-operative Banks and the organisation that represents many of the banks' customers. There is also co-operation in matters of information and educational training.

The Co-operative Banks strengthen their relationships with members and customers by the use of contact men, who usually have a close connection with agriculture. They look after the interests of the Co-operative Banks and help customers to communicate with the bank for advice and assistance in financial matters.

E. THE NETHERLANDS

Much lending to the rural sector in The Netherlands is undertaken by the private sector - in particular by the Rabobanks. However, the Government assists with the provision of credit to the rural sector by various special schemes, the most important of which is the Security Fund for agriculture.

1. Method of Operation of the Security Fund: The security fund is not a vehicle for directly lending funds to agriculture, but operates as an institutional guarantor. The Rabobank will furnish a loan to the farmer and, if the farmer can offer sufficient security or collateral, the Fund will give security for the remainder of the loan.

2. Criteria for Acting as Guarantor: The fund applies normal lending criteria. That is, it considers the management ability of the applicant, the profitability and cash flow position of the establishment, and its development possibilities.

In general the Fund operates on a security margin of 70 per cent, although in certain circumstances it may be considered justifiable to exceed this proportion.

3. Capacity to Guarantee Loans: The capital of the Fund was furnished by the Government under the Marshall Plan, and has since grown through interest on investments. The financial position of the Fund has been improved by a government guarantee which amounts to over twice the amount of the capital of the fund.

The Security Fund may furnish guarantees up to an amount which is five times the total guarantee capital.

4. <u>The Land Bank</u>: The Land Bank endeavours to ease the financing liability incurred when taking over land by purchasing the land and issuing this land to leasehold. However, this service has not been utilised greatly, possibly because the price paid for the land may be too low, and there are stringent conditions attached to the lease.

5. <u>Other Government Financial Assistance</u>: To assist land consolidation, the Foundation for Administration of Agricultural Land purchases agricultural land and associated buildings and administers it in the public interest. Some of this activity is administered through the operation of the Land Bank.

An interest subsidy scheme is also operated whereby a subsidy on interest may be granted under specific circumstances, such as investments in buildings, improvements, and the purchase of implements, stock, glasshouses, trees and shrubs and environmental improvements. Land purchases do not enter into consideration for interest subsidy in view of the price-raising effect likely to result from such purchases.

F. FEDERAL REPUBLIC OF GERMANY

The Landwirtschaftliche Rentenbank is an important institutional lender to agriculture in the Federal Republic of Germany.

1. Source of Funds: For granting short-term credits, the bank refinances itself on the money market and through the Federal Bank of Germany. Funds for the issue of medium and long-term credit is obtained by taking up loans and issuing bonds; in particular, agricultural bonds. For these gilt-edged agricultural bonds, security is highly favourable.

2. Credit Utilisation: Short-term funds are used for growing, processing and marketing of food and agricultural products, as well as for agricultural working capital.

Medium and long-term credit is granted for such purposes as land purchase and consolidation, roads, water facilities, leisure and recreational developments. In recent years, loans have been granted to food processing industries.

3. Capital and Utilisation of Surpluses: The equity of the Bank consists of the original capital fixed by law and a general reserve. The capital is an endowment asset of the agriculture and forestry industries in the FDR, who provided the basis of the capital between 1949 and 1958 by a tax-like levy called Rentenbank land charge payments.

In accordance with Bank regulations, any profit must be used in the general interest for the promotion of agriculture.

4. <u>Status with Respect to Government and Other Lenders</u>: The Landwirtschaftliche Rentenbank was established as a central bank for credit accommodation to the agricultural and food economy sectors.

The Bank is supervised by the Federal Government. In general, credit is granted via the other banks independent of their constitution or membership of a federation.

5. <u>Administration</u>: The Board of Directors, which appoints the Board of Managers and supervises the management, consists of 32 persons, including representatives from the agricultural and food economy sectors and the trade unions, and from the Federal Bank of Germany, the Bank for Reconstruction and Development, and the Central Bank of Co-operatives. As well, it includes regional ministers of agriculture and experts in credit financing.

The General Meeting, which resolves upon the annual statement of accounts and profit utilisation and discharges the Board of Managers and the Board of Directors, consists of 30 landowners and tenants debited with the Rentenbank land-charge.

G. THE UNITED STATES OF AMERICA

The co-operative Farm Credit Administration functions as a specialised financial intermediary in the U.S.A.

1. Organisation and Status with Government: The country is divided into twelve Farm Credit districts. In each of these districts there is a Federal Land Bank, a Federal Intermediate Credit Bank, and a Bank for Co-operatives. There is also a Central Bank for Co-operatives.

The Federal Land Banks make long-term loans secured by first mortgages on land and homes. The Federal Intermediate Credit Banks provide short and intermediate term loan funds to Production Credit Associations and other financing institutions. These institutions then make loans to rural producers. The Banks for Co-operatives make seasonal and term loans to eligible co-operatives, and are assisted in this by the Central Bank for Co-operatives in the case of larger loans.

These farm credit institutions are under the authority of the Farm Credit Administration, which is an independent agency in the Executive Branch of the Government.

