Doing Well for Bella:

FOREIGN MORTGAGEES IN THE NEW ZEALAND FINANCIAL SYSTEM, 1885-1901*

'THEY APPEAR to be sending the money direct to you for investment', wrote Francis Hayter to his friend James Sclanders. 'I hope the dear old ladies have not lost sight of the fact that should you find them a good investment, like you did for Mrs Cotterell, that it would be for a definite number of years — at least I suppose so, but that is a matter that may be contained in their letter of instructions which I hope for your sake will be clear. . . .'[1] Shortly afterwards James Sclanders received the £400 bank draft. He was used to such transactions. From the time he was made a New Zealand partner in the merchant firm Sclanders and Co. he had invited people in Britain to send money to him so that he could lend it out in New Zealand. Between 1870 and 1902 he helped at least 333 farmers to buy and develop land through the money he had received from Britain.[2] As the typical farm required about £400 in mortgage money, this meant that James Sclanders alone was responsible for nearly £135,000 being made available in New Zealand to pioneers who lacked the finance to buy and develop their farms. But James Sclanders was not alone in providing a link between the wealth of England and the financial needs of the small farmer in New Zealand. In 1885-6 there were 232 farm mortgages with foreigners lending the money registered in New Zealand, and only five of these came through Sclanders' hands. In all the foreign lenders provided over 10% of the mortgage funds borrowed in New Zealand in that year, and the £344,419 lent was about the same as the value of the export receipts from the newly developed frozen meat trade. This article considers who these people were, how they came to lend it to such an isolated country as New Zealand, how the transfer of funds and

* I wish to thank Professors G. R. Hawke, R. D. Arnold, and R. C. J. Stone and Mr D. A. Galt for their helpful comments on earlier drafts of this article.

1 F. Hayter to J. Sclanders, 16 May 1881, Sclanders Papers, Nelson Provincial Museum, Stoke, Nelson.

2 Nominal indexes, Lands and Deeds, Wellington, Taranaki, Nelson and Canterbury. The Wellington index is held in the National Archives, Wellington; the others are held by the Department of Lands and Deeds, respectively in New Plymouth, Nelson and Christchurch.

lending were organized, and finally, what was the impact of the foreign money on the way the economy developed.

Francis Hayter's three maiden aunts, the Misses Huddleston, were fairly typical foreign mortgagees. Elderly genteel women, they lived on the interest of the small capital they owned. They were interested in making sure that they got the best interest rate possible without risking any loss to their small capital reserve. Their £400 would earn them between £12 and £16 per year in income in Britain, where the highest interest rate on safe debentures was between 3 and 4 per cent. James Sclanders obtained an interest rate of 8% on their mortgage to Mary Crawford of Halcombe, so giving the old ladies an income of about £27 after all costs had been paid. It is easy to see why the Misses Huddleston gave a second thought to an investment which took their money to a mortgage on the bush lands of the Manawatu.

The extent to which the Misses Huddleston were representative of foreign lenders can be seen by the distribution of occupations of the 377 foreigners who registered mortgages on land over one acre in the four years ending 31 March 1886, 1891, 1896 and 1901.[3] These 377 people give

Table I

OCCUPATIONAL DISTRIBUTION OF LENDERS

Occupation	N.Z. Mortgages 1886 - 1901	AML & F Co Debentures 1885	English Company shares, 1885
Gentlemen etc.	43.50	33.90	16.14
Ladies etc.	24.93	39.70	2.65
Merchants & Manufacturers	5.04	5.80	40.53
Solicitors	7.96	2.90	4.99
Clergymen	5.84	5.20	
Other	12.73	12.70	34.67

Sources:
Mortgages: Discharged Mortgages
Debentures: J. D. Bailey, *A Hundred Years of Pastoral Banking*, Oxford, 1966, p.67.
Shares: P. L. Cotterell, *Industrial Finance, 1830-1914*. London, 1980, p.96, Table 7.

