Northern Ireland Assembly

Committee for Agriculture and Rural Development

# OFFICIAL REPORT (Hansard)

## Financial Crisis in Farming: First Trust Bank Briefing

24 September 2013

# NORTHERN IRELAND ASSEMBLY

# Committee for Agriculture and Rural Development

## Financial Crisis in Farming: First Trust Bank Briefing

24 September 2013

**Members present for all or part of the proceedings:**
Mr Paul Frew (Chairperson)
Mr Thomas Buchanan
Mr William Irwin
Mr Declan McAleer
Miss Michelle McIlveen

**Witnesses:**

| | |
|---|---|
| Mr Brian Gillan | First Trust Bank |
| Mr Gerry McGinn | First Trust Bank |

**The Chairperson:** I welcome Gerry McGinn, managing director of First Trust Bank, and Brian Gillan, head of business banking at First Trust Bank. It is good to have you here. I know that you could not attend the previous meeting, which was on 17 June, if memory serves me right, so you are very welcome here today to talk about what is a very important issue, not only to us but to you and to the farming industry.

Members have had a chance to read your briefing paper, so I ask you to take no more than five minutes to address the Committee. Please only outline the main issues or provide new information that is not already in your paper. When five minutes have passed, I will stop you, and then a question-and-answer session will commence. I ask you to keep your answers succinct and concise, please. I also ask members to keep their questions succinct, focused and clear. It would be helpful if personal opinions and statements could be excluded from the line of questioning. If that is clear, we can now begin. Gerry, are you leading?

**Mr Gerry McGinn (First Trust Bank):** I am, Chairman. Thank you for the invitation to give evidence. As you said, I am joined by my colleague Brian Gillan, who is head of business banking. I joined First Trust in September 2011 to lead the restructuring and rebuilding of the bank. I apologise that we were unable to join you in June. One of our regulators was spending the day with the senior team in Belfast, so that had all of us tied up for the day. The paper that we have shared with you outlines our analysis and understanding of the sector. I will make just a few brief comments.

It is important to draw your attention to the fact that, as part of the broader restructuring of Allied Irish Banks, there has been a substantial restructuring and rebuilding of First Trust Bank over the past two years, to put us in the position where we are now strongly capitalised, with strong liquidity, and committed to playing a full part in supporting the local economy, whether it is small and medium-sized enterprises (SMEs), farmers or householders. That is clearly evident in the steps we have taken over the past year and a half, including the launch of the business support fund in May 2012, the launch of our owner-managed fund, which will be publicised next week, and our commitment to the mortgage market, on which we have adopted quite a high profile position.

In today's session, I recognise that we are not one of the larger players in this market. However, we appreciate fully the importance of the sector and how important its growth is in making the local economy prosperous. You will see from our paper that we have developed and successfully delivered some specific grower schemes in the poultry sector, for example, working in partnership with Moy Park.

We want to emphasise our commitment to supporting the implementation of the agrifood strategy. We recognise its challenges, but, equally, we appreciate the importance of us, as a bank, playing a supportive role in the local economy.

**The Chairperson:** OK. Thank you very much for your very succinct presentation. Well done. We will go straight into questions. Obviously, the big issue here and the context in which we sit is the financial crisis from 2007 onwards. How do the current credit facilities and the perceived inflexibility with those compare with the situation pre-2007? What is the difference?

**Mr McGinn:** I will take one part of that and maybe Brian will take the other. Chairman, one of the things that I would draw to your attention is that, with the crisis of 2007-08, there was a period in which the industry was itself in crisis. First Trust Bank, as part of Allied Irish Banks, required significant government funding. That certainly impacted our activity in the marketplace over a period, which I would probably put at being 2008 to 2011.

Brian will maybe pick up the historical position. He may also want to reflect on my earlier comments about what has been happening in the past 18 months, as we have sought to take a much more aggressive position in the marketplace.

**Mr Brian Gillan (First Trust Bank):** On the demand side, we have tried to show in the graphs at paragraphs 4.7 and 4.8 of our submission that there was not really a dramatic change for us in the value and number of applications received. I think that that is reflective of the small market share position that we had. Throughout the period, there was consistency in the number and value of applications being approved. Despite that, our lending share fell over the period, and I see that as a lost opportunity for us. That was driven by a number of those approvals not moving through to loans being drawn. Part of that will probably be due to confidence, and we acknowledge the part that we have to play in farmers' confidence.

