
SELECT COMMITTEE ON LENDING TO PRIMARY PRODUCTION CUSTOMERS

From Corrigin/ Lake Grace Zone of the Western Australian Farmers Federation

ABOUT US.

Corrigin/Lake Grace Zone of the Western Australian Farmers Federation stretches from Mt. Madden in the South East to Corrigin in the West a distance of 250 kilometres and from Woollocutty in the North East to Lake Grace in the South West.

We represent over 800 farmers in what is classed as a low rainfall area. Most years we produce more than 1 million tonnes of high quality grain, wheat, barley, lupins and canola, much of which is exported through Kwinana, Albany and Esperance ports.

As well as grain there are growing numbers of cattle both grass fed and finished in feedlots as well as mainly merino sheep for live export meat and wool.

Clearing and development first occurred in the region in the early 1920's. Development progressed slowly until the 1960's when the State Government allocated large parcels of virgin land, which continued until the 1980's.

While most farms are profitable some farmers have experienced very severe financial difficulties as a result of adverse seasonal conditions, for example, frost, droughts and floods.

In the absence of an affordable Multi Peril Crop Insurance Scheme farmers are vulnerable to bad seasons. Most farmers would invest more than a million dollars in cropping inputs to plant a crop per season.

BANKS PLAY A KEY ROLE IN OUR BUSINESSES.

Banks play a key role in the funding of agricultural industries and are a key part of our businesses. This includes advances through overdrafts, term loans for farm land purchase as well as short term loans for machinery purchases etc.

Changes to the way banks operate have seen major banks close branches in many of the major towns in our area, which has led to reduced services. This is frustrating to their customers. These banks are now concentrating their services in the regional towns that are often hundreds of kilometres away from our farming businesses and other businesses situated in small towns.

We believe this policy by the banks has been driven by them to purely increase their profits without concern or impact that this policy has on their farming customers, but may be also be influenced by the introduction of Fringe Benefit Taxes. This has seen local businesses keep staff in these outer areas which has impacted detrimentally on many businesses, including banks. Many businesses subsidised rent to their staff to encourage qualified people to work in country areas.

The introduction of this policy by banks seemed to coincide with the sell-off of government banks such as Bank West and the Commonwealth bank. This took away the ability of people in major towns to use political lobbying to maintain these services in their town.

Most farming businesses are now further away from the decision makers in the agricultural business management personnel in the banks. While the above policy might be good for the banks it is not good for farmers that have far less contact with their agribusiness managers. Where banks have maintained a presence in a town their offices are little more than bank agencies. While banks claim internet banking reduces their need for a local presence the distance between banks regional rural centres and farmers leads to poor communication and understanding.

This is a marked move away from when branch managers, who knew their clients and how their businesses operated and were in regular contact with their customers. Farmer customers were kept up to date with bank policies and changes to them. The banks were part of our community. This is not the case today.

It is essential that there is a good working relationship between farmers and decision makers within the banking industry.

There appears to be very little real competition between the major banks. Most of them have adopted similar business strategies and operating models. This similarity leads to very little real competition between the major banks operating in agricultural industry.

THE ROLES OF OTHER SERVICE PROVIDERS AND AGENTS.

Up until recently stock firms like Landmark and Elders also provided finance to the agricultural industry usually secured by liens on the farmers livestock. Something that the banks will not do. Stock firms quite often finance much of the farmers operating inputs and were an alternate funding source to banks. That no longer exists today since the banks have bought up the stock firms financial portfolios.

Building Societies used to offer farmers very competitive interest rates on deposits, usually better than banks. Of late this does not happen. It is difficult for farmers to get a reasonable rate on Term Deposits and other surplus funds that are generated in a farming business.

THE IMPACT OF THESE SERVICES.

We believe that banks need to be required to have higher community service obligations. They must be part of our communities and deliver the services that are required by our communities and our industry in a form that is acceptable to our industries. We cannot operate without the banking industry because they are a key part of our community and industry. Every business needs a bank for their business to function properly. The banks must have absolute fairness, honesty and have the trust of their customers. There is evidence that bank honesty has declined in recent years since deregulation and this is not a good trend. Farmers and other businesses have been encouraged to change banks by Federal Members of Parliament, when they believe the charges by their bank have been unreasonably high. Some banks have frustrated this move by farmers through charging excessive break fees to deter customers from moving to a more competitive bank. This is not fair or honest banking.

The requirement of banks to state the interest charged on overdraft accounts is a good move and it is essential that it is maintained so that customers know exactly what fees the banks are extracting from them.

LENDING AND FORECLOSURES

When a farming business starts to fail for whatever reason, whether it be droughts, frosts or floods or low commodity prices or other unfortunate circumstances there needs to be a mandatory process

that banks need to follow. Once a farmers account is transferred into the Account Care Division of a bank we believe that the farmers should be notified forthwith. Where banks have decided to bring on a forced sale, there needs to be a Land Sales Liaison Committee staffed by appropriate people that farmers can call upon to adjudicate in the process. This would give the farmers the option of being able to maximise his returns if he is forced to sell by offering the land in the best way possible.

THE APPROPRIATENESS OF INTERNAL COMPLAINTS

The committee needs to have the power to limit the penalty interest rates that the bank may be charging the farmers while this process is taking place. In some cases banks have charged up to three times the interest rates that they have charged other customers that are in a good financial position. We realise that banks need to protect their assets in the case of defaults but we also need to acknowledge that when a farming family lose their farm they lose their family home and everything around them and are virtually forced to start a new life elsewhere. Where farming families are left with no equity after the banks have recovered their debts farming families should be able to claim a relocation Government Grant sufficient enough to make a new start and place a reasonable deposit on a family home. We suggest at least \$175,000.

We need to recognise that this causes a lot of emotional stress on farming families and this underlines the need for Agricultural Counsellors to play a part in this process.

The Select Committee on Lending need to be aware that where a forced sale of land at a heavy discounted price can adversely affect the value of other farms in the area and set off a chain reaction that would put other farmers in the area below the banks acceptable equity level in their farming businesses. This could cause foreclosure on other farmers and nobody gains from this.

The Rural Adjustment Finance Corporation assisted a lot of struggling farmers when it was in operation a few years ago. RAFCOR assisted many farmers and helped them turn their businesses around by giving them well placed financial assistance, which included interest rate subsidies. RAFCOR staff also encouraged banks to reduce their interest rates because of the lower risks involved in the farming business when RAFCOR agreed to assist that farmer. This was only for short term assistance, but was enough to get farming back into a self sustaining position. This process needs to be looked at again because it was a great help to so many farmers in its day.

There is a need for the reintroduction of the Commonwealth Development Bank (CDB) as it used to operate previously. There are still a lot of opportunities to expand agriculture and agricultural production. The Commonwealth Development Bank assisted many farmers including young farmers to take over and expand farming businesses that their parents had previously operated. This would increase competition in the agricultural financial sector. It could be used to encourage the young farmers to buy into an agricultural business in shares or to buy into a farming business in their own right. Currently there is no appropriate financial institution dedicated to assist young energetic farmers to buy into agriculture or to take up agriculture as a career. This could be done by the CDB bank providing young farmers with low interest long term loans to enable them to get started in agriculture. While bank interests are low at this point of time this will not always be the case. We recommend putting in place a CDB. This we feel will give farm business the option to use different banks which in turn will make others more competitive.

People to contact in the Corrigin/Lake Grace Zone of the Western Australian Farmers Federation about this submission are:-
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