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How Agri Lending Actually Works

A guide for beef cattle producers in north-west Queensland, with lending between $3 million and $50 million.



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Lumo Finance

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Case studies are drawn from real client situations; names and identifying details have been changed.

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PART I

The game and the players

CHAPTER 1

Who this is for

My name is Dallas Davison. I'm an agri finance broker, and I mainly work with graziers in north-west Queensland, between Charters Towers and Julia Creek. I grew up on a property just south of Hughenden, and I've owned cattle since I was five years old. I still do. Before broking, I ran my own financial planning firm for twelve years. So I have a fair understanding of how a cattle operation actually works, and just as importantly, how the structures and entities behind one fit together, and how to set up your lending and your operation to give you the best long-term outcome.

This guide is for anyone who owns a cattle property with lending between $3 million and $50 million.

If you're above that, the same concepts apply, but there start to be some other options on the table, and the treatment you're getting from your bank is probably already different from what I describe here. If you're below $3 million, the same concepts apply again, but the treatment will be different in the other direction. Worse, to be blunt about it. You may not have a direct banker or a contact at your bank at all, and that leads to its own separate set of issues.

This guide also isn't for people wanting to get into the industry. My rule of thumb is simple. If your family already owns a property, you can probably buy another one. If you don't, you can't.

If that rules you out, one thing still applies to you: I'm happy to have a phone call with anyone who has a question about their finances, and if I can't help, I'll point you toward someone who can. More on that at the back of the guide.

CHAPTER 2

This isn't that complicated

If you own a cattle property in north-west Queensland, there are really only about nine lenders I would use. I use the words bank and lender interchangeably, and I'll go through each of them later in this guide.

Each of these nine has its own pros and cons. Depending on your situation and your needs, some of those pros and cons will matter a lot to you and some won't matter at all. Each of them also has an appetite for keeping their existing clients and winning new ones, and that appetite moves around over time. A bank that wasn't interested two years ago might be sharpening their pencil today, and the reverse.

Here's the part that matters. If you've got a strong business and a strong financial position, and you do even a reasonable job of presenting it, these banks will fight hard for your business. All of them. If you don't have a strong business and a strong position, there are things you can do to present it in the best possible light, but it's not magic. The loans available to you, and the rate you'll pay, are going to be substantially worse.

If you do have that strong position, the process from there is actually quite simple. Present your situation properly, then work out which lender suits you best based on the products they're offering, the pros and cons of each, the people you'll be dealing with, and overlaying all of that with the interest rates and fees they're going to charge. The rest of this guide is really just the detail of how to do that.

CHAPTER 3

Who's involved, and what does everyone want?

In any situation, I like to look at the incentives of every party involved. There are plenty of behaviours in banking that don't make sense until you think about what's actually at stake for each of the people in the room. So let's go through them one at a time, starting with you.

If you're the customer, there are probably five things you want. You want to pay the lowest amount possible in interest and fees. You want to be able to get more money to grow if you need it. You want some flexibility if you run into trouble. You want to be left alone as much as possible. And you want your life to be easy, without too many headaches. Understandably, most people didn't get into this industry because they love spreadsheets and paperwork.

Next is the bank. The bank has exactly one priority: to make as much money as possible for its shareholders over the long term. The marketing department will tell you they have others. They don't. Even the things that look like exceptions, like sponsoring the local campdraft, spending money in the community, or coming to commercial terms with a borrower in trouble rather than bankrupting them, are really just ways of preserving goodwill with customers and regulators, which protects profits over the long term. That's not a criticism. It's just what a company is.

Then there's the individual banker who represents the bank, and bear in mind they're a different entity from the bank itself. As far as I can tell, a banker wants three things. They want to do a good job for their customers, and most bankers I deal with are honestly trying to. They want their life to be easy, without too many headaches. And they want to bring in and hold as much lending as possible, because they have targets to meet, and meeting them is what keeps their job safe and pays their bonus.

