FINANCIAL REVIEW

SE Property

HD **Betting on the farm pays off for banks**

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Australia's prosperity in the past decade may have been underpinned by the resources industry but it might be worth knowing that the big four banks have roughly twice as much exposure to agriculture than they do to resources.

As of September this year the exposure was about $107 **billion**.

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National Australia Bank's exposure at default to agriculture is the most pronounced. As Australia's leading agribusiness bank by market share it had an exposure of $38.1 **billion** as of September while its exposure to resources was only $9.5 **billion**.

At ANZ total exposure at default to agriculture was $31.3 **billion** while resources, including **oil** and gas, **coal ore** and **mining** services was $17.6 **billion**.

It is a similar story at Westpac and Commonwealth Bank of Australia.

After ANZ promised a 12-month moratorium on farm repossessions in northern and western Queensland and north-west NSW last week, it might also be worth looking at the health of the banks' exposures to agriculture.

Stressed exposures in agriculture are roughly twice that of **mining** but the important thing to note is that the stress in the **mining** sector is growing while the stress in the agricultural sector is actually going down.

So when ANZ placed the moratorium on receiverships maybe the bank had figured out the worst was behind it – at least in those areas where it promised no receiverships.

Maybe the bank is counting on a good wet season in the north or the benefits stemming from the plummeting Australian dollar, or maybe the gains to be had from a big jump in cattle prices with both Australia's and the United States' cattle herd at low levels and demand rising in **China**, Indonesia and Thailand.

Beyond northern and western Queensland and north-west NSW you may still see plenty of receivership work pop up across Australia.

If banks can see that the manager is not good there will be a temptation to replace them.

Banks have a fiduciary duty to shareholders to make sure their money is being used properly.

Westpac's big receivership in agriculture in the last year was RM Williams Agricultural and judging by the fact that the **company**'s directors were grilled in the Supreme Court this year about the running of the **company**, it is clear the bank had good reason to force the **company** into receivership.

Placing a farm in receivership and selling it off to a potentially better manager who is potentially better capitalised can help maintain the value of the farm – which is good for the broader farming community.

Roughly 60 per cent of the value tied up in a farm is the underlying property.

The bank prefers not to see a forced **sale** because it can often sell for less and lower the overall value of nearby farms. And while the banks takes a big hit when a farm sells for cheaper such action can end up destroying a farmer's livelihood which in our society is a lot worse a thing.

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