

FARM LAND MORTGAGE ASSOCIATIONS BILL.

EXPLANATORY MEMORANDUM.

THE Bill makes provision for the formation of associations of farmers to raise money by bonds and deposits to enable loans to be made on first mortgage of freehold farming land up to 70 per cent. of the capital value. Advantage is taken of the existing Companies Act as far as possible to provide for the incorporation and management. Practically the whole management is left to directors to be elected by the association, but a Government officer called the Official Auditor is appointed for each association, his principal function being to prevent the issue of bonds or the acceptance of deposits beyond the limit of security required by the Act, and to see that a due register of shareholders is kept.

With the exception of the signatories to the memorandum of association, who cannot originally be mortgagors though they intend to become such, no person may be a shareholder who is not both a farmer and a mortgagor to the association. Every mortgagor takes one share for every £100 lent to him. The shares are £5 each. No money is payable on the shares unless and until the association is wound up, no calls can be made, and no dividends are payable. When a mortgage is paid off the mortgagor's name is removed from the list of shareholders. The liability on the shares is to provide a further security to the association's bondholders and depositors in the event of a winding-up.

Provision for finance is as follows: The Government may advance to the association for its first year's expenses a sum not exceeding £2,000 without interest and for a term not exceeding ten years. The Government may also advance and lend to an association sums not exceeding £50,000 without interest for a term not less than ten or more than twenty years. The Act contemplates several such associations, and it is provided that the total of the loans to all associations under this heading shall not exceed £150,000. An association is required to keep one-half the Government loan in liquid securities to provide for redemption of bonds and deposits. The further finance to enable the association to extend its lending operations is provided by the power given to the association to issue bonds of not less than five years' currency at a rate of interest not exceeding $5\frac{1}{2}$ per cent., and to accept deposits for periods not less than five years at a rate of interest not exceeding 5 per cent.

The limit of the issue of bonds and acceptance of deposits is provided by the condition that the aggregate of such liabilities shall never at any time exceed the amounts loaned and secured on mortgage together with the amount of the Government loans, and restraint within this limit is provided by the powers of the Official Auditor. By this means the extension of the funds available for loans on mortgage is limited only by the possibilities of procuring purchasers of bonds and depositors, and the loans may therefore be increased continuously; the bondholders and depositors have always as security not only the mortgages to the association but also the full amount of the Government loan. As further security to bondholders and depositors it is provided that out of all repayments of principal the association must invest 5 per cent. upon liquid securities in special reserve, and the interest on that reserve is added to its capital.

The redemption of bonds and deposits at maturity is secured by (a) the investment in liquid securities of one-half the Government loan; (b) the second special reserve fund, gradually augmented by the 5 per cent. of repayment of principal; and (c) by a special power to the association to raise money upon its securities for the sole purpose of meeting bonds and deposits at maturity. When the latter power is exercised, the consent of the Official Auditor being necessary to its exercise, it is provided that the association must, out of the first principal moneys coming to its hands, or by the issue of further bonds and acceptance of further deposits, redeem the charge created for the emergency. It is probable that this power will seldom, if ever, be exercised, because in the ordinary course the liquid securities and the issue of further bonds should enable every deposit and bond to be met at maturity.

For its current expenses each association will have, in addition to the Government advance for the first year, the whole income of the Government loan, and in addition the difference between the interest paid on its bonds and deposits and the interest charged to its mortgagors.

Right Hon. Mr. Massey.

FARM LAND MORTGAGE ASSOCIATIONS.

ANALYSIS.

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A BILL INTITULED

AN ACT to provide further Facilities for Loans on Security of Farm Land Properties. Title.

BE IT ENACTED by the General Assembly of New Zealand in Parliament assembled, and by the authority of the same, as follows :—

1. This Act may be cited as the Farm Land Mortgage Associations Act, 1924. Short Title.

Interpretation.

2. In this Act, if not inconsistent with the context,—
- “ Association ” means a farm land mortgage association incorporated under this Act :
- “ Auditor ” means the official auditor of a farm land mortgage association : 5
- “ Bonds ” means bonds issued by an association under the authority of this Act :
- “ Farm land ” means any land not being land within a borough or town district which is used or intended to be used for agricultural or pastoral purposes, including lands occupied by the house, buildings, and gardens of the owner within the area otherwise so used or intended to be used : 10
- “ Farmer ” means a person actually engaged in or intending to become actually engaged in agricultural or pastoral pursuits : 15
- “ Government loans ” means moneys lent out of the Consolidated Fund to an association :
- “ Registrar ” means the Registrar of Companies under the Companies Act, 1908. 20

PART I.

