

1.15 QON: Hansard, p30

Mr HOGAN: The allegation obviously is that the major banks, as a standard, are stalling in doing this and could do it much quicker, but obviously are trying to talk the customer into staying with them rather than going. We have recently legislated, as you would be aware, on farm management bonds. So when farmers have inconsistent cash flow, the banks have so far have—and you also have—refused to offset this against farm loans. Why is that?

Mr Thorburn: Again, I do not know the specific detail of that one. I can come back to a broader point here. We have been banking farmers in Australia for over 100 years. We are the largest agribank in Australia today. We have 500 dedicated agribankers who are specialists in their field and passionate about it. I am very proud of them. They do a very good job. We have been active supporters of the Farm Debt Mediation program. We would like to see that extended across national boundaries, because we think it is a very effective way of dealing with difficult circumstances when farmers do get into some stress. But I would note that we really have a very good client base. We have around 22,000 agriclents in our portfolio. At the moment, we have less than a hundred files that are in our 90-days past due. That is a very small percentage.

Mr HOGAN: Look, obviously, farmers are doing reasonably well now. Prices are up, which is good. I am sure many of your 500 agribusiness service people out there would be telling you or would know that their clients would love their farm management bonds to be able to be offset against their loans. Could you come back to us on why you are not doing that?

Mr Thorburn: Yes. I will do that next week, because I am spending three days in Queensland with our agribankers. I will be able to call you by the end of the next week—

ANSWER: *The Tax Laws Amendment (Farm Management Deposit Reform) Bill 2016 allows for the optional use of amounts held in a Farm Management Deposit (FMD) to offset a loan or other debt relating to the FMD owner's primary production business. NAB is not currently in a position to provide FMD accounts as offset accounts against farm business lending. The reasons for this include:*

- *Unlike a residential mortgage, where offset products are common, NAB loans to farmers*

are typically more complex. Many have multiple facilities (e.g. working capital, term debt, overdrafts, equipment leases) and it is also common for these loans to have multiple borrowing entities and multiple borrowers

- The required changes to NAB systems across the range of lending offerings and FMD products is both complicated and costly, for example, fourteen systems are involved with the various lending and deposit products we provide to our farmers*
- If NAB provided a new service such as the offset, we would have to price for this (both the cost to build the solution as well as the cost to offer it) which would reduce the benefit to farmers.*

NAB believe that in practice few farmers will be offered the option to use FMDs as offset accounts as we understand other banks are facing similar constraints.

In light of the above, NAB suggests that a workable alternative solution would be to allow the inclusion of FMDs as security for lending. This option avoids the technology complexities of creating an offset arrangement. As well as being simple to introduce for banks and farmers this would bring the following benefits:

- Access to additional capital for farmers as FMD security would see banks lend against this security; and,*
- Taking the FMD security into our lending pricing considerations would potentially see farmers receive a lower price for lending;*

NAB is committed to supporting seasonal farming businesses and believes that if the Government introduced the ability to use FMDs as security it would further assist farmers by enhancing the benefits of the FMD scheme. In accordance with his statement to the Committee on 6 October 2016, NAB CEO Andrew Thorburn spoke directly with Kevin Hogan MP about FMDs on Friday 14 October.