Farmer satisfaction with banks continues to slide

5 June 2019 - Federated Farmers - Farmers’ overall satisfaction with their banks remains strong but it is declining steadily, the Federated Farmers 11th biennial banking survey shows.

Satisfaction rates are at their lowest since the survey began in August 2015.

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"More than 1300 of our farmer members responded to the survey we commissioned from Research First and overall satisfaction with banks has dropped over the last six months from 74% to 71%," Federated Farmers economics and commerce spokesperson Andrew Hoggard says.

The falls are most apparent among dairy farmers and sharemilkers.

The percentage of farm businesses with mortgages has increased by 4% to 81% in the last six months. However, dairy farms are the only group to see an increase in mortgage amounts since November, and they also have the largest mortgages, most of them owing between $2 million and $20 million.

"Perceptions of pressure from banks has jumped, with 16% of farmers perceiving they have come under undue pressure - up 5 percentage points since our November 2018 survey. The arable and dairy sectors are feeling this particularly, with more than one in five dairy farmers citing extra strain," Hoggard says.

"This might seem counter-intuitive, given that dairy farmers’ incomes and profitability have been recovering since the 2014-16 downturn. Banks generally stood by their dairy clients during that time and allowed them to increase debt to get through. It’s not a surprise that banks want that debt paid down now that dairy returns are better."

New Zealand Bankers’ Association chief executive Roger Beaumont is pleased to see most farmers remain satisfied with their bank.

"Our banks stand by their agri clients in good times and bad. That was particularly evident during the dairy downturn," he says.

As well as a general tightening of conditions over the past couple of years, the Reserve Bank’s proposed increases in bank capital requirements is a more recent factor behind the erosion in farmers’ satisfaction levels with their banks, and perceptions of pressure.

Hoggard says banks are telling farmers the increases in bank capital will result in tougher lending conditions and higher interest rates for borrowing.

"The Reserve Bank’s very conservative stand on this is causing quite a bit of resentment," he says.

Beaumont says the Bankers’ Association analysis shows the Reserve Bank’s proposal to almost double capital requirements will have a net cost to the New Zealand economy of $1.8 billion a year.

"Depending on individual banks’ commercial decisions, it’s fair to say there’s likely to be an impact on customers."

Federated Farmers has met with Reserve Bank officials and put in a formal submission. It has asked the Reserve Bank to:

- Rethink its one-in-200 years risk tolerance and take a less risk-averse approach, which will reduce the increase in capital required the additional costs on banks and their customers.

- Undertake a robust and independent cost-benefit analysis, including on sectors like agriculture.

- Adopt a longer transitional period allowing for a more measured, gradual pace of any change.