

## **RURAL BANK: Senate Inquiry Questions on Notice from the Sydney Public Hearing, 11 August 2017**

### **Question on Notice 1**

**CHAIR:** On 23 January 2014 Rural Bank obtains warrant for possession of properties, not livestock. Then on 20 April 2014, under duress and intense pressure from senior manager at Ferrier Hodgson, Daniel Bond, Mr Wallace signs a deed of agreement with Rural Bank. Daniel Bond witnesses Mr Wallace's signature when he was also a party to the deed as the mortgager's agent. That nullifies the deed under the Land Title Act 1994, section 162, so I'm told. Would Rural Bank look at that legal argument and consider Mr Wallace's rights regarding that deed?

**Ms Gartmann:** Certainly happy to take that on notice and explore it.

### **Response:**

The Bank has investigated the question and considers there to have been no breach of Section 162 (c) of the Land Title Act 1994 (Qld). We are unable to provide further detail on this matter due to Mr Wallace's current legal action against the Bank which is yet to be served.

### **Question on Notice 2**

**CHAIR:** I've seen photos of Mr Dingle's property. It was not managed in a fit state. I've seen photos of his favoured horse, and he had to shoot it. That's not what a receiver should be doing.

**Ms Gartmann:** The receiver, in this instance I believe, was looking after the land asset, and the stock assets were still under the ownership of Mr Dingle. I believe they were removed once the property was taken into possession.

**CHAIR:** Was he able to get access to the livestock?

**Ms Gartmann:** I'd have to take that question on notice.

### **Response:**

Bendigo Bank held no charge over the livestock owned by Mr Dingle. All cattle, sheep, horses and farm dogs were removed from the security property by Mr Dingle and his son when the property was taken into possession. The Bank did not sell any livestock owned by Mr Dingle.

### **Question on Notice 3**

**CHAIR:** Ms Gartmann, the ANZ detailed some of the innovations it's been developing in recent years.

I have read that the Australian Bankers' Association is doing the same and rejigging some of its processes. Both entities, I think, have said that they've had some problems in their industry that they've had to confront. If you could take this on notice, is there anything you've been doing to review your processes?

**Ms Gartmann:** Certainly. It is something that every organisation, public or private, should be doing—that is, reviewing policies and procedures and the culture of the organisation. I entered into this role in October 2015, not having come from the banking sector. I've worked in agricultural research and development and rural community development and philanthropy for my career. Bringing that knowledge in to support a bank to focus on agriculture, rural community viability and to ensure that we've got our focus on customer value and the right culture and behaviour within the organisation is fundamental, because I don't necessarily add a lot of value in technical banking expertise. That is something that we address on a day-to-day basis, taking on board feedback from customers and from the work that the ABA is doing across industry reform. We're a very active and positive player in engaging in that, and welcome any and all improvements.

**CHAIR:** Would you be willing to take it on notice to detail some of those changes to us please?

**Ms Gartmann:** I certainly would be.

**Response:**

Rural Bank, along with the banking industry, must continually review and improve its lending policies and procedures. This process is about providing borrowers with a consistent and reliable experience when borrowing money and ensuring they are treated fairly and equitably.

Process improvements undertaken by the Bank follow.

**1. Helping Customers Avoid Hardship**

**a. Credit Learning Program**

The Bank has developed new credit learning programs. These have been designed to enhance the skills and performance of our staff in understanding our borrowers and accurately analysing the information they provide us.

**b. Relationship Management Programs**

Many farmers are moving to more complex trading and financial structures. These may be to aid future succession planning or are established as the farm operations expand. To ensure we have good conversations and understanding of our borrowers' businesses, particularly around their long term business plans, operations and financials, we have developed an advanced learning program for our Relationship Management staff.

**c. Early identification of potential problems**

Rural Bank regularly stress tests our loan portfolios of various industries and geographies. This involves sensitising various elements of our borrowers' budget projections to identify those borrowers that could encounter difficulty. A recent example of this was milk price reductions in the dairy sector. The stress testing allowed for early engagement with identified borrowers, and in some instances, led to rearrangement of facilities or increased and more sustainable borrowings.

**d. Farm Management Deposits**

Rural Bank is the only bank to provide an FMD Offset account to customers. This specialist product gives farmers more options to better manage risk. This account allows primary producers to offset capital held in an FMD account against the balance of an eligible Rural Bank variable rate term loan to assist in reducing primary production business funding costs. This account allows farmers to plan for fluctuations in seasons and income.

