Gbac/ my submission to select committee

To the Committee Secretariat
Select Committee on Lending to Primary Production Customers

Dear Secretariat,

I am a fourth generation farmer having bred wool sheep (Tullamore) and beef cattle (Braidwood). I was Chairman of the Cumberland Branch and District Council of NSW Farmers for some years. I have written extensively on farm finance matters in farming magazines and papers. I am a retired Chartered Accountant specialising in advising primary producers on problems with bank loans.

Since my early days in Chartered Accountancy, from about 1967, I have been consulting Australian farmers on their finances and loans. Since deregulation the bankers have been quick to realise that there is a pot of gold at both ends of the farm lending rainbow. Farm land is very valuable as security and comes in large quantities generally with a value that well exceeds the money initially borrowed and so opportunities for recovering a loan by selling up the farm are great. At the other end of the rainbow, drought, flood, fire and commodity price collapses are endemic to farming and that fact is well known to bankers. Almost very bank in Australia has been lending to farmers far longer than current farmers have been borrowing.

I have consulted farmers with bank debt problems since about 1987 when I invented the Moneygram to allow them to easily enquire of all banks when seeking loans. These farmer clients have included chicken growers, fruit growers, dairy and beef producers, wineries and grain growers. I have consulted them in NSW, Queensland, Victoria, Tasmania, King Island, Western Australia, South Australia and Northern Territory. They all have at least one problem in common, unaffordable loans. The common thread is that they are good farmers, earning modest incomes if any at all and have failed to understand the difference that de-regulation of banking made to the behaviour of bankers. All the farmers I have consulted believed that their bankers would be honest, fair and trustworthy, that they would not deliberately or carelessly lead them into financial disaster where their farm was at risk. In this belief those farmers were sadly mistaken. Since de-regulation bankers have become ruthless predators and primary producers, farmers, have become easy victims.

There is not the slightest doubt in my mind that the words of Suncorp Bank director Sally Herman ring true. Those words were to the effect that bank staff do what they believe they are expected by their superiors to do.

Bank directors effectively tell or incentivise staff to sell more loans just as they do to sell more insurance policies, term deposits, wealth advisory services, & superannuation services. Bank directors and CEO's cannot earn their astronomical incomes if they treat customers fairly as the Code of Banking Practices pretends they do. It is as simple as that. In Graham Richardson's words, bank staff are required to do "Whatever it takes" to make the super profits that allow super salaries, dividends and directors' fees. That customers might be impoverished, driven to despair, lose their homes, marriages, farms or businesses or commit suicide is completely beside the point and of no consequence to many bank directors. Those customers are easily replaced by a bit of marketing pedalling the advantages of borrowing without disclosing the many pitfalls. I have negotiated with Rural Bank, Westpac, St. George, ANZ, CBA and nab over a period of 30 years.

Bankers have decades of evidence that many farmers will be unable to service or repay debt during times of calamity such as drought, flood, commodity price collapses and government intervention. Banks know that farmers will be too busy coping on-farm and too unaware of good loan strategies to contact the bank and renegotiate loan terms as soon as calamity strikes. During drought, flood and price collapses, bankers take the opportunity to add compound interest at penalty rates to farm debts as well as receiving many of the subsidies governments give the farmers to help with debt. Thus farm debts can increase by 50% to 100% without any trouble in tough times. From then on the bank is on clover until the debt reaches about 80% of farm market value when the bank can hold a mediation at which the farm sale will be set in concrete and the bank will recover its loan plus compound interest over many years at excellent interest rates. It is a banker's dream come true.

The first solution for farm loan problems is simple analysis before a loan is offered of past results to determine what the farm borrower can afford by way of interest and principal repayments, coupled with serious budgetary reporting in future years until the debt is cleared, plus a focus on debt repayment by the borrower. What many banks do when a debt is half cleared is to market more loans to the customer to keep that farmer in perpetual debt. The practice of marketing further finance to a primary production customer before existing debts are completely cleared should be banned. Bankers in my experience earn far more out of farming than most of their farm borrowers do.

Because it is weather dependent and the best management in the world cannot manage the weather, farming is an industry that is best managed debt-free. There are many instances where debts could have been arranged interest –free instead of with banks. The most notable is where parents sell the farm or part of it to adult offspring. It is sheer madness, destined to create problems for the children to borrow at interest from a bank to buy the parent's property or part of it.

The parents could save their children much unhappiness and stress by offering the loan interest free, with the alternative benefit being to continue living in the homestead or having free grazing rights over a decreasing part of the farm, in place of interest. I have successfully negotiated both such interest-free loans. Often the last thing a farmer needs from a son or daughter is a lump payment which some wealth management shyster will quickly relive him of. Annual payments work very well as do alternative benefits to interest.

But if a farmer does borrow at interest, all non-essential expenditure should be deferred until the debt is repaid. Borrowers often need professional assistance to understand the message of "The Merchant of Venice" with the moneylender demanding his pound of flesh or Solomon's warning in the Bible that "the borrower becomes the lender's slave". How true these statements are of bankers today! Greed is everything and care of customers has gone the way of the dinosaurs.

Instead of killing competition in the banking industry to the disadvantage of voters and to the enrichment of Big Bank CEOs, directors and shareholders, by an implied guarantee of the major banks' liabilities in case their high executive pay and dividend policies send them broke, our Federal politicians should instead make it clear through a "Safer Banking" act, that those major banks earning billions of dollars a year and paying lower tax rates than many voters on modest incomes, need to insure their liabilities and set aside sufficient funds to meet them and then the government should guarantee the debts of the smaller banks who give far better service, take lower pay and care for their customers far better. That government guarantee would level the banking playing field and allow many customers to move to smaller banks so that they would grow and the major banks would stagnate, so lessening the overall risk in the finance industry and giving voters equally safe choices between a major bank and a minor one..

I would greatly appreciate the opportunity to detail to the committee the tragic way in which our major banks have treated many primary producers since de-regulation of banking. I can detail many instances.

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