3 These are drawn from the mortgages registered under the land transfer system only. The records are held by National Archives, Wellington, in their Lands and Deeds series. They are hereafter referred to as the Discharged Mortgages. The Hawke's Bay records were destroyed in the Napier earthquake, 1931, and the Poverty Bay records have disappeared without trace.

us an unbiased sample of at least one quarter of the foreign lenders active in our period.[4]

As can be seen from Table I nearly 70% of the lenders were either 'gentlemen' or 'ladies', the category to which the Huddlestons belonged. It would seem that as a rule such terms were used of anyone who, however they had made their money, now substantially lived off the interest on their capital. The genteel occupation of clergyman was also represented well beyond its numbers or, one suspects, wealth-holding. Except for solicitors, who presumably had an affinity for mortgages and access to trust funds, people with specific occupations were under-represented, particularly those in the growth areas of manufacturing and trade. Almost 90% of the foreign lenders were from either England or Scotland (see Table II). Wales and Ireland provided very little finance for our agricultural development, and only in the mid-1890s did the Australian colonies provide money. This inflow was shortlived, however, as it was the result of investors being scared by the collapse of the Victorian banking system in 1893. By the late 1890s these lenders were again finding more suitable outlets for their money in their local colony.

The distribution of the British lenders shows unusual concentrations because of the particular types of people who were attracted to New Zealand. The major towns of the industrial north provided very little finance for the development of New Zealand's farmland, and it was the

Table II

REGIONAL DISTRIBUTION OF FOREIGN LENDERS

Country	By Number of Lenders	By Value of Loans	Relative Size of Loan
England, Wales and Ireland	75.33	71.18	0.94
Scotland	11.67	16.91	1.45
New South Wales	2.39	1.63	0.68
Victoria	3.71	2.40	0.65
Other Countries	5.57	4.61	0.83
Unknown	1.33	3.27	2.46

Source: Discharged Mortgages

4 The mere bulk of the records (some 112,000 mortgages were registered from 1886 to 1901) precludes a complete study. For an assessment of the method and probable biases see my thesis, M. N. Arnold, 'The Market for Finance in Late Nineteenth Century New Zealand, with special reference to rural mortgages', MA thesis, Victoria University of Wellington, 1981, pp.81–82.

old rural and aristocratic centres that dominated. The elegant spa towns of Torquay, Tunbridge Wells and Bath far outweighed the new towns of Leeds, Liverpool and Birmingham. The number of clergymen was such that many small villages, some of which no longer exist, provided two to three investors in New Zealand's rural mortgages. It was the old agricultural wealth of pre-industrial Britain which provided the funds for the new agricultural economy of New Zealand.

The characteristics of New Zealand mortgages which appealed to these lenders can be most clearly seen if we compare our occupational distribution with that of some other assets (see Table I). The ownership of shares was concentrated on those very groups which were under-represented in New Zealand mortgages, that is the merchants, manufacturers, and those with specific occupations. The gentlemen, ladies and so on are noticeable by their relative absence. However, the distribution of debentures in a colonial mortgage company, the Australian Mortgage, Land & Finance Co. Ltd., is striking in its similarity.[5] Mortgages in New Zealand would seem therefore to be in the same category of investments as debentures in colonial mortgage companies and not that of company shares. This classes them at the 'safe' end of the market. Debentures were normally guaranteed by being secured against the uncalled share capital of the company as well as the company's assets so giving them an appearance at least of security. Debentures were not gilt-edged investments like Consols but, at least in theory, the debenture-holders did not run the risk of losing their capital through market fluctuations in the way that shareholders did. Debentures and mortgages were designed to attract those investors who were prepared to tolerate only a little uncertainty, but wanted a higher rate of interest than the gilt-edged investments offered.

The comparison with shares and debentures also suggests that mortgages were thought of as an investment that required little direct involvement by the lender. Unlike shares, debentures gave no ownership rights in a company, as the debenture deed under which they were issued generally appointed two or three trustees, with limited powers, to protect the holders' interests. Debenture holders were passive not active investors, and presumably mortgages in New Zealand were seen in a similar light. As we will see shortly this could not altogether be the case. Investing in a foreign country without a financial institution to act as intermediary necessarily implied some involvement in organization, and this is probably one reason why women preferred debentures. However, compared with shares, these requirements were obviously not onerous. The comparison also classes mortgages with term investments. Debentures fell due every three to five years, the length of term common in the New Zealand mortgage market. Both assets would have appealed to

5 The distribution of shares in the Australian Mortgage, Land & Finance Co. was very similar to that in all English companies. See J. D. Bailey, *A Hundred Years of Pastoral Banking*, Oxford, 1966, p.12.

those investors who wished to have a reasonable degree of liquidity and to know for certain when the principal invested would return to them. They are different from shares which could be liquidated at any time, but only if the investor was prepared to take a capital loss if the market so dictated.