In the past 12 months, we have seen the demand pick up again. As Gerry said, that has largely been driven through the business support fund and a re-engagement on the Moy Park growers scheme.

**The Chairperson:** I talked about the perceived inflexibility, because, when you talk to them, banks say that they are still lending money. They always say that, whereas constituents and businesses say otherwise. Of course, we know that we cannot go back to the heyday and the free-lending climate that existed before the financial crisis. We know that things have to be much more measured and structured. However, there is a perception that conditions have changed, with less time to pay. Constituents and businessmen say that changes have been made to overdraft arrangements; that there have been moving of the goalposts-type scenarios and interest rate rises that are out of sync with other banks or even other regions of the UK. If that is the perception, how do you, as a bank, counter it?

**Mr McGinn:** There are probably a couple of things, and Brian may want to pick up after me. Not only is the part of the market that we have had traditionally relatively small, but it has certain characteristics as regards the age of the farmers etc. It may surprise you to learn that the degree of difficulty that we have experienced from the farming community is lower than that from a number of other sectors. However, I would not attempt to generalise from that, as I think that that is a reflection of the characteristics of our farming customers. Our farming customers have tended to be older, more conservative and less likely to get involved in other property transactions. So, the cash flow aspect of it has always remained important in terms of assessing the credit and providing facilities. Facilities have tended to be priced over base rate. The business support fund and the testimonials will reflect that the fund is targeted towards small businesses and small farmers, and we have testimonials within that. Brian may want to make a specific comment.

**Mr Gillan:** There are two or three parts to your question, so I will break them down slightly. We have shared the British Bankers' Association (BBA) agrilending statistics, and we also have sight of the BBA overall business, which includes agri- and other business sectors. Unlike the overall position, the agrimarket has lifted over the period, so more lending has been made available to the market. As I said, we lost an opportunity in that regard, and we could have done more. I think that the introduction of the business support fund and the Moy Park part in the past 12 months has shown that we are doing that, and we are seeing numbers and the value of our lending book into the agrimarket increase.

**Mr McGinn:** About 50% of our lending in the pipeline is new to First Trust. That is a reflection of that in terms of attracting —

**Mr Gillan:** Just taking the specifics, which is probably aimed at farmers who have experienced restructures, where, historically, they operated with an overdraft and they are now being asked to operate with a loan, I have reviewed those statistics and there has not been a large incidence. I am not saying that that does not happen in every case. There is occasion where there is capital expenditure, and it is appropriate to move on to a more appropriate term loan structure so that there is working capital available for the farm. However, if you look at the overdraft approvals shown in the graph, you see that they have been very consistent. So, in most cases, overdrafts have been renewed, and, relative to the other business sector, there has not been the same level of restructuring that we have seen in that sector. The agrimarket as a whole has performed better from a credit risk perspective. That relates to why it has increased overall from a lending portfolio.

In respect of price, as you said, the pricing has changed. Some of the ingredients that have moved into that are increased funding and capital costs for the bank against a reducing revenue backdrop. It is individual to customers and farmers, so it is dependent on a number of variables, such as how we assess the credit risk, the amount of the facility and the terms of the repayment term or the contract term. So, there are variables. We are not striving to penalise the farmer or the customer, but it is reflecting the realities of the economic backdrop. Our effort is to try to make a profit, which is a significant challenge against those economic realities.

**The Chairperson:** I have a couple of questions, and then I will pass over to William. There will need to be schemes and programmes in place over the coming years for the future of farming, and, hopefully, the demand for capital will increase. There will be the new tranche of rural development funding, the agrifood strategy, and whatever comes out of that, all those schemes and many more from Europe and initiatives and incentives from the regional government here in Stormont. How do you see that playing out, and how do you see your bank playing a role in that? You talked about your business support fund. I am aware of the launch of the owner managed business fund in October, and you talked about the Moy Park scheme. What more will First Trust have to do to step up to the plate alongside industry in order to deliver the agrifood strategy?

