



## PRIME MINISTER

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### RURAL CREDIT

Statement by the Prime Minister, the Rt. Hon. William  
McMahon, CH, MP

For some time past, the Government has been investigating the availability of longer term credit to the rural sector and has already taken a number of policy initiatives in this field.

In 1960, it established the Commonwealth Development Bank, a high proportion of whose lending is to farmers on long term.

To supplement trading bank lending on overdraft, Term Loan Funds were established in 1962 and Farm Development Loan Funds in 1966, in each case by transfers from the trading banks' Statutory Reserve Deposits with the Reserve Bank and from the banks' other assets.

The Funds have been added to from time to time in subsequent years.

In 1971, the Commonwealth offered the States \$100 million to finance the rural reconstruction scheme, under which long term loans are made to farmers to repay existing debt and to finance property purchases to build up their holdings to a viable size. \$44 million has been provided up to June 1972 and a further \$56 million is included in the 1972-73 Budget. Also in the Budget is \$4 million for marginal dairy farm reconstruction.

These steps have resulted in substantial new long term funds being made available to rural industry.

However, the Government felt that there was a need for a detailed review to be undertaken of the adequacy of the credit facilities available to the rural sector. The Minister for Primary Industry therefore directed the Bureau of Agricultural Economics to undertake such a review.

The Bureau in its report "Rural Credit in Australia" reached the conclusion that the facilities available to farmers from existing lending institutions to borrow on long terms were deficient.

It came to the view that the amount of long term lending being undertaken was inadequate, compared with that desirable to allow shorter term debt to be restructured, to facilitate property transfer and amalgamation, and to assist rural industry to adjust to the longer term pressures facing it.

The 1972/73 Budget provided an amount of \$20 million, to be appropriated for purposes of facilitating the increased availability to farmers of long term loans. The Government has not yet carried to conclusion its consideration of the many complex issues involved. Consequently, it was not possible to bring down legislation in the recently concluded Session of Parliament.

Issues arising include, for example, the sources of funds from which such lending could be financed and how it would fit in with existing rural term lending.

The Government has decided that an enquiry should be held to examine and report on the feasibility and desirability of creating a new, separate and viable institution which, taking its place along with existing financial institutions, would engage in financing the repayment of existing short term debt and in the provision of longer term loans for rural industry.

In order to achieve an immediate increase in the availability to farmers of long term loans, arrangements have been made between the Government, the Reserve Bank and the Trading Banks under which the Banks will increase the amount of long term lending from the Farm Development Loan Funds, for a wider range of purposes than hitherto undertaken, and with the Funds being supplemented for this purpose.

The new purposes will include finance for property purchases, assistance in holding together a farming enterprise where the death of a farm proprietor creates financing difficulties and finance for the repayment of existing short-term debt.

The present maximum term of 15 years for loans from the Funds will also be removed; the general aim will be to match the terms and conditions of long-term loans to the situation of the individual borrower.

While the present preferential interest rates on lending for developmental purposes will continue to apply, interest rates charged on this longer term lending will be commercial rates.

The rates charged in individual cases will, of course, vary according to the circumstances of the particular cases, such as the purpose and term of the loan and the degree of risk.

The interest rate structure, and changes in it from time to time in accordance with changes in the general level of bank interest rates, will be subject to the approval of the Reserve Bank and the Treasurer.

The Governor of the Reserve Bank will be making a separate statement about the arrangements; the Funds are being supplemented by an amount of about \$65 million.

The Government believes that this initiative will improve the access by farmers to long-term credit and be of major assistance to them in achieving a more appropriate debt structure. Property transfers and amalgamations will be facilitated, and financing problems arising from the death of a farm proprietor will be eased.

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CANBERRA,  
1 November 1972