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Mr HOGAN: Thank you. I have just two more questions, Chair. We have legislated that you can allow farm management bonds to offset against farm loans. Why are you not allowing farmers to do this?

Mr King: We understand there is a product similar to the mortgage offset product. Our systems cannot handle that treatment at the moment. It is very complex across multiple business products and offset accounts to actually operationalise it, so our systems do not allow us to do that.

Mr HOGAN: Are you looking to change your systems so that they would?

Mr King: Our preliminary work is that it is probably not possible, with our existing systems, to do it.

Mr Hartzer: We are happy to take that on notice. I recall that that issue has come up in the past. I am afraid my memory is that little hazy on it. Can we write back to the committee with some clarification on that.

Answer: The Westpac Group supported increasing the limit on farm management deposits (FMD) from \$400,000 to \$800,000 to assist primary producers in managing their business cash flows between good and poor seasons.

The Westpac Group does not currently offer business loan offset accounts. Instead, Lines of Credit are offered to customers which have the same effect as offset accounts through the provision of repayment and redraw features. Line of Credit Facilities allow customers to manage their cash flows and interest costs between seasons by permitting customers to drawdown or repay loans within the same account structure. Our Westpac Agribusiness One Loan was specifically designed to help primary producers smooth their cash flow and minimise interest and fee charges.

We do not intend to offer a FMD offset account for the following reasons:

- FMD accounts can only be held in the name of an individual but loans may be advanced to different entities such as joint borrowers, partnerships, and companies and trusts that are owned by the primary producer. For this reason, an offset may not be allowed by the tax office unless the loan and deposit were in the same name.
- Less than one third of Westpac customers with FMD's also have business loan facilities with the bank.
- Netted interest arrangements only offset the balances for the purposes of interest calculation with the underlying accounts reported as credit and debit balances on the bank's balance sheet. Consequently, full capital adequacy costs are incurred while interest revenue is foregone by the financial institution.
- Introduction of FMD offset account would be technically complex and expensive to build:

- Agri-business customers use a range of financing solutions including: overdrafts, commercial bills, term loans, trade finance, invoice finance and equipment finance. Consequently developing an offset arrangement would not be as simple as creating a single deposit product offsetting a single loan product and nor would a borrower want their financing solutions restricted in this way.
- These loan products reside on separate bank systems and have varying features such as different interest and fee charging cycles, interest only or amortising, term or on demand, variable or fixed rate. This complexity would make building an offset solution cost prohibitive.