

**Submission  
No 50**

**SUPPORT FOR DROUGHT AFFECTED COMMUNITIES IN NEW SOUTH  
WALES**

**Organisation:** Australian Banking Association

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Mr Justin Clancy MP  
Chair  
Committee on Investment, Industry and Regional Development  
Parliament House  
SYDNEY NSW 2000

Dear Mr Clancy

## ABA submission to Inquiry into support for drought affected communities in New South Wales

The Australian Banking Association (**ABA**) welcomes the opportunity to provide our response to the Committee's inquiry into the impacts of drought on regional NSW.

The banking industry is a critical enabler of the agricultural sector and works with farms, primary producers and businesses across rural and regional NSW to assist them to obtain credit and grow their businesses. The drought has been an incredibly difficult period for those affected and this has been further exacerbated in many local communities through the impact of severe bushfires. Banks are stepping in to help their affected customers both with emergency relief and by putting in place longer term arrangements where necessary.

### Support for customers

Banks understand that agriculture is both cyclical and impacted by climatic conditions and are aware of the income pressures faced by their agribusiness customers. They are committed to working closely with farmers and rural communities and are offering a range of services to help customers experiencing drought or other circumstances outside their control, including:

- a deferral of scheduled loan repayments
- waiving fees and charges, including break costs on early redemption of Farm Management Deposits
- debt consolidation to help make repayments more manageable
- restructuring existing loans free of the usual establishment fees
- not charging, or deferring interest payments on a case-by-case basis
- offering additional finance to help cover cash flow shortages
- deferring upcoming credit card payments
- increasing emergency credit card limits
- waiving early termination fees for customers who wish to access their term deposits.

These policies and practices are specifically designed to respond to managing the impact of drought and natural disasters. These arrangements are assessed on a case-by-case basis by banks according to the requirements of the Banking Code of Practice, banks' own practices and the unique circumstances of their customers. Banks also have dedicated hardship teams ready to assist customers in need and encourage those to be in touch with their bank directly to flag that they are experiencing hardship.



As well as this direct form of support, many of our member banks have put in place other initiatives to indirectly support people and communities suffering from drought, including:

- grants or donations to not-for profit organisations and community groups, such as Australian Red Cross, to assist local communities and projects
- launching donation collection programs across their organisations from staff and customers, often involving the bank matching donations on a dollar-for-dollar basis
- offering support and counselling to customers through the bank's assistance programs
- organising funding and experts to help support NSW Rural Financial Counselling Services to help farmers get access to free financial counselling, and
- partnering with vital organisations that are directly working with drought affected people, such as FarmHub.

## The Banking Code of Practice

The ABA's new Banking Code of Practice (**the Code**)<sup>1</sup> came into force on 1 July 2019 and sets standards for fairness, transparency, behaviour and accountability for banks, beyond legislative requirements, that customers – individuals and small businesses, including farmers – can expect from their bank. The Code has also been approved by Australian Securities and Investments Commission (**ASIC**).

The changes to the Code were derived from an independent review that was completed in early 2017. The Code introduces a range of additional protections for farmers including:

- simplified loan contracts that are written in plain English and easier to understand
- contracts with fewer conditions for those with loans under \$3 million
- providing more notice to customers when loan conditions change – this helps with business planning (30 days for changes to terms and conditions interest rates and a minimum of 3 months to re-negotiate with a new lender when the bank decides not to roll over the loan and the farmer is not in default)
- improved communication and greater transparency when using valuers and insolvency practitioners, and
- a significant reduction in non-monetary covenants.

The Final Report of the Royal Commission made specific recommendations relating to the Code and lending to farmers:

### 1.13 Charging default interest

- *The ABA should amend the Banking Code to provide that, while a declaration remains in force, banks will not charge default interest on loans secured by agricultural land in an area declared to be affected by drought or other natural disaster.*

The ABA has accepted this recommendation and has developed specific amendments to the Code that will ensure that while a declaration remains in force, banks will not charge default interest in those circumstances. Both ASIC and the Australian Competition & Consumer Commission have approved these changes in the Code and they will be implemented no later than 1 March 2020. Six banks, including the 4 major banks, have already implemented the commitment not to charge default interest on agricultural loans affected by drought or natural disaster.

