Balance tilts in agribusiness lending

The nation's farmers have been something of a captive market for banks

The uneven seasonality of their business and lumpy cash flows mean that financial support was essential if anything was to leave the farm gate. Farmers have been not just at the mercy of the weather and the value of the dollar, but also their bank managers.

The average agribusiness loan in Queensland, for example, is up to $1.07 million according to a survey this year by the Queensland Rural Adjustment Authority. Total farm debt is now estimated at around $60 billion nationwide.

The banks have historically responded by taking farmers a little bit for granted. Lending rates for agribusiness are often more than one percent or so higher than mortgage rates, and around double the Reserve Bank of Australia's cash rate. And when banks cut mortgage rates, they often leave the agribusiness rates intact.

There are signs, however, this balance of power might be changing. For the first time since the RBA began cutting its cash rate last November, the National Farmer's Federation's Agribusiness Loan Monitor recorded an across the board cut in farm sector interest rates.

One reason for this is increased competition. The Big Four don't have the farm sector to themselves in the same way they carve up the mortgage market and this could be why agribusiness customers are more satisfied with their banks than other business bank customers (see table).

While NAB is the number one lender in this space the specialist international agribusiness bank Rabo has made great inroads in Australia and sits at number two. Rabo doesn't just lend money either, it has a whole suite of advisory services which add real value to its proposition.

Other banks are eyeing agribusiness as they turn away from other areas, such as commercial property, where they have been burnt in recent years.

The Bank of Queensland emerged bruised from its property exposure in the south-east of its home state, and has recently poached a number of high-profile and experienced agribusiness bankers to launch its own assault on the farm sector.

Suncorp, meanwhile, has always been strong in Queensland agribusiness lending but is branching out – literally – in another state which also sees its share of the sun: Western Australia.

Then there is Rural Bank, which came out of the Elders agribusiness conglomerate and now sits in the Bank of Bendigo. Rural Bank has retained its links to the Elders farm service branch network, and is now using Australia Post and Ray White Rural real estate agencies as distribution channels in regional Australia.

Perhaps in response to this, Westpac recently launched a charm offensive to win the banking business of Australia's 2500 farmers, with farm turnover of more than $5 million a year.

The drivers are clear enough. Australian agribusiness sits on the cusp of a major era of growth. If the resources boom is over, there is talk that the next boom will be agribusiness.

Gross rural sector production is around $50 billion a year, two thirds of which is exported. With Asian economies growing rapidly, Australian agribusiness is in an enviable position, notwithstanding the value of the dollar.

Banks are always looking for growth opportunities, and they can see one right now in agribusiness. For farmers, it's a good time to do the rounds of the banks, and talk about re-financing.

For the first time in years, the balance is tilting in the farmers' favour.

Agri business customers more satisfied than the general business markets

	Average Customer Satisfaction Rating Reported 1 — — — 2 — — 3 — — 4 — — — 5 (satisfied) (dissatisfied)			
	Micro	**SME**	**Corp/Inst**	**Total**
Customer Support	2.82	2.39	2.34	2.64
Understanding of Customer's Business Needs	2.33	2.03	1.86	2.19
Value for Money	2.61	2.22	2.05	2.43
Loyalty to the Customer Relationship	2.26	1.99	1.61	2.11
Understanding the Customer's Industry Sector	2.42	1.91	1.72	2.19

Source: East & Partners – August 2012