Primary Production Loans Inquiry – QoN for Westpac Group

Answers to Questions 1 and 3:

1) Senator WILLIAMS: There's been a big drought in Queensland, Mr Morgan, for a few years, and in many places it still hasn't broken. They've had an horrid time. How have you dealt with those Queensland farmers—mainly cattle graziers—over that period? First of all, have you had to sell many?

3) Senator WILLIAMS: How many enforcements has Westpac made over the last five years that you know of?

We are committed to working with our customers in both good times and bad. Our distressed agribusiness customers will often be managed by our specialist risk management unit. In most cases, we work with these customers over a considerable amount of time to implement a strategy that will see the business return to financial viability. 75% of those customers have been in our specialist unit for longer than two years with some customer files dating back to 2009. It is in rare instances that the bank would move to enforce our security – through the appointment of a receiver and manager to a corporation or agent for the Mortgagee in Possession (MIP) where the customer is an individual.

For example, out of over 21,930 agribusiness connections across the Westpac Group we have only appointed receivers and managers or agent for the MIP to 25 cases (amounting to 0.11% of our total customer connections) in the last five years across Australia. This includes seven cases in NSW. In the vast majority of cases, receivers were appointed with the agreement of the farmer and we continue to work together to obtain a fair outcome.

We have identified eleven cases in the last five years in Queensland where we have appointed receivers or agent for the MIP.

Answers to Questions 2 and 6:

2) CHAIR: Can you tell us who the receiver was, please?

6) CHAIR: I'll finish off quickly. Could you send to the committee confidentially, if you don't mind, the name of the client that you spoke about in the opening statement—you worked with them for four years and you were able to give them a little piece of land to retire?

The receivers were Jamie Harris & Anthony Connelly from McGrath Nicol Brisbane.

The common law duty of confidentiality that we owe to our customers prevents us from providing the customer's name.

4) CHAIR: Of those 15*, what happened to the two that weren't mediated successfully?

* The Chair was referring to FDM cases in New South Wales.

Of the two that were not successful: one borrower refinanced (in return for us writing off a portion of our debt) and in the other case we appointed receivers three years after we tried to mediate.

5) Senator WILLIAMS: …I want to ask you a question that I don't expect you to answer. We heard a witness today tell us that banks only need about 10 per cent of the money in the bank when they go to lend their money, and that if I were to borrow $1 million, the bank only needs $100,000 in the bank or similar through assets and liabilities et cetera. Can you take on notice an answer to that question? Do you have a treasurer with Westpac Bank? Who organises all

this finance available, finance ready to lend and how much you need et cetera? You've obviously got a body in your bank who is responsible for that.

The question posed by the committee during the session was in relation to the Bank's day to day management of cash flows and customer lending. We consider this a separate and different consideration to the accounting treatment of bank assets and liabilities, which have been referenced and referred to by other submissions made to the Committee.

With regard to the day to day cash management of the Bank, Westpac makes commitments to provide funding to a broad range of customers across Australia [and New Zealand] for many different purposes, including to fund their business, to pay suppliers, to make investments, to buy a home, to buy a car or to buy goods and services using a credit card.

When Westpac makes a commitment to provide funding via a loan or other commitment, on the day the customer requires those funds, Westpac must make the cash available for the customer to use. For example, if Westpac commits to provide a loan for $1 million to fund a business, on the day the business owner draws down on those funds, $1 million in cash must be available. The Bank maintains a portfolio of cash and liquid assets to support its ability to make these payments [and meet other obligations] on a daily basis. The Bank's Treasury has the responsibility of making sufficient cash available for the bank to operate and must do this within the Group's risk appetite and comply with relevant regulations.

Westpac has a portfolio of loans in Australia and New Zealand [and a small amount offshore] totalling $667 billion as at 31 March 2017. Not all these loans are drawn down on the same day, therefore the Bank funds these loans using a combination of cash, borrowings from customers (that is, deposits) and borrowings from National and International wholesale capital markets. This pool of funds is managed by the Bank's Treasury and this must be done efficiently and within the Group's risk appetite, as well as complying with relevant regulations.