Finally, the comparison implies an attraction to the relatively small investor, those with £100 to £1000 to invest at any one time. With neither asset did this have to be the case, as both were held in large amounts. But debentures in mortgage companies were marketed so as to attract the relatively small investor, and the average size of foreigners' mortgages in New Zealand of about £1000, with £200 to £500 being common for most of the mortgages, suggests that they were also in the same category. The attraction of small lenders meant that the majority of them were giving out loans only intermittently, when they had saved enough to justify the expense. Of the 377 lenders in our sample, 331 lent only in one of the four years though a number are known to have had money in New Zealand for most of the period. Only two lent in all four years and could be said to have the constant contact with the market place typical of a professional investor. We can conclude then that to attract its investors New Zealand mortgages had to be seen to be safe and liquid, and to provide a moderate return, all without the constant attention of a well-informed lender. Only if all these conditions were met would the Misses Huddleston of Higher Summerlands, Exeter, and their friends be prepared to entertain lending.

Since so much was required to overcome the lender's fear of losses, we can only assume that most of them would have wanted to know a great deal about the mortgage market of New Zealand before investing any money in it. Gaining this information would entail two rather separate phases. It would involve the person acquiring a general knowledge about New Zealand conditions and the potential profit from lending there, and more specifically, it would require knowing how to arrange a transfer of funds to New Zealand and how to lend there. The general knowledge would not have been difficult to acquire. New Zealand was a leading colony in Australasia and as such was frequently reported in the financial press. The constant stream of annual reports from banks, mortgage and land companies would have helped to keep the colony and its potential for profit in the public eye. And there is some evidence that there was a fairly well-developed rumour network available to those interested in its position. In 1886 Alexander Sclanders sent the following summary from London to his brother and partner James Sclanders in Nelson:

> The financial position of N.Z. both publicly and privately is freely canvassed in City Circles and not only there but all over the Country, and the remarks and opinions expessed are not at all cheering to those whose interest is bound up in that Colony. It seems to be the fashion just now to run down New Zealand & every one has a worse story than another to tell about it & I fear they may have only too good grounds for much of what they say. I have had a great many calls

from people wishing to have my opinion on the state of matters. Arthur Dixon (son of Geo. Dixon who visited you at Nelson) called on behalf of his Father to see what I thought of the look of the news, whether land was likely to fall in value, and whether they ran any risk with their mortgages. I spoke as hopefully as I could, but pointed out clearly where the trouble & the danger lay so long as everything which New Zealand produced fetched such unremunerative or disastrous prices.[6]

But such rumours and the reports in the press would not have been sufficient in themselves. To lend successfully in an overseas country, the British investor required an agent whose judgement was sufficiently trusted for him to choose and execute mortgage commitments without constant reference to the lender. It was probably at the point of gaining a sufficiently detailed knowledge to choose an agent that most potential lenders would have floundered.

When it came to choosing an agent those investors who had actually lived in New Zealand had the advantage. They would normally have known the strengths and weaknesses of a range of potential agents, and been truly in a position to make an informed judgement. But the majority of foreign lenders were not in this position. About 9% of mortgagees indicated that they had formerly been in New Zealand, and while this was probably only an indication of the number who had left relatively recently, an attempt to trace other lenders in the Canterbury district using the MacDonald biographies[7] turned up very few additional ex-colonials. This is not conclusive proof that only 9% of the lenders had been residents. Women were, as usual, under-represented in the biographies and of course those who left the colony presumably had less time in which to make sufficient impression to gain an entry, especially as obituaries were a major source of information. On the other hand, lenders were the richer members of the community, and it is difficult to imagine that at least some would not have been noted. So if 9% is an under-estimate of the proportion of foreign lenders who were ex-colonials, it seems improbable that the proportion was markedly higher. Most lenders would have been dealing with a country foreign to them personally. A few, such as the George Dixon mentioned by Alexander Sclanders, paid the country a visit with the specific intention of choosing agents for his lending.[8] But not many lenders had Dixon's extensive for-

6 A. Sclanders to J. Sclanders, 27 January 1886, Sclanders Papers.

7 The MacDonald biographies provide information on the settlers in the Canterbury province. They were compiled from a number of sources, but primarily newspaper reports, and are probably the single most comprehensive source on settlers in any province of New Zealand. The files are now held at the Canterbury Museum Library.