FORMATION AND CONSTITUTION OF ASSOCIATIONS.

Farm land mortgage associations may be registered under Companies Act.

3. (1.) Any twenty or more farmers intending to borrow money upon security of farm land from an association to be formed under this Act may, by subscribing their names to a memorandum of association in the form in the *First* Schedule to this Act, and to articles to be the regulations of the association, and otherwise complying with the requirements of the Companies Act, 1908, in respect of registration, form an incorporated company with limited liability under the name of “ The [*Distinctive name of association*] Farm Land Mortgage Association (Limited). ” 25 30

(2.) The articles shall name five of the signatories to the memorandum of association to be the first directors of the association, and shall prescribe such regulations for the association, not in contravention of any of the provisions of this Act, as the subscribers deem expedient. 35

(3.) An article which contravenes any of the provisions of this Act shall be invalid ; but the validity of other articles or of the memorandum or registration or incorporation shall not thereby be affected. 40

(4.) The Registrar, upon delivery to him of the memorandum of association, together with the articles, shall retain and register the same without payment of any fee.

(5.) A statutory declaration by the solicitor (if any) engaged in the formation of the association, or the directors or any three subscribers of the memorandum of association, that all or any of the requirements of this Act in respect of registration and of matters precedent or incidental thereto have been complied with, shall be 45

produced to the Registrar, who may accept the same as sufficient evidence of such compliance.

(6.) The Registrar shall keep as part of the Register of Companies under the Companies Act, 1908, but in a separate list thereof, a Register of Associations under this Act.

(7.) Subsections three, four, and five of section twenty-six of the Companies Act, 1908, shall apply and have effect upon the registration of the memorandum of association.

4. (1.) It shall not be necessary either in the memorandum or regulations of an association to state the amount of the capital of the association.

Not necessary to state capital of association.

(2.) In every association each share shall be *five* pounds in amount, and the liability of a shareholder in respect of each share shall be limited to *five* pounds.

(3.) Each subscriber to the memorandum of association shall subscribe for at least ten shares, and his subscription shall be deemed to be an application for allotment to him of the number of shares (not being fewer than ten) set opposite his signature in the memorandum of association.

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PART II.

BUSINESS AND CONDUCT OF BUSINESS OF ASSOCIATIONS.

5. (1.) An association shall not carry on any other business than—

Authorized business of association registered under this Act.

(a.) The lending of money to farmers upon the security of farm land:

(b.) The raising of moneys by the issue and sale of bonds as hereinafter provided:

(c.) The receipt of moneys upon contract of deposit, as hereinafter provided.

(2.) An association shall be exempt from payment of annual license fees required from companies.

(3.) It shall not be lawful for an association to borrow moneys or to become liable in respect of moneys borrowed by others otherwise than is by this Act specially provided.

6. An association may acquire such premises as are necessary for its business as defined and limited by this Act, and may employ such clerks, managers, valuers, and other persons as are necessary for the conduct of its operations.

Association may acquire premises and employ officers.

7. (1.) For every association after the incorporation thereof the Minister of Finance shall appoint a qualified person to be the Official Auditor of such association.

Minister of Finance to appoint Official Auditor.

(2.) The Official Auditor shall be paid out of the Consolidated Fund such salary as may be appropriated by Parliament.

(3.) The provisions of the Public Service Act, 1912, shall not apply to Official Auditors appointed under this Act. Upon the appointment of the Official Auditor to an association such association shall provide office accommodation in its head-office premises for the Official Auditor and for such assistants (if any) as may be necessary to enable him to perform his duties under this Act.

Auditor to have free access to accounts and records of association.

8. (1.) The Auditor shall have at all convenient times access to all accounts, books, and records of the association, including minutes of all meetings of the association and of the Board of Directors.