In reference to the accounting treatment of assets and liabilities, we note that the work of Prof. R. A. Werner (Southampton University) was referenced in evidence to the inquiry. In his papers, Professor Werner uses a simple credit transaction to illustrate his point which does not take into account the regulatory requirements (incl. Basel liquidity regulation) noted above, nor an individual bank's risk/return appetite. In our view, the papers also neglect the fact that the bank's customers do business with other banks. It is also important to note that the banking system is not a closed system. The paper fails to capture system leakage (such as Balance of Payments, superannuation and wholesale funding flows), all of which are very important for a capital-importing nation such as Australia.

7) **CHAIR: There's one question I have left. What could governments do to interfere less? Senator Williams has noted, as have I, the live cattle export ban. I've also mentioned in the past the property rights that have been stolen from farmers through a variety of government policies, state and federal. These things take farmers to the wall, and then the banks are there to tip them over or save them from going under. What sorts of things annoy you about governments, state and federal? Or haven't we got enough time!**

Mr Morgan: Perhaps I might take that on notice, because I hadn't given it any thought as such.

CHAIR: I'd appreciate your comments, both of you—In writing would be great, not to pin you down because it's in writing but so you can put some thought into it, because I can see where governments have done a lot of damage.

Mr Morgan: As part of the Carnell work we have been redrafting all our loan agreements for customers with, certainly, $3 million or less of exposure. That's security documents, loan agreements, letters of offer and term sheets in plain English. They will be released, if not at the end of the year, early next year and available to all customers with exposure under, as I say, $3 million, which will cover over 97 per cent of our customers in agribusiness.

The most appropriate role for Government is to ensure consistency in practices across the industry, particularly with respect to external dispute resolution. This is why we support a national, consistent Farm Debt Mediation (FDM) scheme.

In our experience, FDM works well, is less legalistic and provides a very structured process for both the financier and customer. It provides certainty and clarity of process at an affordable cost. Westpac offers FDM to all our customers – even in states where it is not mandatory – but we encounter different regimes in different states. This is why we strongly support a nationally harmonised regime, which is mandatory in all states and territories.

When considering a national scheme, the Government should ensure that customers with property across borders have access to a consistent, robust regime. Currently, the NSW legislation provides for the most robust scheme and we suggest that the national scheme is based upon this legislation, with some improvements, e.g. removing the need for the debt to be accelerated prior to mediation commencing.

More than anything else our customers ask us for three kinds of assistance:

1. *Access to credit – which is currently growing quickly;*
2. *Access to transactional banking facilities; and*
3. *Access to advice and expertise – which is needed more than ever before.*

At Westpac, in agribusiness, we have experienced 7 per cent growth year on year for the last three years. We want primary producers to have access to capital. Debt is not inherently a bad thing. The level of debt becomes a concern if there are high levels of arrears across the industry i.e. if customers cannot service their debts and are in financial distress. We do not see this trend in the Westpac Group. Most customers are doing incredibly well and are taking advantage of the opportunities available to them.

In relation to credit, it is worth mentioning the Government's Concessional Loans Scheme. While the policy intent is valuable, the scheme itself does not differ significantly from what banks already provide.

To take up the concessional loan offer, farmers generally need to take a second mortgage and then renegotiate with a commercial lender after five years. Furthermore, given that the provision of loans is based on future viability, the Governments' lending decisions are likely to be the same as the banking sector, thereby reducing the effectiveness of the scheme.

Previously in Queensland, one in three applicants were declined additional credit as their businesses were judged to be unviable. We understand the Government is reviewing eligibility criteria: financial viability versus 'in financial need', and this may improve eligibility. Government policy will need to strike a balance between supporting high performing agribusiness and supporting customers that are in financial need, including where sustainability and viability cannot be easily established.

On Westpac's side, our primary objective is to keep our customers on the land in a sustainable manner. However, the emotional and mental wellbeing of our customers is a key priority and informs our approach to working with customers in financial difficulty. This is why we work closely with our customers to pro-actively offer support.

While many customers are in a strong position to weather adverse changes, there are some customers that are facing financial challenges. Where these customers are eligible for Westpac's hardship relief Westpac's hardship assistance includes but is not limited to practical financial solutions such as:

- *Restructuring existing loans free of the usual establishment fees*
- *Deferring interest payments on a case by case basis*

- *Offering additional finance to help cover cash flow shortages*
- *Freezing risk margins for primary producers who receive interest rate subsidies through government assistance schemes*
- *Deferring upcoming credit card payments*
- *Increasing emergency credit card limits*
- *Waiving early termination fees for customers who wish to access their term deposits*
- *Suspending home loan repayments for our home loan customers.*