8 Dixon established the Dixon Investment Company for lending in New Zealand, New South Wales, Victoria and South Australia (see Power of Attorney no.400, Wellington Land and Deeds Department). Sclanders was one of five New Zealand agents appointed to act for the company. Dixon had been a merchant in Australia in his young life (probably about the 1840s and 1850s) and possibly knew New Zealand through this experience. See his biography in Frederick Boase, *Modern English Biography*, supplement to vol.II, London, 1965, p.114.

tune to invest, and most would have had to deal with secondhand information. Some lenders had traded with New Zealand and thus made contacts which could subsequently be used for lending finance. It would seem that most of Sclanders' major lenders were initially contacted through his mercantile activities and the high proportion of merchants in Table III suggests that this was not unusual. But contacts probably came most commonly through friends and relations who had found a successful connection. Thus the elderly Misses Huddleston gave their relative Francis Hayter their reason for choosing James Sclanders as their agent: 'Mr Sclanders managed so well for Bella, and his letter [to her] is such a kind one that we feel sure he will do the best he can. . . .'[9] Because so many lenders were introduced to New Zealand by one another there were major lending groups within the list of foreign mortgagees. Twenty-one per cent of our 377 foreigners could be grouped into such family groups by surname, address and the agent they lent through, and no doubt others were part of a family bloc which was not captured by our sampling technique.

Table III

APPARENT REASON FOR CHOICE OF AGENT

	Number of Lenders	Percentage of Lenders
Total whose agents were known	293	77.72
of which:		
family member (by surname)	36	9.55
partner (by joint loans)	10	2.65
merchant	60	15.92
solicitor	96	25.46
land broker	43	11.41
accountant	15	3.98
no apparent reason	33	8.75
Total whose agents unknown	84	22.28
due to:		
power of attorney missing	45	11.94
mortgage transferred	4	1.06
lender died	5	1.33
signed by lender overseas	30	7.96

Source: Discharged Mortgages.

9 Huddleston to Hayter, 21 March 1881, Sclanders Papers.

The relative effect of these means of finding an agent can be seen in Table III. The dominance of solicitors and accountants, with about 30% of the agencies, was only to be expected, given their traditional role in the English and Scottish mortgage market, and the natural way in which their involvement with the legal side of land transactions enabled them to locate suitable securities. By comparison the land broker, a colonial invention who could also deal with all the legal side of land transactions, was less favoured by foreign lenders, having only a little more than 10% of agencies. It is surprising then that merchants had such a large role, since they also were not a normal channel for investment in Britain. However, they were responsible for organizing 16% of the foreign lenders. Merchants had the advantage of almost always having a London branch or interconnecting firm, so being able to offer a more personal service to the lender than could the average solicitor. Obviously Arthur Dixon found it useful to be able to call on Alexander Sclanders and discuss his father's business matters directly. The merchants also had the advantage of constantly dealing in foreign exchange, with the result that they could pass remittances through their own books rather than through the trading banks. As exchange was an expense to the lender, this made them cheaper than the solicitors. However, they suffered the obvious handicap of not being involved automatically in land transactions unlike solicitors or land brokers. The level of agencies by those with the same surname, and so assumed to be family members, was low, suggesting that personal connections were not the sole motivation behind the involvement with New Zealand of most of the lenders. However, this measures only the direct involvement of family members in New Zealand. It is possible that many who were not willing or able to undertake the business of being an agent themselves undertook the responsible task of finding someone else to do the job. It is probable also that many of the 'no apparent reason' category were family members who had a different surname. A number of lenders did not have an attorney in New Zealand and so had to have all the documents signed overseas. This was especially common in the case of Australian lenders for whom the problem of distance was less severe. It is possible that the occasional British lender who followed this pattern may have made initial contact with the borrower in England rather than through an intermediary. Occasionally a borrower of a large loan would advertise directly in the English press for funds.[10]

Good agents gained business through word of mouth with the result that within each type of agent a few dominated the business. This is especially true within regions, but even on a national scale this is apparent. Merchants and land brokers were especially dominated by a few

10 See G. D. Hamilton, *The Relation of Capital to Agriculture and Labour in New Zealand*, Woodville, New Zealand, 1892, p.11.