**Mr McGinn:** I will make some general comments on that. There are a number of ways in which we can provide support. For example, one of the things that we have been putting time, effort and money into has been education. That is more generally, given the structural issue around the dearth of young farmers, which is slightly ironical in our case because we have a significant proportion of older farmers. So, we see ourselves playing a role there in terms of education, and that will manifest itself in a number of traditional ways, whether it is through sponsorship or involvement with the College of Agriculture, Food and Rural Enterprise (CAFRE) or whatever it may be. Education is one part of it.

Certainly, from our perspective, given the reports on the horizon with regard to CAP reform and the sheer ambition of the agrifood strategy, we need to upgrade our own internal capability to have more sectoral specialism because, undoubtedly, when we come to assess the credit risk — Brian and his team have done a super job around the Moy Park scheme — it will become more complex. There is also the export dimension. Obviously, one of the crucial things for us will be to do more business abroad. We have the treasury and foreign exchange expertise, and we have to make sure that that is available to people in Northern Ireland who want to do business abroad. Those are the sort of things that we will be trying at a high level. At a local level, Brian may want to talk about the local centres of expertise that we are developing. I will be very straight with you: we have been contracting the number of overall branches. However, equally within that, we have been trying to have local centres of expertise.

**Mr Gillan:** Stepping back to the ambition, you mentioned the agrifood board's strategy, and we welcome the ambition that has been outlined in detail in that. With regard to playing our part in respect of capital and liquidity, we are well capitalised, we have liquidity and there is money to lend.

Within those strategies, it is trying to understand, from making the investments, what cash flow will be generated to support the lending requests that we are likely to receive from that.

The first initiative to come forward, which I am sure that the Committee is aware of, is from the agrifood board in respect of poultry and the opportunities that exist there to increase the process and capacity for UK-sourced meat. I feel that we are playing our part in that. We are one of two banks that have an existing tripartite agreement. Given the figures that are being talked about, our bank would not want to do all of that lending; we certainly want to do an increased level from where we are now, and we want to participate. We are trying to use our know-how and experience and intellectual property around that tripartite agreement to the benefit of local government, which is very much working to try to support that scheme, and the other banks. It is about trying to be open-minded to the opportunities and, as those initiatives come forward, trying to play a supporting role.

With regard to building on the business support fund and the owner-managed fund, that is all about confidence. It is much more transparent, particularly the support fund, as regards margins, but the owner-managed fund will be without arrangement fee. That is about trying to give confidence to the participants in the market so that they will know what they will pay and that there will not be any surprises as they try to consider what are very significant investments that will reach out over nine to 10 years. It is all about having a very short payback, and it is a very significant commitment from the farmer. Our role is to keep building that confidence so that they are prepared to make a significant investment into their sector.

**The Chairperson:** However, that is £1·3 billion in a very short term. Have the farming industry and the agrifood industry got that capacity?

**Mr Gillan:** I am not sure that that is for us, as banks, to answer. Certainly, the direction of travel is that the opportunity is there. The investment will have to be made alongside government, banks and equity. It has to be based on turning that into cash flows. If the cash flow is not generated, it will not support that level of investment. However, we certainly have to start with the ambition of doing more, and, with regard to where the GB market and the global markets are, we have to do more and to take advantage of the opportunities that exist. One of the significant challenges in that is the farm structures. To get the production efficiencies, the farm structures, in respect of the conacre and the uncertainties that we have with the single farm payment, need to be resolved alongside the financing issues that you described.

**Mr McGinn:** It is useful to add that the risk involved with the Moy Park scheme, from our perspective, becomes more Moy Park than the grower. I am trying to draw attention to the fact that there can be a way of structuring that gets risk dispersed in a different way, which then, from a funding point of view, either unlocks normal debt or supplier credit. So, it is about trying to reconcile what is a huge number on the face of it and to break it down into its component parts. As Brian said, another point about the chicken growers' scheme, for example, is that it could perhaps be replicated in other sectors. It is a matter of trying to do it in a variety of ways. There are over 100 recommendations, a huge number, so it is about trying to parcel those up into groups in a systematic way and in bite sizes and trying to make it happen.

**The Chairperson:** I will pass on to William after my final question. You are bankers and are content with life. What frightens you about the farming industry? What keeps you awake at night?