**e. Customer acknowledgement of Cash Flow Budgets (CFB)**

Rural Bank requires borrowers to acknowledge the CFB the Bank has used in assessing their ability to service their financial commitments. The CFB is based on the borrower's own projections, but is sensitised to consider variables such as timing of receipts, payments and commodity prices.

**2. Supporting Customers In Hardship**

**a. Asset Management (AMU) team**

The AMU team are a dedicated resource to work with borrowers experiencing difficulty, including participating in Farm Debt Mediations. Specifically developed AMU policies and procedures guide their work, while the Bank's Executive regularly oversee the team.

**b. Hardship / Disaster Policy**

Rural Bank has introduced a detailed policy outlining assistance available to borrowers who are experiencing temporary difficulties in meeting their financial commitments through hardship or adverse market and seasonal conditions.

**c. Queensland Farm Finance Strategy (QFFS) & Queensland Farm Debt Mediation (QFDM)**

Rural Bank is a signatory to the former voluntary QFFS. The QFFS required the Bank to work with borrowers encountering difficulties and, as required, to offer farm debt mediation. The Queensland Government has recently legislated for QFDM and Rural Bank was a participant in the industry consultations held by the Government prior to the introduction of this system.

#### **d. Encouragement of borrowers to engage Advisors**

Rural Bank actively encourages all borrowers in difficulty to engage with qualified external advisors. This could be a Rural Financial Counsellor or other qualified advisor such as an accountant or lawyer of their choosing. These advisors can offer assistance in resolving financial difficulties or other matters, such as assistance with succession planning.

It is essential borrowers engage qualified advisors as untrained advice can lead to uncommercial strategies and unrealistic expectations, which can take some time to address, and prevent a commercial settlement and resolution of their difficulty. Typically unqualified advisors also seek upfront commissions or large success fees, such payments eroding borrowers' cash resources at an inopportune time.

#### **e. Farm Debt Mediation (FDM) in NSW, Vic and Qld and using FDM processes in other states where FDM is not compulsory**

Rural Bank engages in Farm Debt Mediation across all states, including those where it is not mandatory.

In States where mandatory mediation applies, the customer or the Bank may instigate mediation. Where the Bank initiates, certain notice periods apply which are monitored by the relevant State department. Often customers accept mediation, however, where they do not, the Bank will continue to attempt making contact with customers.

Following a three month period the Bank may apply for an exemption certificate. The relevant State department will then try to contact the customer (commonly for 30 days) before proceeding towards enforcement action (assuming defaults subsist). Rural Bank reiterates its support for a nationally legislated FDM process.

#### **f. National Centre for Farmer Health (NCFH)**

Since 2015 Rural Bank has partnered with NCFH, offering free health checks for our farmer borrowers and the provision of information on other available services to support farmer health. During 2015 and 2016 all Rural Bank Relationship Managers and some support staff – 120 people in all – participated in education sessions, helping them to identify physical and emotional stressors and techniques to better support farmers through difficult times.

#### **g. Lending Standards Review Committee (LSRC)**

Rural Bank has established an internal LSRC. This Committee focuses on the continuous improvement of policies and embedding a culture that is consistent with our vision and values. It will also identify where additional training, education or coaching of our staff is required.

**h. Working with ABA to develop better industry processes including:**

Rural Bank actively participates with the ABA and member banks in developing improved industry practices such as guidelines for using valuers and independent consultants:

**- Valuations**

Where we require a formal property valuation we issue instructions to an external valuation firm with demonstrated expertise in rural property. The borrower is provided with a copy of the completed valuation. The Bank has qualified in house valuation expertise that provide oversight of individual valuations, valuation processes and procedures.

**- Insolvency & Legal Experts**

Insolvency is very rare, always a last resort and only after all other avenues to reach agreement with borrowers have been thoroughly considered and tested.

The Bank maintains a panel of valuers, legal advisors and insolvency experts. These providers have specialist skills and qualifications that Rural Bank do not hold in-house. The Bank regularly reviews the various panel participants, taking into account the skills the Bank will require and the performance of the panel members in meeting the Bank requirements when we have had to engage them.

As the Bank does not utilise many external providers, we ensure the highest quality providers with the relevant skill sets are selected for our panels.