And then there's the broker, which is me, so I'll be straight about it. A broker wants almost exactly the same things as a banker: to do a good job for their clients, to avoid headaches, and to get as much lending as possible written under their broker code, because that's how they get paid. I'll explain exactly how brokers get paid later in this guide. For now the point is that nobody in this picture is a volunteer, including me. One thing worth being clear about, though. The broker is paid by the bank, but they work for the customer, and their main priority is keeping the customer happy and keeping them as a client over the long term. The bank needs your lending to stay at that specific bank. The broker just needs your lending to be with a bank, any bank, as long as the broker stays involved. That difference in incentives matters, and it's the reason a broker can sit on your side of the table.

Now notice something about the bank, the banker, and the broker. All three are compensated on dollar figures, not on the number of clients. Without being too blunt about it, that means if you owe $3 million, and another customer of the bank owes $30 million, they are ten times as valuable to the bank as you are. That's not fair, and it's not unfair either. It's maths.

So what do you do with all that? You've really only got a few choices. You can accept whatever treatment and pricing your bank gives you, which is what most people do. You can go looking for a bank that suits you better. You can make life as easy as possible for your bank, so they see you as a good long-term client. Or you can explain your growth plans clearly, so the bank can see why you're worth looking after now, even if the loan is smaller today.

The first one costs you money. The other three just cost effort.

CHAPTER 4

Banks only want three things

From the bank's side, the whole relationship comes down to three things, and every one of them flows back to that single overarching goal of maximising profit over the long term. They want security. They want servicing. And they want to make as much money off the loan as possible.

Everything else you will ever discuss with a bank falls off the back of those three. Every form, every valuation, every spreadsheet.

Security comes first, and for most banks, if the security isn't there, the conversation stops here. Any discussion about valuations, first mortgages, rights of entry, stock mortgages, or personal guarantees is a discussion about security. What the bank is actually asking is one question: if things go wrong and the customer stops making repayments, can we get our money back?

Servicing is the second one. Any discussion about cashflow forecasts, livestock schedules, sensitised interest rates, assumptions on sale price per head or weaning rates, or debt-to-

income ratios is a discussion about servicing. And again it's all one question: if things don't go wrong, will the repayments keep coming, and will we get our money back that way?

Bankers have a phrase for this: the primary exit and the secondary exit. The primary exit, which is what everyone wants, is that you make your repayments over time and pay the loan back with interest. That's the servicing. The secondary exit is what happens if things go wrong: the bank gets control of the security and sells it to recover their money. That's the security. Now notice the order banks work in, because it seems backwards. They look at the secondary exit first. Until the backstop is in place, most banks won't spend any real time on the primary exit at all. Only once they know they can get their money back if things go wrong do they start asking whether things are likely to go wrong in the first place. Once you understand that almost every request a bank makes is really about one of those two exits, a lot of behaviour that seems pedantic starts to make sense. The next part of this guide takes the three things one at a time: security, servicing, and the money the bank makes.



PART II

The three things

Security, servicing, and the money the bank makes. Everything a bank ever asks of you is one of these three.

CHAPTER 5

Security

Once you think of security as the bank's secondary exit, the thing they only ever need if it all goes wrong, the details make a lot more sense.

Start with valuations. You can have a situation where a property is purchased at a certain price, but the valuation, done by a valuer on the bank's panel, doesn't support that price. In that case, the bank will generally use their valuation, not your contract. From there they apply a loan-to-value ratio, which is the percentage of the property's value they're willing to lend up to. Different banks have different limits, but generally it's around 60%, sometimes pushed a bit higher.

Why so conservative? Because the bank isn't thinking about the version of the future where you keep making your repayments. They're thinking about the version where you don't. If they've lent $6 million against a $10 million property, they know that whatever the season and whatever the market is doing on the day the loan goes bad, they can almost certainly sell that property for enough to get their principal and interest back. The LVR isn't a judgement about you. It's the width of their margin for error.