**Mr McGinn:** I am not sure whether we are that content. My job over the past two years has been to restructure and rebuild the bank. The sector has its own particular set of challenges. Volatility is one, and that is not only of the weather but of how things can change relatively rapidly. So, as a lender, that has a potential impact. Brian was talking earlier about cash flow and the certainty of the cash flow. There are some big dates ahead of us regarding CAP reform, and that might provide opportunity. It certainly means that we will have to adapt and try to do that fairly quickly. There are the structural issues around younger farmers, which Brian referred to, and having a businesslike approach and being in a position to compete, and some of the structural issues around conacre and so on. We have on our books a lot of not only small but part-time farmers. That is great at one level, but, if you are looking at this as an industry and as a wealth generator for Northern Ireland, it has to be set about in a different way.

**Mr Gillan:** The only thing that I would add to that is interest rates. Taking a five-year view, the likelihood is that interest rates will increase, and those have to be built into a farmer's plans and considerations. I totally agree with all of those risk issues, but the other thing to reflect on is that the farming community and industry in Northern Ireland has been very resilient. We have seen that through what has been a one-in-a-hundred economic adjustment because of the recession. That is reflective of the quality of the people who we have there and some of the structures in terms of traceability and farm quality assurance schemes. So, although there is plenty of stuff to keep me awake at night, there are a lot of positives, and we cannot lose sight of those that we have in the Northern Ireland farming industry.

**The Chairperson:** William, thank you for your patience.

**Mr Irwin:** Thank you, Mr Chairman. I declare an interest as a farmer. I do not bank with First Trust, but I have worked with banks all my life. There is concern and a general feeling among farmers and business people that margins over base rate are extortionate. There are banks charging us 5%, 6%, 7%, 8% and 9% over the base rate. The feeling out there is that the banks are making farmers and businesspeople pay for the losses and the mistakes of the past by banks. Can you give us any assurance that that is not the case?

**Mr McGinn:** We will make two comments. Brian will come back to comment on our specific book, because I would not claim that it is reflective of generality in the sense that we have had to do very few restructurings. Often, part of that restructuring can be a reassessment and a repricing of risk. Brian will talk about our own book in a second.

I am familiar with your wider point on business more generally. There has been a repricing of risk, if we are being honest about it. Part of it, on occasion, is coming from restructuring, although, again, the balance always has to be struck between repricing the risk and the ability of the company or the farmer to repay. If all that putting up the interest rate does is to reduce the repayment capacity, you end up in a vicious circle. What we try to do is strike some sort of balance in all this. I do not recognise some of the higher figures that are being bandied about. However, more generally, where we have had to restructure, we have looked at the price again and reviewed it, if it is actually performing. However, in the farming sector, ironically, it has been less of an issue for us than in other parts of our business.

**Mr Gillan:** I will just reinforce some of the points made on pricing and losses. I do not believe that First Trust is recouping losses from before. Like any business, we are faced with difficult economic realities, and it is important that the pricing is not excessive. We cross-reference against the markets and the geographies that we operate in, so I can certainly say that we are not being excessive.

As to costs, funding has been a very significant cost for us, and I am sure that the Committee is familiar with the deposit rates, which increase quite significantly and have started to come back. That provides some flexibility for another look at pricing. Pricing needs to be appropriate; it cannot be excessive. I am very aware, from our customer base, of the confidence that you refer to. People are finding that very difficult to cope with. It is part of our strategy to be more transparent on the price. As I said, with the support fund — base rate plus 3·75% — I have provided the Committee with clear statistics as to the committed level of money. It is £20 million out of the £50 million fund. Even with that competitive price, there is still an underlying confidence issue, and people are not yet prepared to invest. Over the past 12 months, we have seen an improvement in that confidence, but there is some way to go, if you go back to pre-2006-07.

People are equally focused on the contract term. The price may have been going up, but they were sometimes getting only a one- or two-year contract expiry. We have tried to bring confidence in that regard, so if a farmer is buying land that is less than £250,000, we will commit on a contract term right up to 15 years, if it is appropriate to the customer. That has helped to restore confidence, so the issue is a combination of pricing and term, which allows the customer a clear line of sight against the sort of investments that they are considering for the farm.