agents, the top four firms holding 61 and 88% of the agencies repectively. This is not surprising as these two groups were both not normally involved with mortgage finance in the British financial scene and so lenders would not naturally have thought of them as channels and would have needed an introduction to the specific agent. By contrast the solicitors, who were a more natural channel for the English lender, were less concentrated in a few hands, suggesting that more lenders chose them as their agents because of their occupation and not because of personal recommendation. Domination came only through careful lending and a real interest in the business. Certainly the merchant firm of Sclanders & Co. took no interest until James Sclanders became a New Zealand partner, a man who in the estimation of his bank manager 'is an excellent financier, and it is to this particular department that he devotes his especial attention'.[11]

Once the foreign lender had chosen his agent and entrusted him with his money and a power of attorney, his role was largely passive. Despite the almost universal demand for a half-yearly report to accompany the remittance of interest, showing details on the loans and often an assessment of the safety of each investment, it is unlikely that most lenders had an adequate knowledge of what was being done in their name. In part this was a result of simple ignorance of the economic realities in New Zealand. For instance, one of the lenders who worked through James Sclanders sent instructions that her half-yearly reports should state whether the land on which her money had been secured contained 'any valuable Quarries, Mines, Mills, Factories etc.'[12], as if the safety of the loans related to the economic conditions of industrial Britain and not the agricultural economy of New Zealand. But even those lenders who did try to maintain a watchful eye found that distance was against them. An agent could defraud his principal for a long time before anything was even thought to be amiss, provided he sent an apparently satisfactory report with a cheque to cover the interest which should have been due. More than one lender found that by the time unsatisfactory reports were sent, or interest was no longer remitted, the capital which they had so carefully sought to preserve by lending on safe mortgages was gone. From the perspective of those involved in the New Zealand market, it was fraudulent behaviour such as this which weakened New Zealand's attraction, and any agent foolish enough to remain in the country after the fraud was discovered was likely to be harshly treated by the vested interests in the legal profession, as William Waring Taylor of Wellington found to his cost. Even agents who were apparently trustworthy, such as R. J. S. Harman deliberately omitted to inform their principals of losses

11 Union Bank of Australia, Half-yearly Balance Sheet, Nelson Branch, Sclanders & Co. A/c., 31 August 1897.

12 Travers, Smith & Braithwaite to J. Sclanders, 17 June 1885, Edwards bundle.

until it was obvious that nothing else could be done.[13]

Overseas lenders were aware of such risks and attempted to guard against them. Most appear to have had an English solicitor actively involved in checking each half-yearly report, but this was of limited use. The solicitor was under the same disadvantage of distance, and had no means of independently checking the veracity of what was sent. Some lenders may have had a friend in New Zealand check through the records of the agent, as was done by one of Basil Sievwright's principals. Certainly Sievwright felt that this was well within the bounds of normal business practice, though he indicated his feeling that should another professional person be appointed he would resign from the agency.[14] Those lenders without friends in New Zealand would therefore have found it difficult to employ someone acceptable to their agent to play this role. For their part most merchant firms guaranteed against loss of capital by fraud, but not against its loss due to changes in market conditions, even though such losses may have been avoided by a more competent agent.[15] There can be no doubt that the success of the operation depended heavily on the integrity and ability of the agent chosen at its start.

From the agent's point of view it was often frustrating to have a principal who did not understand the problems he had in lending the funds safely but at an acceptable interest rate. Sclanders in his lending attempted to give a sufficiently detailed check on each loan so as to have only first class investments. The service offered to his principals was well-expressed in his agreement with W. J. Mackie. 'It is understood that Sclanders & Co. will obtain investments on good securities for us, the rate of interest not being so important as getting really good securities'.[16] As he was known around New Zealand, Sclanders was usually approached by solicitors with potential borrowers. He did not have established sub-agencies, but did have some solicitors whom he felt he could trust. As time progressed he relied increasingly on J. H. Hankins, a Palmerston North solicitor, who proved a particularly reliable contact. This meant that his lending, which had initially been concentrated in Taranaki and Canterbury because the company had branches in Wanganui and Christchurch, gradually came to concentrate on the Manawatu. Sclanders seldom lent in Nelson despite the fact that he lived there. Nelson was a prosperous area, and as such had many local lenders. But it was difficult to find good investments in the area because the good agricultural land was generally held by people trying to pay off their mortgages, and the surrounding hills limited the scope for expanding

13 See, for instance, R. J. S. Harman to Viscount Cobham, 9 August 1892, MS.4600/202, Worcester Record Office.

14 Sievwright to J. Mills, 21 August 1891, Sievwright's private letter-book, p.56, MS. 138/99, Hocken Library.

15 See A. Sclanders to T. Rowat, 5 September 1882.

16 Mackie to D. S. Gibbs, J. Sclanders and H. Edwards, 12 March 1894.

settlement into new areas. Sclanders was dealing therefore with land and borrowers that were unknown to him.