Other forms of security, like a livestock mortgage or a general security agreement over the assets of an entity, give the bank an additional layer of comfort, but they're not the same thing as land. Think about it from the bank's side: the odds of selling a mob of cattle, at whatever point in the season and the market cycle things happen to go wrong, for enough to fully clear a debt, are a lot worse than the odds of selling a property for that much. That's why a registered mortgage over saleable land is the security banks actually want, and livestock mortgages and GSAs are the supporting act.

You might also come across rights of entry and similar requirements. Same logic. If things go wrong, the bank needs a practical way to get control of the assets. A mortgage over property or livestock that you can't actually enforce isn't worth much when things go sideways.

Then there are the security issues that catch people out, and these seem pedantic right up until you look through the bank's lens. Tenure is one. A property on a fixed-term lease can be very hard to lend against, because if the government decides not to renew that lease, the bank's security becomes worthless. Ownership is the other big one, and it's the one I see most, especially around succession and expansion. Banks want to see that the people borrowing the money are ultimately the same people who own and control the assets standing behind it. Say the borrowing entity is a company that owns and runs the cattle, but the security is land held in individual names. Everyone with an ownership stake in that land has to sign up to using it as security, including people who may hold no stake at all in the operating business. Getting that

structure right matters, and it matters most exactly when families are in the middle of succession or expansion planning.

CHAPTER 6

Servicing

Every bank has its own rules, guidelines, and ratios for servicing, and it's easy to get bogged down in them. But strip it all back and the fundamental thing a bank wants to see is simple: that the cashflow of the business will sustainably cover the loan repayments and the family's living expenses, over the long term, through all market cycles. That's it. That's what all of it is about.

The ratios you'll hear thrown around, EBITDA-to-interest cover, debt service cover, debt to gross farm income, are rules of thumb the banks work to, and internally they're closer to compliance requirements than deep analysis. They can feel arbitrary. They're also rules of thumb for a reason. And here's the useful part: if you'll meet the requirements in future without going through undue stress between now and then, some banks have flexibility to go outside their normal guidelines. But you have to make that case, with evidence.

This also explains why banks lean so hard on historical financials, and why they average your numbers over several years. The best evidence anyone has for how a business will perform is how it has performed. If the future really is going to look different from the past, that's fine, but you need to explain why and back it up. The numbers tell one story on their own. Your job, or your broker's job, is to tell the story behind the numbers.

The bank will generally also want a livestock schedule. This shows the raw materials, being the cattle, that sit behind the cashflow forecast, along with the assumptions being used: calving rates, weaning rates, carrying capacity. If any of those assumptions sit outside the bank's standard guidelines, expect to be asked for supporting evidence, and have it ready.

On top of that, banks will usually sensitise the numbers. The main one is the interest rate: they'll want to see that you can still make repayments if rates rise by, say, 2% from where they are now. They may also stress other income and expense figures from the livestock schedule and cashflow forecast, to see what happens to you under different conditions.

Off-farm income deserves its own mention, because different lenders treat it very differently. Some banks will only lend against primary production income and effectively ignore anything earned off-farm. Others will count it, but want a significant history and evidence that it will continue. That creates a tricky situation for people starting out, because as most primary producers know, the standard mechanics of the first five or ten years are that you earn as much as you can off-farm and pour it into the loss-making property, offsetting the taxable income as you go, until the place is stocked and developed and the debt is down far enough for it to stand

on its own. If that's your stage of life, the banks with flexibility on off-farm income are simply a better fit, and this is one of the places where lender choice really matters.

One last thing worth understanding: security and servicing work together. The LVR thresholds exist to make sure the bank has enough security, as we covered in the last chapter. But in practice, the LVR band is generally not the constraint that binds. It's very rare to see a loan above 70% LVR where the servicing actually supports it. Some lenders will go above the standard LVR thresholds, and I'll cover them in the chapter on the different types of banks. That aside, this is especially true for grazing right now. Property values have grown enormously in recent years, and net income from grazing operations has grown too, but nowhere near at the same rate. Which means the constraint that binds first, more often than not, is servicing, not security.