**Mr Irwin:** The Agri-Food Strategy Board has produced a strategy called 'Going for Growth', in which there are some very challenging targets. There will be opportunities for banks such as yours to tap into some large investments. Given that your share of the market seems to have fallen slightly, does that not offer a challenge to you in trying to tap into the market?

**Mr McGinn:** It is more of an opportunity than a challenge, although I do not doubt that the challenge is there. More generally, we want to rebuild our market share, and that is not exclusive to this conversation on farmers or the sector. We are trying to do that in a number of ways. The way in which the sector is set up means that a small number of very large players are involved in different parts of the chain, and then you have the small farmer. Brian and his team tend to look after the larger facilities, which tend to be a bit more complex. We are trying to put ourselves in a position in which we can serve Northern Ireland companies that want to expand. They may have the financial strength to do that, up to a certain size, but then there is the small farmer, and that is a local piece really. That is why we started with the business support fund, which provides loans of up to £250,000. The one that we are launching next week has a loan figure above that. We were concerned that the smaller business owner was being put off from coming into banks to look for money.

I see an opportunity for us. We have now put ourselves in a position in which, after a lot of hard work and pain, the bank has been substantially restructured and rebuilt. There has been a lot of technical stuff done around capitalising, and we have considerable room to lend. That is reflected, and as I said earlier, 50% of the pipeline to the bank is new. That is telling me two things. One is that customers are prepared to shop around. That is not always the case. I recognise that there can often be criticism of banks, but there is also inertia, because people perhaps do not move banks. The opportunity is there now for account switching. Quite a number are coming in to us now. They are shopping around, and, equally, it is reflecting what our message to the market has been over the past year or so, which is that we are genuinely open for business and want to provide support. We are also benefiting from the actions of one or two of our competitors.

**Mr Gillan:** I also think that it is an opportunity, but I accept the point that you make about it being a challenge. We need to build on the work that we have seen since 2012. Yes, moving from 3% to 4% is good, but we need to move back more to what our natural market share has been, which is 11% or 12%.

As Gerry said, on a numbers basis at 12%, the structure that we have is very much one of part-time farmers, not sole farming enterprises that support a family household. To do that, we have to be credible, and to get that credibility with the farming community, we need sectoral knowledge. We need to be in at the start with the Agri-Food Strategy Board. I feel that we have done that with those round-table meetings. We are ahead of the curve in understanding the initiatives that are going to be brought forward, and in knowing why those are being brought forward. A lot of it is to avail ourselves of the opportunities now in the agrifood industry. A lot of it is on a global platform. It is certainly an opportunity in GB, but, in many cases, it is over and beyond that — into Europe and a global market.

I need to find a way of sharing the sectoral knowledge that we have, or which I have available to me, in business banking with our branches. We have identified eight key agriculture branches, which will cover the Province. We have looked at the concept of having an agriculture adviser to develop training and learning and development programmes, because we need to achieve that confidence internally so that we look, and are, credible to the farming community. Hopefully, that is what will support our ambition to grow back to that 10% or 12% market share.

**Mr Irwin:** Things can be volatile in agriculture, as you are aware. Last year, was one of the worst years in living memory with the weather, and prices were quite bad. Do you feel that your bank is flexible enough to adapt? Farmers need a bank to be flexible, because there are circumstances that are totally beyond their control. Most farmers are asset-rich, so they are very sound bets as far as the banks are concerned. However, a situation like last year's may arise again. I am aware of a large number of farmers who had to try to renegotiate loans and overdrafts. It is vital that banks be flexible and able to be so when such situations arise. It is difficult to get farmers to move banks, because they say, "The devil I know is better than the devil I don't."

**Mr Gillan:** I will kick off on that one. There is the crisis issue, but you also have the seasonal issue. Cash flow for the farming enterprise will vary from season to season. That comes back to my earlier point on understanding the sector. With the sector, it is cyclical, and it will move. Nobody hopes that you have a winter like the one that we have just had, with the fodder issues that arose, but a bank needs to be able to understand that. If we know our customers, we know that there is a risk of that happening. We need to look at giving the flexibility that allows farmers to trade through it. Although I take comfort about the asset side of things, my preference is for the farmer to demonstrate what his cash flow will be in the next six to 12 months and why he will trade out of it. That is what should provide the comfort.

