



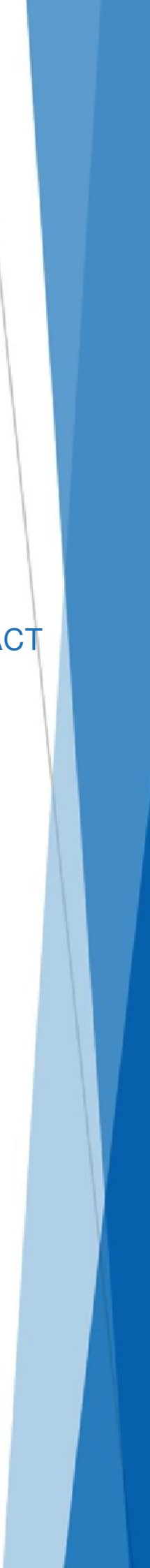
Australian Banking
Association



REVIEW OF THE REGIONAL INVESTMENT CORPORATION ACT 2018

Department of Agriculture, Fisheries and Forestry

15 December 2023



Submission to Review of the *Regional Investment Corporation Act 2018*

Australian Banking Association comments

The Australian Banking Association (**ABA**) welcomes the opportunity to provide feedback on the Review of the *Regional Investment Corporation Act 2018* (**Review**).

Our feedback on the scope of the Regional Investment Corporation (**RIC**) and the loan eligibility criteria and effectiveness of RIC's loans is set out below.

Scope of the RIC

ABA members strongly support the agricultural sector, which plays a critical role in Australia's economy. In the 2023 financial year, banks issued 43,085 new loans to agribusinesses, with \$117 billion credit outstanding to agribusinesses in Australia as of 30 September 2023, reflecting an increase of 12% from the year prior.

Banks also have a strong history of helping agribusiness customers through difficult times, including during periods of natural disaster and drought, with dedicated agribusiness bankers working closely with their customers to support them during periods of growth and hardship.

The ABA acknowledges the intent of the RIC in supporting agribusinesses during periods of difficulty, such as natural disaster and drought. When first established, the RIC offered two business farm loan products (Farm Investment Loans and Drought Loans). These loans were designed to provide targeted support in the form of concessional interest rates to eligible farm businesses experiencing financial difficulty to ensure farmers could continue operating their business and make appropriate resilience adjustments to their farm.

However, in recent years, the RIC's scope has expanded to a further two products, including the AgriStarter Loan and the AgBiz Drought Loan. The funding available to RIC was also re-profiled to \$500 million per year from \$250 million, reflecting government's decision to double maximum loan amounts from \$1 million to \$2 million as part of a suite of measures to provide further products to farmers.

While the ABA acknowledges these additional loan categories may be valuable to eligible farmers, we note the RIC was first set up for the purpose of supporting drought affected farmers who may not have access to other financial lines. Comparatively, recent expansion of the RIC's remit and the increase in the total loan amount offered has seen the RIC steadily shift towards an operational model as if it were a commercial finance provider, rather than a form of targeted government intervention in response to market failure. To the contrary, there is a broad consensus amongst economists that, where they operate effectively, well-regulated competitive markets best deliver economic outcomes to the public, and government intervention in the economy should be limited to clear market failures or in response to a defined economic problem.

Traditionally, banks operate in an environment that yields a more conservative risk profile with lower level of returns.¹ By comparison, financing that yields a higher risk naturally lends itself to capital from government, such as the RIC, and other parties that can help fill the gap between what can and cannot be provided by traditional capital providers.

Through this lens, we consider the RIC should narrow its offering to prioritise activities and products that fill genuine market gaps or failures or in response to periods (such as during or in the lead up to periods of drought but not outside of these periods) that cannot otherwise be addressed by the

¹ This is subject to the risk appetite and portfolio mix of each individual bank.

commercial market. This will help to ensure that traditional providers of finance are not crowded out from the market or in competition with government, while targeting the RIC's services towards farmers who need assistance in difficult circumstances of drought, disaster, or other adverse events (e.g. low commodity prices or import prohibitions imposed by foreign countries).

The ABA also notes that there is some degree of cross over between what the RIC offers and State and Territory-based scheme offerings (such as the NSW Rural Assistance Authority, as an example). The Government is encouraged to review the suite of RIC-based products to ensure they are targeted towards products that cannot be accessed by farmers in other jurisdictions, and that needs of farmers are being met by the RIC in cases where there are genuine gaps.

Criteria for loans and loan effectiveness

As part of the Review, the ABA recommends the Government to review the eligibility criteria set for RIC loans to provide a level of means testing and ensure they are targeted towards individuals who are in higher need of assistance and hardship support.

Anecdotal feedback from agribusiness customers suggests that farmers in need have faced difficulties in accessing or refinancing RIC loans in times of crisis due to the complexity of the application process and the length of time taken to process the loan. Comparatively, individuals with less need have been able to access loans more quickly by using accountants to assist in the application process; or having a higher general business acumen, freely available unencumbered titles of land pledged as security or strong historical cashflows to support the application.

The eligibility criteria for RIC loans should strike a balance between ensuring the loan concerned can be repaid but is also able to be efficiently directed to those individuals who are in greatest need of support. In this regard, reducing the number of loan products offered by the RIC can also help the RIC be more targeted and considered in its assessment of loans and enable greater administrative efficiency to support farmers who need urgent assistance in a period of drought, disaster, or other adverse circumstance. We also consider that loans should be structured to ensure that farmers are in a better position overall after the end of the term of their loan. That is, that assistance provided by RIC to farmers can be repaid or reduced, rather than resulting in greater debt over time, so that farmers' balance sheets and resilience to future adverse conditions are improved over the long term.

As an alternative to the existing model, the ABA would welcome a discussion with the Government on ways banks can play a more active role in the loan process to remove some of the existing inefficiencies and inflexibility created by priority agreements, such as directly passing on a subsidy to a customer, rather than by way of RIC refinancing an existing loan with a different rate, terms, and conditions to deliver relief. Such alternatives could support faster lending outcomes for farmers during crisis periods, while reducing the number of parties a farmer must engage with to receive the support, ultimately reducing complexity and distress for the customer.

The ABA also encourages the Government to consider establishing a standard set of rules or protocols for security ranking that are consistently followed by the RIC. Under existing arrangements, the RIC typically requires security to be provided for a farmer to be able to access a loan. This security is usually held by the farmer's existing bank. Banks have experienced inconsistencies relating to the RIC's requirements for security. For example, in some cases, the RIC is comfortable to take a second charge while in other cases, it insists on a first charge, which requires the existing bank to enter a deed of priority that decreases its position in relation to the security. Adoption of a standard set of rules or protocols for security would provide all parties, including customers, with greater clarity and certainty on what to expect in the loan process, while allowing the process to be more streamlined for the benefit of all participants.



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About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.