A solicitor with a potential borrower would first telegraph Sclanders to ask if the required amount was available. If Sclanders telegraphed that it was, the solicitor would send a letter, giving the amount of loan wanted, the interest rate and repayment date, and giving a summary of the character of the borrower. Sclanders rarely lent to men who were new to a district. Usually he would only consider people who had lived there for at least a year and who were actually living on the farm to be mortgaged. Until a settler had proved that he could cut down a tree and plant grass, he was regarded as a risky proposition. If you were a tree-felling contractor your chances increased markedly. Sclanders also seldom lent to unmarried men. A wife and children implied stability and labour. To him a family of teenage boys was a definite advantage when applying for mortgage finance. Finally the solicitor was expected to give a summary of the man's business ability, indicating whether he would be a proficient farmer and whether the borrower was likely to take a mortgage contract seriously and make sure his interest was paid on time. More than one solicitor tried to work on Sclanders's origins and informed him the borrower was a fellow Scot.[17]

Only when he was satisfied with the character of the borrower would Sclanders then go on and look at the land offered as security. An official application for the loan was completed on Sclanders & Co.'s official form. This set out the legal description of the land, its basic characteristics, especially whether it was cleared and ploughed, and the building on the land. Sclanders rarely lent on land which was not registered under the relatively new Land Transfer system, and it would seem that this was not unusual as the system gave greater security to the lender.

If the application appeared acceptable then Sclanders would ask for a valuation report. He was very particular about the valuation report and in each district had one valuer whom he would accept, and only one: no other reports would satisfy him, as one poor borrower, J. Henson of Sandon, found to his cost, after paying for two other valuations.[18] Sclanders had had many problems with valuations of bush land. It took a practised eye to judge the value of such land before it had been cleared and grassed, and many potential valuers were so concerned to see the area in which they also owned land go ahead that they were unduly optimistic as to the fertility. On many occasions Sclanders would play it safe and withhold a portion of the loan until the land had been improved to a certain level, frequently until the land had been completely cleared and a ring fence put around it.[19] He was well aware of the problems involved in

17 See, for instance, H. R. Richmond, New Plymouth to Sclanders & Co., 12 July 1887.

18 A. S. Baker to Sclanders, 7 November 1885 and 21 November 1885.

19 See, for instance, J. H. Hankins to Sclanders & Co., 26 September 1898, 21 October 1898, and 25 November 1898, and 9 April 1890.

selling land that was partially cleared or which had had a bad burn on it. This land was generally too expensive for the new settler to buy, yet would involve too much hard work to attract a person who had some money. It would therefore have been very difficutl to realize upon if there was any need to foreclose on the loan. In withholding money he often thought of the level of expense that would be needed to finish the clearing of the land and to put it on the market as an improved farm.

The valuation form which Sclanders used was surprisingly simple. It asked if there were a metal road to the land, an important consideration with the muddy roads. There was no specific question on soil quality or stock-carrying capacity. Distance, location, and property size determined the value more than fertility. More than one potential dairy farmer tried to improve his application by saying that a dairy factory was planned on an adjacent site, and one declared that he would build the factory on a corner of his own land, so bringing settlement to land that was too distant to be desirable. Sclanders was interested only in land that was sufficiently flat to be ploughable. Only once did he lend on land that was considered to be beyond this limit, and then he would only lend a small proportion of the sum originally requested.

Once the valuer's report was in Sclanders' hands, together with his detailed solicitor's report on the loan, he took time to consider the proposition. Using the 1882 *Return of Freeholders*, he would check the valuation against the government one, and any marked discrepancy led to a telegram demanding an explanation. Further, he would take into consideration the likelihood of changes in land values during the term of the mortgage, and for this reason he liked half-improved land as further improvements alone would mean a rise in value. Finally he would take the level of the valuation and look at the level of loan requested. Sclanders was a cautious lender and seldom went above 50% of the valuation of the land. He did not provide second mortgages, which in any case were not generally required by farmers. Once he had decided, he would send off a telegram to the solicitor, setting out the amount, interest rate and term that were offered. If the offer were accepted the solicitor then drew up the required deeds. In return for this work Sclanders received from the borrower a commission of 1% of the value of the loan, which he normally divided equally with the solicitor who had handled the application. From the foreign lender he received 5% of the interest that came from the mortgage.