**Mr Irwin:** With due respect, that is very difficult to ascertain, because, today, milk is 34p or 35p a litre, and, last year, it was 22p or 23p. In a market such as that, it is nigh on impossible to be certain of what is going to happen in the next 12 months.

**Mr Gillan:** Absolutely, but for the milk price to be maintained at that level, I suppose that the farmer has to be able to adjust to be able to make a satisfactory living from that or else ask himself how he will compete in that sector. Those are challenges that they are looking at all of the time, and the price is moving up and down. I am not a farmer and do not claim to be an expert in that area, but it is a case of recognising that and together making sure that we provide that flexibility. It is not in our interest not to allow that flexibility.

**Mr McGinn:** It is interesting to reflect on what is going on in the non-farming sector, where Invest Northern Ireland has funds under its access to finance strategy. In the better days, you are hoping that that will throw off extra cash and perhaps be a source of some investment. There has been a big equity issue for small and medium-sized businesses in Northern Ireland compared with other regions of the UK. We are the most resistant to using external equity.

If we want to get younger people into farming and get investment, we will have to be creative in how we make that happen. There has been some success over the past two years with Invest Northern Ireland and the access to finance funds. It is a combination of creativity and different stakeholders playing a role. Over and above all that, as Brian said, we as an industry and as a bank need to upskill ourselves for the size of the ambition reflected in the agrifood strategy.

**Mr Gillan:** The supply chain is important as well. For a farm gate operation to perform, there needs to be an adequate profit margin left on the table from the processors' side that is taken from the retail/wholesale/food service market. All those stakeholders need to be in that together and acknowledge the fluctuations that can happen from time to time, whether those are caused by price in good years or prices owing to the weather.

**Mr McAleer:** I will deviate slightly. Do you have any plans to support rural community groups or organisations? We received a report last week from the research people attached to the Committee on the various consultations on the new rural development programme. The report showed groups struggling with match finance, for example. That goes for local SMEs as well. In some cases, they have had to forfeit a grant because of the challenge of match finance.

Last week, I was dealing with a community organisation that received funding from the rural development programme. It wanted a bridging loan from your bank and was refused, but it managed to get it through the Ulster Community Investment Trust (UCIT). Is there any talk in your bank of introducing a fund targeted at rural community organisations, childcare groups and other rural groups?

**Mr McGinn:** I totally take your point. We do not have a branded fund. We still have a significant presence in rural communities around Northern Ireland. There is a way to go about setting up, for example, a childcare group. Where it can get more difficult for community groups is around the source of income or if they have a fixed-term contract that is for the short term.

That is something that is well worth us looking at. Around self-build housing, for example, we have tried to be as supportive as we can, because that is about people being able to stay in the community where they were born and grew up. One point that I will take away from the Committee today is whether there is a value in having a branded fund. I will make it my business to find out what requests of that kind were made and how we handled them.

**Mr Gillan:** I will not talk about it in Committee for confidential reasons, but if we could get the details of that case, perhaps Gerry and I can see whether there is something that we might learn from it. Not-for-profit organisations and start-ups have their particular challenges, but any bank has to be supportive of those who are trying to be entrepreneurs. We have experience of what can work and what may not work. I am very aware of UCIT, and there can be a role there whereby we can support each other. If it gets to a point at which, in line with the business plan, it becomes bankable — sometimes a "no" is not a "never" — it is important that the customer, whether that be a small rural community or an SME, knows what the parameters are within which we will bank the proposition. Sometimes that changes, depending on the market or our view of the segment.

I will pass you on the details, but if our bank was involved in that case, we should look at it and see whether there is some learning in it for us.

**Mr McAleer:** The time is good now, because we are at the end of the old 2007-2013 rural development programme and we at the consultation stage of the new rural development programme, which is to come into effect next year. If you were minded to look that case, the timing would be perfect.

**Mr Buchanan:** Brian and Gerry, I apologise to you for being late for your presentation. I was in the Long Gallery with the Committee for Employment and Learning.

Flexibility in lending seems to be a problem for constituents of mine in the farming community who, at times, have difficulties with cash flow. For example, if a farm is closed because of TB, the farmer cannot get his cattle sold, which creates a serious problem. When that happens, the farmer normally finds that that is when the bank puts the screws on him. He cannot get a slight extension on his overdraft or he cannot borrow because there is a problem. There does not seem to be the flexibility there that is needed from the banks.