(2.) The Auditor shall be entitled to inquire into the details of any matter affecting the business of the association. 5

(3.) Any director or officer of the association who refuses or neglects upon due request to provide to the Auditor reasonable access and information in accordance with this section commits an offence, and is liable upon summary conviction to a fine of *one hundred pounds*. 10

(4.) The Auditor shall from time to time, as required by the Minister of Finance, make reports to the Minister of Finance upon the financial position of the association.

Register of shares and shareholders of association.

9. (1.) An accurate register of shareholders and of shares shall be kept by an officer of the association subject to the directions of the Auditor. 15

(2.) With the exception of the persons who signed the memorandum of association no person who is not a mortgagor to the association shall be a shareholder.

(3.) Every farmer who applies to the association for an advance upon the security of farm land shall be deemed to have thereby also applied for shares in the association to the extent hereinafter defined. 20

(4.) When an advance is authorized by the association, and the mortgage to secure such advance is executed, the farmer to whom such advance is made shall be entered upon the register of shareholders as a holder of one share for every complete hundred pounds of the total amount of the sum advanced to him, and shall thereby be, become, and remain a shareholder of the association to that extent, and be and remain liable for the uncalled capital upon such shares until the whole amount of such advance has been repaid to the association, notwithstanding that the total amount of such advance may have been diminished by partial repayment. 25 30

(5.) When the whole amount of principal and interest due to the association has been repaid by a shareholder, his name shall be erased from the register, and he shall cease to be a shareholder of the association or to be liable upon such shares. 35

(6.) Unless and until an association is wound up no call shall be made upon shareholders; nor shall it be lawful for the association to receive from any shareholder any part of capital representing the shares held in respect whereof such shareholder is registered. 40

(7.) No share certificate shall be made or issued in respect of any shares in the association.

(8.) The register kept by the association shall be *prima facie* evidence of the contents thereof and of the fact that a person is or is not a shareholder of the association. 45

PART III.

PROVISION OF FUNDS.

Minister of Finance to afford assistance to associations by way of loans from Consolidated Fund.

10. (1.) The Minister of Finance may, without further appropriation than this Act, make out of the Consolidated Fund loans of money to associations registered under this Act upon the terms and to the extent authorized by this section. 50

(2.) Every such loan shall be for a term of not less than *ten* or more than *twenty* years.

(3.) No interest shall be payable by the association upon the moneys so loaned during the first *ten* years after the making of the
5 loan. After the expiration of the first *ten* years interest shall be payable by the association into the Public Account at the rate of *five* per centum per annum by equal half-yearly payments.

(4.) The total amount that may be advanced and lent under this section to any one association shall not exceed *fifty thousand* pounds,
10 nor shall the aggregate of all such loans made at any time to all associations under this Act exceed *one hundred and fifty thousand* pounds.

(5.) One moiety of the amount of every loan to an association under the *last preceding* subsection shall be carried to a special reserve
15 fund of the association, and shall be invested in liquid securities approved by the Auditor, and shall not be applied to any other purpose than the redemption of bonds and deposits at maturity. The other moiety of such loan shall be used by the association in its business of loans to farmers on the security of farm lands. The
20 income of investments of both moieties shall be the property of the association, and may be applied in and towards the annual expenses of the conduct of its business.

11. (1.) In addition to the loans authorized by the *last preceding* section the Minister of Finance may, without further appropriation
25 than this Act, make out of the Consolidated Fund loans to an association towards the initial expenses of the formation and registration and the expenses of the conduct of its business during its first year to an extent not exceeding in the aggregate *two thousand* pounds to any one association.

Minister of Finance may also make loans to association for purposes of preliminary expenses.

(2.) No loan authorized by this section shall be made to any
30 association after the expiration of *one* year from the date of its registration.

(3.) Every loan made under this section shall be made repayable at the expiration of not more than *ten* years after the registration
35 of the association.

(4.) No interest shall be payable by the association upon any loan under this section until the day fixed for repayment, but after that date interest shall be payable at the rate of *five* per centum per annum until repayment.

12. (1.) For the purpose of providing further funds for its
40 business of loans to farmers an association may issue bonds of the association.

Association empowered to issue bonds.

(2.) No such bond shall mature or become payable at a date less than *five* years from the date of the issue of the bond.

(3.) No such bond may be issued without the previous authority
45 of the Auditor as hereinafter provided.

(4.) No such bond shall provide for payment of interest on the amount thereof at a rate exceeding *five and one-half* per centum per annum.