If an agent was careful and competent, as Sclanders was, the foreign lender could expect to receive a net return of between 6 and 8% on his investment. This was well below what a New Zealander lender would have received, as the cost of the agency, in commissions and running expenses, reduced the return by about 15%. But from a British lender's perspective this was a very good return for an investment which seemed safe and relatively free of care. Comparable investments at home would have provided at best 5%. However, this situation, general in the 1870s

and 1880s, was not to last. Interest rates in New Zealand, which had shown only a slight tendency to decline up to 1894, plummetted in the years 1894 to 1898. An investor who could confidently write demanding 8 to 10% in 1885 was pleased to get 4.5% if not 4 in 1900. This decline was unexpected, and indeed the initial reaction was to wait for rates to return to more accustomed levels with the result that the banks were flooded with interest-free, call deposits. The mood was aptly expressed by Basil Sievwright, writing to one of his overseas lenders: 'I regret very much to report that extraordinary and continuous fall in the rates of interest. The competition for loans here is something surprising — people do not seem to know what to do with their money which is no doubt the cause of the rush after mortgages. It surely cannot last much longer.'[20] But it did last. The upsurge in the supply of funds into mortgages was due to the growing wealth of the New Zealand population. With the development of the dairy and frozen meat trades, the farming population in particular was in a position to place more funds in investments. The retirement of many of the early settlers meant that they were also anxious to supply funds for lending so that the interest provided them with a retirement income. The result of these and other forces was that whereas New Zealand individuals had provided £1 million to the mortgage market in 1885/6, in 1900/01 they were supplying over £2 million. This was more than enough to offset the decline of the financial institutions, which, despite the highly advertised activities of the government Advances to Settlers scheme, fell from 57.33% of the market in 1885/6 to only 46.94% in 1900/01. And it was also more than enough to meet the rising demand for finance, so forcing interest rates down. With their fall, the incentive that had made the Misses Huddleston and others think twice about lending in a foreign country was gone. No longer could they increase their income by sending their funds to a far and unknown land.

From about 1893 onwards few new foreign lenders entered the scene, but many of the old ones remained. This was not solely because of the cost and inconvenience involved in reorganizing their finances. Many lenders found that after employing an agent for 20–25 years, it was difficult to withdraw the funds since this would undermine his business. The process of withdrawal was therefore slower and more uneven than could have been expected, especially as it was complicated by the brief inflow of Australian funds into Auckland at the time of the Australians' financial crisis (see Table IV). Those lenders with little personal commitment to New Zealand withdrew their money first. This most affected the newer and less established areas such as Taranaki. The Scottish lenders went next, principally in the years 1893–6, and mainly from Otago. The collapse of the New Zealand Loan and Mercantile Agency Co. Ltd. and the