<sup>1</sup> <http://www.ausbanking.org.au/code/banking-code-of-practice/>



## 1.14 Distressed agricultural loans

When dealing with distressed agricultural loans, banks should:

- ensure that those loans are managed by experienced agricultural bankers
- offer farm debt mediation as soon as a loan is classified as distressed
- manage every distressed loan on the footing that working out will be the best outcome for bank and borrower, and enforcement the worst
- recognise that appointment of receivers or any other form of external administrator is a remedy of last resort
- cease charging default interest when there is no realistic prospect of recovering the amount charged

ABA member banks support the recommendation for clearer and improved practices for banks assisting farmers in financial distress and every bank has either implemented, or is taking steps to implement the recommendation. They are offering early farm debt mediation to customers with distressed loans and also agree that enforcement action is only taken as a last resort, with such action requiring the approval of senior management within banks. Banks are ensuring that all distressed agriculture loans are managed by experienced agriculture bankers, often in partnership with specialist teams.

### Farm debt mediation

The ABA and our member banks are supportive of the Farm Debt Mediation (**FDM**) process. This is a structured negotiation in which the mediator, as a neutral and independent person, assists a farmer and a creditor to communicate effectively, to resolve matters relating to farm debts and to reach a formal agreement to resolve the matter.

NSW has had a legislated system of FDM since 1994 under the *Farm Debt Mediation Act 1994* and this has helped farmers in financial difficulty to re-establish viability or exit the industry with dignity. The experience of our member banks in NSW has shown that around 90% of mediation cases has resulted in an agreement between the bank and the farmer.

The ABA has been a strong advocate for the national adoption of a consistent FDM scheme and supports the Royal Commission recommendation 1.11 for the enactment of a national scheme.

### Rural financial counselling services

The banking industry believes rural financial counselling plays an important role in assisting farmers experiencing financial difficulties. In NSW, financial counsellors help primary producers, fishers and small rural businesses through periods of difficulty such as ongoing drought, poor production or declining markets. The services are free with counsellors acting with professionalism, independence and confidentiality.

The ABA recommends ongoing long-term government funding and support at both a State and Federal level for rural financial counselling to continue to assist farmers and these communities to build resilience and help those already experiencing financial difficulties.

### Drought Finance Taskforce

The ABA and five member banks are also working closely with the Commonwealth Government in responding to the drought through involvement in the 'Drought Finance Taskforce', chaired by the Treasurer, the Hon Josh Frydenberg MP. The taskforce is tasked with considering and responding to drought-related finance issues that are impacting both farmers and small businesses in rural and regional communities. Member banks have contributed a significant amount of data evidence to the Taskforce outlining areas of financial pressure to inform the Commonwealth Government in its work.



### Financial literacy and best practice in farm business

The ABA supports the promotion of improved financial literacy and best practice in farm business management and is willing to work with governments at all levels and with other rural stakeholders on any future improvements to financial literacy information for farmers. We note the importance of government in encouraging the delivery and uptake of capability building programs that improve farming businesses' skills and decision making, are delivered flexibly and tailored to the needs of agricultural businesses.

Banks have specific resources to assist agribusiness customers, including dedicated areas of their websites. Agribusiness specialist bank staff are also essential in helping their customers build knowledge about their financial and business circumstances, including legal, accounting, financial, environmental and social considerations.

Improvements in farm business management techniques and planning are the most effective way to prepare for drought and other potential risks. The banking industry would welcome an expansion of government programs that provide both farming good practice and independent business advice and assistance to farmers to an accessible way. This may include improving skills in financial management and planning, insurance and risk management and succession planning.

An issue to consider is the link between drought preparedness and making it easier for farmers to identify best practice (benchmarking) and for financiers to better recognise drought expenditure as a capital investment. One of the challenges banks find is a lack of clear guidelines for customers on what constitutes best past practice for drought preparedness and how we can work with them on that. We believe it is worth considering further research to look at the links between good drought management practices and long-term financial performance across industries.

If you have any questions or would like further information please contact Justin Mining, Policy Director on [REDACTED] or by email [REDACTED]

Yours sincerely

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