

**Commonwealth Bank**

Commonwealth Bank of Australia  
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Committee Secretary  
Select Committee on Lending to Primary Production Customers  
Department of the Senate  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600



**By email:** [primaryproductionlending.sen@aph.gov.au](mailto:primaryproductionlending.sen@aph.gov.au)

Dear Secretary

**RE: Inquiry into lending to primary production customers**

Commonwealth Bank has been committed to supporting primary producers in regional and rural Australia for over 100 years. We have nearly 25,000 agribusiness customers who we support through our extensive branch network, including over 500 regional and agribusiness specialists located in around 70 business centres across the country.

We believe Australia's primary production sector has a positive future. In the first half of the 2017 financial year, Commonwealth Bank funded \$1.2 billion in lending to farmers and other rural customers. We regularly monitor our primary producer and agribusiness portfolio to understand emerging trends, including the pressures facing primary producers. In addition to our regular conversations with our customers, twice a year we also commission the largest phone research survey in the sector, talking with 1,600 Australian farmers and primary producers to understand sentiment and investment intentions across a range of sectors, including dairy, livestock and cropping. Despite some regions being affected by prolonged drought, in our most recent survey in February 2017, primary producers told us that sentiment is currently positive in the sector.

*Lending to primary production customers*

We are upbeat about the sector and have an appetite to lend more. In making lending decisions across all our portfolios, Commonwealth Bank considers many different factors. These include the purpose of the loan, capacity to service and repay, credit ratings, the type and value of the security being held against the loan, the industry sector in which lending is occurring, the diversity of our overall lending book and the requirements of the Australian Prudential Regulation Authority.

We are also simplifying our small business loan terms and conditions to make it easier for our customers. In recent weeks, Commonwealth Bank announced we are making changes to simplify small business lending contracts, including for primary producers, where the loan exposure is less than \$3 million. For these customers, financial indicator covenants will no longer be included in loan contracts and therefore will no longer be a possible cause of default.

#### *Supporting primary producers*

We understand that our primary production customers face unique challenges and work to support them. These challenges range from risks to production, such as pest and weather, to fluctuations in global commodity prices and foreign exchange rates. Many of these impacts are outside of their control and we work together with our customers to support their businesses through these cycles.

In response to natural disasters and emergencies, we frequently extend assistance to customers in rural and regional areas to help them to manage the impact of drought, floods, cyclones and bushfires. These support measures include initiatives such as:

- a business loan or mortgage repayment holiday;
- extending the business or mortgage loan term agreement; or
- waiving fees and charges.

In other cases where our primary production customers are experiencing financial difficulty, we make every effort to work together to reach an agreed solution. In the event of a challenge such as a short term cash flow issue, we work with the customer to attempt to find a sustainable repayment plan. It is Commonwealth Bank's preference, as well as in our financial interest, that the customer is able to restore their loan to a satisfactory position and to maintain their operations. We have a specialised team of professionals based in each state who assist primary producers in these situations and on average we spend more than two years with each customer working through possible solutions.

There have been some suggestions in recent years that farm foreclosures are excessively high and that these decisions are taken in haste by financial institutions with little engagement with customers. This is not the experience of Commonwealth Bank. In 2016, we instigated enforcement action in relation to six farming businesses nation-wide. In these cases, we had worked with the customers to explore alternate solutions for an average of 44 months. In the vast majority of cases, customers in financial difficulty are able to work with the bank to restore their position and keep their business as a going concern.

#### *Options for review*

In the event a customer does not agree with our decision, there are a number of avenues available for them to escalate their concerns. We have a dedicated Group Customer Relations team who assist our customers, with the goal of resolving complaints. We also recently created a new, independent, Customer Advocate function within the bank. The Customer

Advocate operates separately from the Commonwealth Bank's day to day business areas and can make decisions that are final and binding on the bank. Customers also have the option of seeking an external review of our decision by the Financial Ombudsman Service, a process in which we fully co-operate.

In the farming context, our customers also have the option of resolving any concerns with us through the farm debt mediation schemes that run in a number of jurisdictions. Commonwealth Bank believes farm debt mediation provides a valuable mechanism for both banks and farmers to develop mutually agreeable solutions in relation to loans. We would support the introduction of a nationally consistent scheme to ensure all farmers, irrespective of where they are located, would have access to a consistent and effective service.

#### *Customer Assistance*

We recognise that apart from financial difficulties, our customers may also experience other personal challenges in their life. Commonwealth Bank recently introduced a Customer Support Service. This service is a short term, confidential telephone counselling service that provides emotional and psychological support when our customers are dealing with personal issues.

Thank you for the opportunity to participate in this inquiry. For further information in relation to any of the matters raised in this submission, please contact Cassandra Simpson on

Yours sincerely

**Euan Robertson**  
**General Manager**  
**Government and Industry Affairs**