(5.) Every such bond shall be in the prescribed form and shall
50 be for *ten* pounds or some integral multiple of *ten* pounds.

Association may receive moneys on deposit.

13. (1.) Subject in every case to the consent of the Auditor, an association may receive moneys on deposit to the extent hereinafter limited.

(2.) No contract of deposit shall be made by an association whereby the moneys deposited shall become repayable by the association at a date earlier than *five* years from the date of the deposit; nor shall the interest payable by an association to the depositor exceed *five* per centum per annum, payable half yearly. 5

PART IV.

LIMIT OF BOND ISSUE AND DEPOSITS. 10

Limitation of association's power to issue bonds or to accept moneys on deposit.

14. (1.) The total capital amount represented by bonds issued by an association and remaining unredeemed, together with the total capital amount of all moneys accepted by an association upon contract of deposit, shall not at any time exceed the aggregate of—

(a.) Government loans to the association made under section *ten* hereof; 15

(b.) Capital moneys secured to the association upon mortgage of farm lands (excluding mortgages where any payment of interest or principal has been in arrear for more than *one* year); and 20

(c.) Moneys held by the association as part repayments of principal sums advanced by the association on mortgage.

(2.) It shall be the duty of the Auditor before authorizing the issue of any bond or the acceptance of any money upon deposit to ascertain that the limit prescribed by subsection *one* hereof will not be thereby exceeded. 25

(3.) A register of all bonds issued shall be kept under the supervision of the Auditor.

PART V.

SECURITY FOR BONDS AND DEPOSITS AND SPECIAL BORROWING POWERS. 30

Security for bonds and deposits.

15. (1.) The holders of bonds and the depositors of moneys shall by virtue of this Act have a first charge in priority to all other charges upon—

(a.) All mortgages to the association;

(b.) The amount held by the association upon loan from the Government; 35

(c.) The capital liability on all shares in the association.

(2.) Such charge shall be a floating charge until the winding-up of the association, and shall not prevent the association from dealing in due course of its business with the properties and moneys subject to such charge in accordance with the provisions of this Act. 40

(3.) For and in respect of all bonds and deposits such charge shall be a security *pari passu* without priority *inter se*.

Association may borrow to redeem bonds or to repay deposits.

16. (1.) It shall be lawful for the association from time to time, with the consent of the Auditor, to borrow moneys upon the security of all or any of its assets for the purpose only of pro- 45

viding funds to redeem bonds or deposits at the maturity of such bonds or deposits, if the moneys held by the association in its ordinary account and in the special reserves required by this Act are insufficient for the purpose. Securities granted by an association under this section shall have priority to the floating charge created by the *last preceding* section.

(2.) It shall be the duty of the association to repay all moneys borrowed under the powers conferred by this section out of the first capital moneys which it shall receive after such borrowing or by the issue and sale of bonds to replace the bonds and deposits redeemed.

(3.) Moneys may be borrowed under the powers conferred by this section upon such terms and at such rate of interest as the directors of the association, with the approval of the Auditor, deem necessary and expedient.

PART VI.

FUNDS FOR REDEMPTION OF BONDS AND DEPOSITS.

17. (1.) In addition to the special reserve defined in section *ten* of this Act, the association shall, out of all principal moneys repaid to it, whether as part of instalments of principal and interest paid together or as separate instalments of repayments of principal, carry *five* per centum thereof to a special reserve fund, and invest the same upon liquid securities approved by the Auditor, and such special reserve fund shall be applicable only to the redemption of bonds of the association and of deposits.

Association to establish special reserve fund.

(2.) All interest accruing from investments of the special reserve fund required by this section shall be added to the capital of such reserve fund so as to accumulate at compound interest.

PART VII.

LOANS.

18. (1.) Loans may be made by an association to farmers on first mortgage of freehold farm land; but, except in respect of the investment in liquid securities of reserves, an association shall not lend to any persons other than farmers, or on any other form of security.

Association to make loans to farmers on security of first mortgages of farm lands.

(2.) No loan shall be made to an extent exceeding *seventy* per centum of the value of the lands to be mortgaged as security therefor. If the amount of loan applied for does not exceed *seventy* per centum of the capital value of the land as ascertained from the Government valuation roll under the Valuation of Land Act, 1908, the loan may be made without further valuation. In all other cases a loan may not be made except upon the further report and certificate of the capital value made by a special valuer approved by the Auditor.