20 Sievwright to Franckeiss, 30 August 1898, MS.138/99, letter-book 12, p.602, Hocken Library.

Table IV

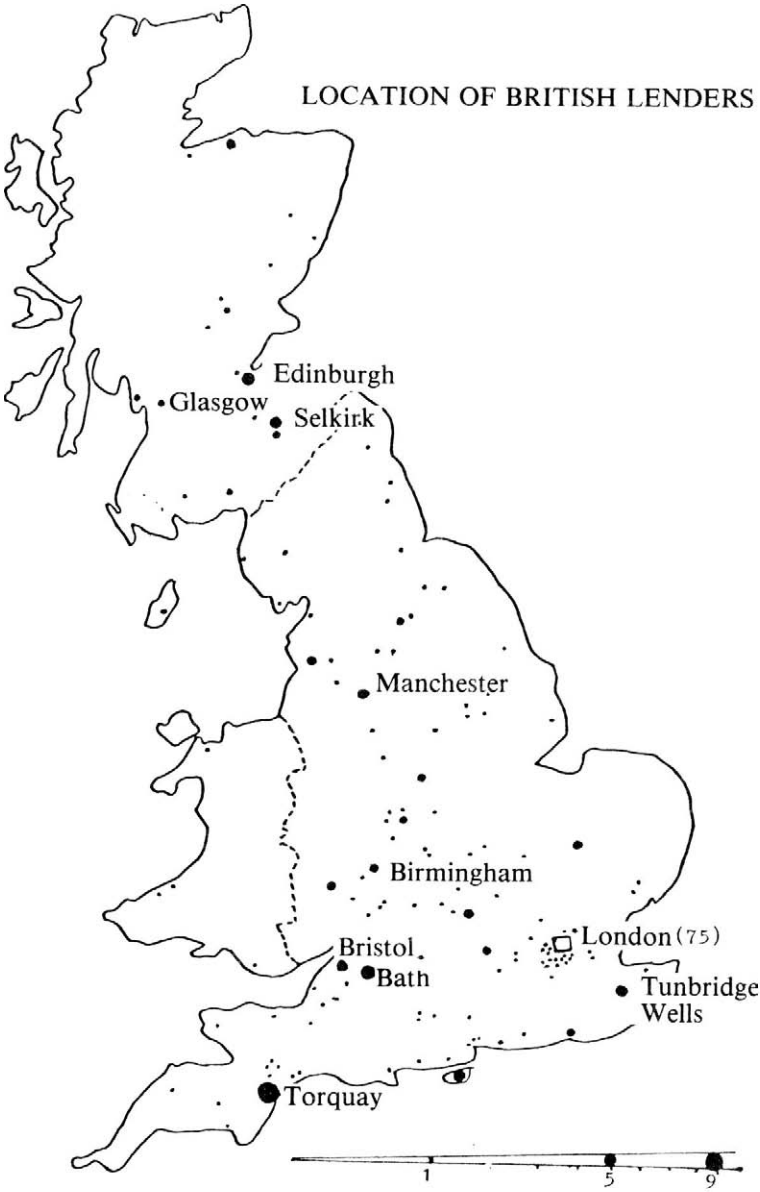
FOREIGN MORTGAGES AS A PROPORTION OF ALL MORTGAGES

	1886	1891	1896	1901
North Auckland	2.19	2.82	4.61	0.72
South Auckland	8.73	1.86	6.17	0.69
Taranaki	12.86	1.45	2.23	2.05
Wellington	19.41	9.28	10.14	2.61
Marlborough	13.03	6.71	3.84	—
Nelson	12.09	6.09	13.06	6.47
Westland	—	—	—	—
Canterbury	11.29	7.80	8.09	5.98
Otago	12.10	13.33	2.91	0.73
Southland	4.15	6.91	5.04	0.92
New Zealand	10.39	7.95	7.15	3.02
Total value	£344,419	£164,552	£212,024	£112,391

Source: Discharged Mortgages

threatened collapse of the Bank of New Zealand had undermined their confidence in the colony, as these two companies, like many similar Australian companies, had borrowed particularly heavily from small savers in Scotland. Finally the older settled regions, Nelson, Canterbury and Wellington, lost their foreign finance, usually on the death of either the lender or of his agent. It was James Sclanders' sudden death in 1901 which prompted the withdrawal of the finance lent by him, in spite of strenuous efforts by the London Branch to ensure that the funds remained in the control of the New Zealand manager. As a result of all these withdrawals, only 3% of mortgage finance was given by foreign lenders in 1900/01.

From the perspective of New Zealand's economic development the outflow of funds was not of major concern. Foreign finance was no longer needed to speed the opening of the country. But this had not always been the case. Without the 10% of mortgage finance provided by the foreigners in 1885/6 the shortage of funds would have been higher and the amount of borrowing for land development lower. As Table IV shows this would have hindered some areas more than others. Foreign lending was more heavily concentrated in Wellington, Taranaki, Canterbury and Otago, and these areas, where the new industries of dairying and frozen meat were developing, would have been hindered most. The foreign lender had, unwittingly, been particulary valuable in the mort-



Note: 75 lenders were living in London. A further 30 lenders gave their address as England, 4 as Scotland and 1 as Wales.

Source: Discharged Mortgages.

gage market. Because he had dealt through an agent who was more in touch with the market, his funds tended to be directed to the newer areas, where growth was secure, but development still in progress. These areas gave the best security, yet, because they were new, a slightly higher interest rate. In tapping the British market for funds for the development of these areas the agents helped to speed their growth. But the gradual squeezing out of the foreign lender did not harm these regions. By 1901 the borrower was able to get his loan on the best terms achieved since the foundation of the colony. The New Zealand capital market had matured. No longer did it depend on savings in Britain to fund new agricultural development.

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