CHAPTER 7

How banks make money

You've probably heard people talk about the good old days of banking. Back when your bank manager knew your family, and the bank looked after you. Half of that is true. The banker did know your family, and he did have real discretion - a lot more than bankers have today. But the bank was acting for the bank, first and foremost, then and now. The bank itself never cared about you. A bank has always been a very simple business: it takes money in at one rate, lends it out at a higher rate, and lives on the difference. That's the whole machine. Woolworths buys a beast, breaks it down, and sells it off in small pieces at a markup. A bank does the same thing with money. They're not trying to look after you, and they're not trying to shaft you either. You're a number on a piece of paper. There's no point getting upset about it. Banks are no different to any other business.

Once you accept that, the useful question is: how exactly does a bank make its money out of a grazing business? The answer is that their profit is basically a function of two things. The margin they make on you, and your total lending over time.

Take margin first. In a perfect world, the bank would charge you as much interest as it possibly could while doing two things: not sending you broke, and not having you jump ship to another bank. Say every other bank in the market is going to quote you 7%, and one bank could actually do your loan at 6%. They're not going to offer you 6%. They're going to offer you something like 6.8%, make a fatter spread on the money they've lent you, and still win your business and keep it. That's not banks being evil. That's the same pricing decision every business makes, including yours. It's a function of what their costs are, what profit they're targeting, and what the competition is doing.

What about deposits? Banks do make money on deposits, but for most primary producers it's not a big driver. A grazing operation isn't a high-cashflow business, and whatever spare cash you do have is usually sitting against the loan anyway. For our purposes, the deposit side of the bank is mostly beside the point.

The second driver is total lending over time, and this is the one most people underrate. Picture two customers who each owe $5 million. One is in debt-reduction mode, chewing the loan down year after year. The other owes the same $5 million but is planning to buy a $20 million place in the next couple of years. Same debt today. Very different customers in the bank's eyes. And it goes further than that. If you owe $5 million now, but your parents owe $50 million and that operation is coming to you eventually, the bank isn't really looking at a $5 million customer. They're looking at where that debt ends up.

Which is exactly why it pays to articulate your growth story clearly. If there's a plan to buy the next place, or a succession coming that will bring family debt across to you, say so, and show how it can be done safely. You're not just asking the bank to price the loan you have today. You're showing them the customer they'd be keeping.



PART III

What a loan actually costs

Loan types, rates, fees, pricing and terms, the mechanics of the money.

CHAPTER 8

The two main types of loans

There are basically two main types of loans you'll be offered.

The first is what you might call a business market or RBA-linked product. The bank sets a maximum rate, say 10%, and then gives you a "discount" off it, say 3%, so you're paying 7%. That maximum rate moves over time with the RBA cash rate, which is the rate set by the Reserve Bank of Australia at its meetings through the year. So when you hear that the RBA has cut or raised rates, this is the kind of loan that follows along at exactly the same time.

The second type is BBSY plus a margin, and this is the main product most banks use once total lending gets above roughly $5 million. The mechanics are similar, but the base isn't the RBA rate. It's the bank bill swap rate, which is the benchmark for what banks pay to borrow from each other short-term in the open market. The version used for lending is called BBSY, which sits about five basis points above the benchmark, and it comes in 30-day, 90-day and 180-day flavours. Your total rate is the BBSY rate for whichever term you've picked, plus the bank's margin on top. Most quotes banks give you are based on the 90-day BBSY.

