



IFA Update on Credit Situation for Farmers, December 2009

IFA has had high-level meetings with the four main lenders to farming in recent times: AIB, Bank of Ireland, Ulster Bank and ACC Bank. NIB has also been met, and the TSB will be met shortly. The general credit situation for farmers is summarised as follows:

- IFA believes that not all the potential problem cases in farming have come to the surface as yet. This may be due in part to the fact that much of farm income comes in one or two payments near year end, including the EU single farm payment, and the sale of cattle, grain etc. IFA uses every opportunity to transmit the advice to farmers not to ignore emerging problems, but to discuss them with their Bank, earlier rather than later. This action is vitally important to ensure that the borrower does not damage his/her credit rating with their main Bank.
- It is clear, based on the experiences of a large number of individual farm borrowers, that there is a general credit squeeze problem in the economy, and farmers are experiencing this in the same way as other businesses. The main impact of the credit squeeze is that Banks are putting more emphasis on “repayability”, i.e. the capacity of the business to meet loan repayments.
- A major problem in farming in 2009 is the substantial drop in farm income, arising predominantly from low product prices. On average the farm income drop is in the region of 28%, and as high as 50% or worse on dairy and tillage farms. Thus many farmers are facing major cash-flow problems, as normal family living expenses have to be met and farm inputs have to be purchased. In this context the Banks generally recognise the cyclical nature of farm product prices, and tend to take a 3 year view. The Banks are clearly anticipating an improvement in milk prices in 2010, as is IFA. Borrowers who already had a poor credit rating before the particular fall in farm incomes in 2009 are clearly facing major difficulty in accessing credit.
- In the situation of the general credit squeeze and the major national farm income decline, it is inevitable that any reduction in Government support schemes for Agriculture results in a significant deterioration in the farm income situation and, in turn, in farmers repayment capacity. Thus the cuts announced in the REPS scheme, in particular, are adding significantly to the problem, particularly on low-income livestock farms. Furthermore, the deferred payment of Farm Waste Management scheme grants due to farmers has required these farmers to negotiate with their Banks to have their bridging loans converted to term loans.
- The Banks are restructuring loans, including to “interest only” payments, but the rate of interest is generally increased in these situations, and also a handling charge may be applied by some Banks as well. Banks are generally claiming that the cost of funds to

them has gone up significantly. Also, borrowers who have multiple sources of credit, including merchant credit in some cases, may be facing particular difficulties.

- A knock-on effect of the poor market returns in 2009 is an increased use of merchant credit by farmers. However, this is granted on the basis of deductions from payments to farmers, for milk, grain etc. Where these deductions are substantial, the farmer's capacity to meet bank loan repayments is clearly reduced, leading to potential conflict between lenders. This requires either an "understanding attitude" by all lenders, or replacement of the seasonal merchant credit with a more suitable bank term loan. In favourable circumstances, Banks are giving loans to clear merchant credit.
- As regards interest rates, most term loans are now based on Euribor rates plus a margin, and are in the range of 4.25% - 6.25%. Average overdraft rates range mostly from about 7.5% - 8%, but are at 9.45% in ACC. (see following point also).
- IFA has challenged ACC/Rabobank about its future commitment to Ireland, and they re-stated their commitment to stay in Ireland. However, their plan is to focus on a limited number of sectors, including commercial farming, food industry and renewable energy. ACC does not see its medium to small farm customers as a priority, and clearly this is a very bad time for farmers to have to change banks. They have undertaken a major restructuring programme of their branch network.
- A further ongoing issue between farmers and Banks in certain cases arises from the Government decision to abolish Land Certificates from end - 2009 ("equitable deposit" of land certs has been the traditional method of providing security for bank loans). The replacement of land certs by electronic registration of ownership is not in itself the problem; it is the handling of the changeover by the Banks. IFA has requested the Banks not to send registered letters to farmers without first explaining to them the reasons for the change, its implications and the options available. Secondly, IFA is seeking to ensure that the option of a Registered Lien, rather than a Registered Legal Charge, is used as far as possible, as the former is less expensive. Thirdly, IFA is advising farmers to provide loan security that is proportional to the size of the loan, and that the option of splitting folios to achieve this should be considered.
- IFA welcomes the fact that the recent EIB loan for SME's which is operated by AIB, Bank of Ireland and Ulster Bank, and is at a favourable interest rate of about 3%, is available for certain investments in farming.
- Finally, IFA has an internal plan in place to assist farmers to work their way through the current credit problems. This includes: regular meetings with the individual Banks at national level, information meetings in every county for farmers, and a support system for farmers in severe difficulties in each county to help them to work their way through their difficulties, and assist them to negotiate with their Banks. The IFA Farm Business Committee is committed to providing the information, resources and support to help farmers deal with their situation and give guidance on professional support. IFA is providing a confidential helpline to assist farmers with financial difficulties: 1890 924 853. Also, IFA is participating in the Credit Supply Clearing Group set up by the Minister for Enterprise, Trade and Employment.