I appreciate that the banks have to be careful in their lending, but that puts some people in the farming community in a very difficult position. There needs to be more flexibility to try to free up those people in the short term, perhaps until they get the opportunity to sell their animals, and so on.

From a banking perspective, is there anything more that the Department or the Executive can do to encourage banks to lend a bit more or create more flexibility? Some people are in very difficult situations. I am talking not about the whole farming community but those who are really in dire straits. I have a constituent, who is not a customer of your bank, who cannot get moving forward.

**Mr McGinn:** We have been a bit sheltered from this, given the nature of our market, which tends to be older farmers who have been with us for a long time and have built up some reserves. Brian did some work around requests for support, and we have been more supportive of that sector. To put it slightly differently, there have been fewer complaints where we have not provided support. I take your point about flexibility, but we have been sheltered from that, given the nature of our market share.

Brian may come back in and deal with that in a specific way, but I will make a couple of general points around the relationships between stakeholders — the farmers, the processors and the banks. The agrifood strategy provides an opportunity to look at how the different stakeholders — the different component parts — ought to be able to work together. We all have a stake. We as a bank are going to make our way only if we can grow our lending again. We are not going to do that in the short term by going back into property in the same way in which we did throughout the 2000s. We all have to find a way out of this situation by trying to create an economy that is growing.

That brings obligations on our part. I referred earlier to education. As the world becomes more complex, it is about those in the industry and us in the banks having confidence and expertise in whatever sector is being worked with. I have previous banking experience with pharmaceuticals. You need a certain level of knowledge to be able to engage with the customer. We as an organisation are upgrading our own knowledge and expertise internally, but a united view needs to be taken.

Funding can be secured in a number of ways, not just through banks. There are some very powerful entities, with significant cash flows, that have stakes in this. There is a discussion to be had and a bit of creativity to be shown. However, having looked at the numbers, we have certainly been sheltered from the day-to-day effects.

**Mr Gillan:** I referred earlier to our experience of borrowers' distress in the agriculture segment. It has performed much better and been more resilient than the overall business segment.

Take your example of the customer whose farm is closed because of TB. If the bank does not support that farmer, it is effectively closing that farm enterprise. There needs to be a realisation that to say no is not the answer. We need to look at the other stakeholders, and at whether it is supply or credit, the bank or whatever, to see whether we can find a solution. In all those circumstances, we need to exhaust all the possible solutions and hopefully find one that works for both the customer and the bank.

That having been said, a small number of farming enterprises have been affected by investments outside the farm enterprise, particularly property investment. There are not a lot of those examples, but farming is not completely insulated. Whether it is buy-to-let, land or whatever, outside investments have had an effect. Those cases are quite different from the TB case that you described. The TB case is hopefully is a short-term structural issue, where the farmer needs support to get to the point of being able to sell animals on, generate cash and get back to a normal trading cash flow. The other ones require a much more overall view to be taken to see how we work through the problem, because there is no short-term fix. We are trying to use our sectoral expertise to work alongside the bank's case officers to see what the options are for the customer and the bank, and then talk through those options with the customer.

You asked what more the Government can do. The enterprise finance guarantee scheme is already in place. It is envisaged that, in most cases, that will be used where farmers are undersecured. To take William's point, in most cases, farmers are not undersecured. Therefore, for many farm enterprises, paying an extra 2% premium for that guarantee will be not appropriate, because, generally, there will be land and security. The issue is how farmers generate the cash flow to get themselves on to a better footing. That can be difficult in those circumstances. Generally, they will not have a guarantee and instead will have to wait and see things through.

**Mr McGinn:** Having listened to the discussion today, I can see that there are broader points involved. You have probably heard the phrase "cash flow lending". We as an industry need to get back to that. The fundamental building block of cash flow lending is knowledge. Whether it is farming, a particular industrial sector or whatever, you have to have the expertise and confidence to know that certain things will happen so that you are not reliant on selling the underlying asset. The reality of life these days is that trying to sell the underlying asset is a bit of a waste of time.

**The Chairperson:** OK. There are no further questions, so it remains for me to thank Gerry and Brian for appearing before the Committee and providing us with their presentation and answers. Thank you very much.