The key thing to understand about BBSY is that the bank doesn't set it. It's a market rate, and it has expectations already baked in. If the market expects the RBA to move rates in the next three months, the 90-day BBSY already reflects that move, while an RBA-linked product won't reflect it until it actually happens. That's also why the different tenors sit at different levels. Two things drive the gaps between the 30, 90 and 180-day rates: where the market thinks rates are headed over that window, and a structural difference, which is that over the long run, shorter terms price a little lower than longer ones, the same way any shorter commitment carries a smaller premium. As a long-run average, the 30-day sits roughly 10 to 15 points under the 90-day, and the 180-day sits 20 or more points over it. But at any point in time those gaps widen and shrink depending on where the market thinks rates are going, so don't treat them as fixed.

Here's a real example from a bank quote, to show how the pieces stack up. The all-in variable rate was 6.80%, made up of the monthly BBSY rate at 4.35%, plus a reset fee of 0.13%, plus the drawn margin. The reset fee is a charge some banks apply for resetting the rate each cycle; this bank built it into the rate, applying it only to cycles shorter than 90 days, and noted it could change. Now look at what those two pieces do together. The same bank's quarterly BBSY that day was 4.49%, which carries no reset fee, and the quote noted the all-in rate on a quarterly cycle would be 6.81%. So the monthly rate looked 14 points sharper on the base rate, and after the reset fee, the real difference was one point. That's why comparing quotes takes more than reading the headline rate, and why you want to know which BBSY tenor a quote is built on - and what's riding along with it.

The two product types also differ in flexibility. The BBSY products generally give you more options for managing interest rate risk: you can cap the rate at a certain level, or fix it in ways that still let you benefit if rates fall. The RBA-linked products are usually limited to plain fixing for a period. Repayment flexibility varies too. On some BBSY loans you can only pay lump sums off the principal when the 30, 90 or 180-day cycle rolls over. Others let you pay extra or redraw whenever you like within the cycle. These details sound minor until you're the one trying to put a good cattle sale against the loan and finding out you can't for another two months.

And one note on both products: your rate isn't as locked in as it looks. On the business market products, the bank sets the maximum rate itself and can move it without any change from the RBA. And on either type, the facility documents generally leave the bank room to reprice your margin, most commonly at review points. Nobody advertises this. It's in the fine print of just about every facility, and it's one more reason the market check every few years matters.

CHAPTER 9

What an interest rate is actually made of

So having covered the two types of loans, what is your interest rate actually made up of? Assuming a BBSY plus margin loan, there are three components.

The first is the BBSY rate itself, which depends on whether you pick 30, 90 or 180 days. In a rising rate environment, the shorter the tenor, the lower the rate, because a rise expected in two months is already priced into the 90-day rate but not the 30-day. In a falling environment it works the other way. This component is nobody's fault and nobody's doing. Neither you nor the bank can move it. It's just what money costs in the open market.

The second is the bank's cost of funds. This is affected by the length of your loan term, longer terms cost the bank more, and it includes an allowance for the bank's overheads. You can influence this one a little, mainly by choosing a shorter term or a less flexible product, which we'll come back to.

The third is the customer margin, and this is the one that's actually about you. It depends on the risk the bank thinks you represent, and banks sort customers into risk bands that drive the margin. Here's the part worth knowing: bankers have some discretion about which band you land in. If you, or your broker, can put good evidence in front of the banker for why you're lower risk than the headline numbers suggest, the banker can push for the lower-risk band and use that evidence to justify it to their credit manager. Sometimes the difference between two margins isn't the business. It's how well the business was explained.

In practice you won't see the second and third components separately. The bank adds its cost of funds and your customer margin together and quotes you one number above BBSY. But it's

worth knowing what's inside that number, because the three parts move for completely different reasons, and only one of them is negotiable on the day.

And a quick word on how the RBA-linked products compare, because the mechanics are similar but run in reverse. With a BBSY loan, the market moves first: expected rate changes are priced into the BBSY rate before the RBA does anything. With an RBA-linked loan, nothing is priced in ahead of time. The rate just changes when the RBA changes it, more or less immediately. Same destination over time, different timing on the way.