2. Administration: The broad policies of the Farm Credit Administration are established by the Federal Farm Credit Board. This consists of 13 members, of which 12 come from each credit district, and are appointed by the President. The thirteenth member is appointed by the Secretary of Agriculture. The Board appoints a Governor of the Farm Credit Administration who is responsible for carrying out Board policy.

In each District there is a District Farm Credit Board consisting of seven members. The director-at-large is appointed by the

Governor of the Farm Credit Administration. Two directors each are elected by the Federal Land Bank Associations, the Production Credit Associations, and the co-operatives holding stock in the respective district Banks for Co-operatives.

3. Sources of Funds: Funds are obtained through the sale of bonds and notes to investors in capital and money markets. These are collateralised by loans to the rural farmers and businesses.

4. The Farmers' Home Administration: The Farmers' Home Administration is a government lending agency operating within the U.S. Department of Agriculture. The primary objective is to provide supervised credit to farmers unable to obtain adequate credit from commercial lenders at reasonable rates and terms. It has grown as a source of credit for building stronger family farms, although in recent years its lending activity has expanded to include large-scale programmes that benefit families and communities by helping to provide more up-to-date housing, water and sewer systems and other essential community facilities, and the buildings of business and industry in rural areas.

H. THE UNITED KINGDOM

The Agricultural Mortgage Corporation Ltd is responsible for institutional lending on a medium and long-term basis in England and Wales.

1. Source of Funds: The majority of AMC funds available for lending are obtained by the issue of medium and long-term debentures, although smaller amounts of money are made available through the issue of short-term bonds, term loans from banking sources, overdraft money, and the AMC's own share capital and reserves.

AMC debentures are generally well received in the market. The AMC is able to raise its debentures in the gilt-edged market on terms more favourable than those available to commercial or industrial companies because of the existence of a Guarantee Fund. This Fund is available because of the Minister of Agriculture has power to advance money to the AMC on an interest free basis for sixty years. These advances have to be invested in gilt-edged securities to form the basis of a Guarantee Fund to provide proportional backing for issues of AMC debentures. The income from the investment is available to the AMC and is, in effect, a form of borrowing subsidy to the agricultural industry.

2. Interest Rates: Interest rates charged on loans are either on a fixed or a variable basis. Fixed lending rates of interest reflect the cost from time to time of long-term money. The variable lending rate of interest is determined by the current cost to the AMC of the funds from which variable rate loans are made.

AMC's operating costs are very modest in relation to the capital employed. After allowing for the low overheads and the benefits from the Government Guarantee Fund, AMC can usually lend to farmers at little more than the cost to it of raising funds in a money market which no farmer could enter.

3. Purpose of Loans: The principal reason for lending by the AMC has always been to finance the purchase of land. More recently, it has been to enable existing owners to buy additional land in order to increase the size of their holdings. These loans are made on the basis of mortgages of agricultural land and buildings, and are restricted in value to 66 per cent of the Coporation's valuation of land and buildings.

4. Administration: The staff of the AMC is controlled by a Board of eight directors, two of whom are nominated by the Minister of Agriculture and one by the Treasury.

5. The Agricultural Credit Corporation Ltd: The Agricultural Credit Corporation was set up in 1964 to make medium-term bank credit more readily available to farmers, growers and their co-operatives. It does this by guaranteeing the bank borrowing they require for a wide range of operations, thereby ensuring at low additional cost the availability of one of the cheapest forms of credit on reasonable repayment terms.

The ACC guarantee benefits both the bank and the farmer, since the bank obtains the benefit of ACC's technical and financial assessment of the farm programme together with the security provided by the guarantee, while the farmer obtains the bank borrowing required to implement the farm development programme.

6. The Scottish Agricultural Securities Corporation Ltd: Because of differing land tenure arrangements in Scotland, the Scottish Agricultural Securities Corporationoperates in Scotland in a similar manner to which the AMC operates in England and Wales. The bulk of money borrowed is for the purchase of land, and funds are raised by debenture issue. A small proportion of these debentures go to the public, and the rest goes to institutions such as insurance companies and trustee savings banks.

I. AUSTRALIA

The Primary Industry Bank of Australia has recently been established to assist in financing the rural sector.

1. Method of Operation: The Bank itself is not a direct lender to primary producers. Rather it operates as a refinance bank, borrowing funds for lending to existing financial institutions which are approved 'prime lenders' who in turn on-lend the funds to individual primary producers.

2. Prime Lenders: The current prime lenders are the shareholder banks and the Commonwealth Development Bank. These prime lenders provide a branch network and point of sale facilities and do the bulk of the administrative work. They also assume all of the credit risks.

3. Source of Funds: The initial lending funds of the PIBA consisted ofa $30m loan provided by the Commonwealth at a concessional rate of interest. In early 1979, PIBA went to the market seeking loan subscription which recently closed in the vicinity of $50 m. These securities were of a marketable non-bearer status.

4. Scope of Lending: The major use of PIBA funds is for the purpose of rural land acquisition, with some funds also being used for the restructuring of existing debt.

5. Administration: The PIBA Board consists of a Chairman, a Commonwealth Government representative and two primary producers' representatives, all designated by the Treasurer, and a representative of each of the seven major trading banks and one representative of the State Banks of New South Wales, Victoria, South Australia and Western Australia.

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