(3.) No application for a loan in excess of the sum of *five thousand* pounds shall be received or considered.

(4.) No mortgage security to an association shall provide for repayment of the whole principal sum secured within a period less than *ten* years from the date of the loan except only that where further advances are made by the association upon the same securities it shall be lawful to make such further advances repayable at a date not earlier than the date fixed for the repayment of the first loan. 5

(5.) Every such mortgage shall provide for the repayment in each year by half-yearly payments of part of the principal sum secured. Such provision may either be for repayment of the whole amount of principal and interest by regular half-yearly payments extending over a period of not less than *thirty* years, or by payment of specific instalments of principal at the dates fixed for payment of interest, in which case the provision shall be for repayment of not less than one per centum per annum by equal half-yearly payments during each year after the first year. 10 15

(6.) Where any mortgage provides for the repayment of principal and interest by regular equal half-yearly payments, the term of years to be provided shall be such as shall be approved by the Auditor.

Association may accept repayment of principal in advance.

19. The association may at any time accept repayment of the whole or of any part of the principal sum secured by any mortgage, and may grant releases wholly or in part accordingly. 20

PART VIII.

GENERAL.

Restriction on payment of dividends.

20. No dividends shall be paid to any shareholder in an association until the repayment in full of all Government loans lent to that association. 25

Limitation of remuneration of directors.

21. The remuneration of directors of an association shall not in any year exceed a sum approved by the Auditor.

Loans to directors.

22. In every case where it is proposed to lend money upon the security of lands owned by a director of the association it shall be a condition precedent to the payment of such money that the Auditor approves the security and the terms of the mortgage. 30

Regulations.

23. The Governor-General in Council may make regulations --

(a.) Prescribing the duties of Official Auditors: 35

(b.) Prescribing the form of bonds to be issued by associations under this Act:

(c.) Prescribing the form of and mode of keeping the several registers required by this Act:

(d.) Generally for furthering the intent of this Act and enabling full effect to be given to its provisions. 40

Application of certain provisions of Companies Act.

24. The sections of the Companies Act, 1908, specified in the *Second* Schedule to this Act shall, with the necessary modifications, apply to associations incorporated under this Act. No other sections of the said Act shall apply thereto. 45

SCHEDULES.

Schedules.

FIRST SCHEDULE.

FORM OF MEMORANDUM OF A FARM LAND MORTGAGE ASSOCIATION.

MEMORANDUM of Association of the Farm Land Mortgage Association (Limited) :—

(1.) The name of the Association is the Farm Land Mortgage Association (Limited).

(2.) The object for which the Association is established is to carry on all such business as is authorized by the Farm Land Mortgage Associations Act, 1924 ; and to exercise all powers conferred by that Act.

(3.) The liability of the shareholders is limited as provided by the said Act.

We, the several farmers (as defined by the said Act) whose names and addresses are subscribed hereto, are desirous of being formed into a Farm Land Mortgage Association in pursuance of the said Act and of this Memorandum of Association, and we agree to take the number of shares (not less than ten each) in the capital of the association set opposite our respective names.

Names of Farmers subscribing.	Addresses of Subscribers.	Signatures of Farmers.	Number of Shares taken by each.	Signatures of Attesting Witnesses.	Description of Attesting Witnesses.	Residences of Attesting Witnesses.

Dated this day of , 19 .

SECOND SCHEDULE.

SECTIONS OF THE COMPANIES ACT, 1908, APPLICABLE TO FARM LAND MORTGAGE ASSOCIATIONS FORMED UNDER THIS ACT.

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| Section 12. | Sections 103 to 109. |
| Section 20, subsection (1). | Section 122. |
| Section 24, subsections (1), (3), and (4). | Sections 124 to 129. |
| Section 25. | Sections 133 to 147. |
| Sections 27 and 28. | Sections 151 to 157. |
| Section 66. | Sections 159 and 160. |
| Sections 87 to 94. | Sections 173 to 216. |
| Sections 100 and 101. | Sections 220 to 261. |

By Authority : W. A. G. SKINNER, Government Printer, Wellington.—1924.