CHAPTER 10

Fees

Fees are separate from the interest rate, and there are a few of them. I'd group them into two broad categories.

First, the upfront fees and costs of setting up a new loan. There's generally a loan establishment fee, which is mainly there to cover the bank's time in putting the facility in place, and fair enough, there's more work in a new loan than in managing an old one. But one of the secrets of the finance-broking industry is that a big part of establishment fees is actually driven by the upfront commission being paid to the broker. I explain that properly, in the chapter on what brokers do and how they get paid. Then there are valuation fees. A few banks can do valuations internally; most use an external valuer from their panel, and either wear the cost or pass it on to you. And there are the costs of the security documents themselves, which can be government fees or legal expenses.

Second, the ongoing fees. Admin fees are a flat dollar amount some banks charge monthly, quarterly, six-monthly or yearly. Line fees are a percentage charged on the total facility limit, and they can run anywhere from 0.05% to 0.50%, which on a big facility is real money. Undrawn funds fees are similar to line fees, but are only charged on the part of the loan you haven't drawn down.

Now, here's what I notice about how people deal with all this. As a rule, people are fixated on the visible fees. They'll fight hard over an establishment fee, grumble about an admin fee, and flatly refuse to pay for a valuation. I understand all of it. I hate paying fees on loans too, and I especially understand the valuation gripe, because it's usually a bank requirement rather than something of any use to you, particularly when your LVR is low. But those same people often have no idea whether they're being charged a line fee or an undrawn funds fee, or how much. The banks don't go out of their way to make it obvious. Your statement will show your interest rate somewhere. Good luck finding the line fee.

The way I think about it is that the overall cost of the loan is the only number that matters. When I compare loans for a client, I look at the most likely amount of funds actually drawn over the term,

apply the interest rate to that, add every upfront and ongoing fee including line fees and undrawn fees, and calculate the total cost to the customer over the same period for every option, say the next three years, whatever term each bank happens to be quoting. That's the comparison. Same money, same years, every cost counted. Everything else is noise.

And one practical tip that falls out of this: sometimes it's easier for a bank to move the interest rate than to waive a fee. People fight the fee out of principle and leave the rate alone, when ten basis points off the rate for three years is worth far more than the establishment fee they spent a fortnight arguing about. Don't fight for the win that feels good. Fight for the one that's worth the most.

CHAPTER 11

How banks price your loan

So how does the bank actually arrive at the rate and fees they quote you? Banks run on a metric called return on equity, or ROE, and every bank has a target for it. When your deal goes in, the banker gathers up all the relevant data and plugs it into a pricing model. And here's the thing most people don't realise: the banker often doesn't know what's going on inside that model. It's a black box to them too. They feed in the numbers, and it comes back green or red.

A good banker develops a feel for what the model will say, and for whether there's any way to massage the inputs, within the rules, to get you better pricing. That's a real skill and it's worth having on your side. But the banker is ultimately limited by the machine they're working with, and the machine is set by the bank.

Which leads to the point of this chapter. If a bank can't match a rate quoted by another bank, or gets beaten badly, it's almost never the individual banker's fault. It might be that their bank's cost of funds is higher. It might be that their bank's target ROE is higher. It might be that they have less discretion over which risk band they can put you in. The banker usually wants to give you the sharpest pricing they possibly can, because sharp pricing is what wins them the deal, and winning deals is how they hit their targets. When they can't, there's no point getting upset at them. Just take the information, make your decision, and move on. The pricing model doesn't care about your feelings, and the banker can't overrule the pricing model.

CHAPTER 12

Loan terms

Another important thing to look at when comparing lenders is the loan term, and this ties straight back to the bank's cost of funds. The shorter the commitment the bank makes to you, the

cheaper it is for them to fund it, and the lower the rate they can offer. Same as any deal: a short commitment with the option to walk is worth more to the party giving it than a long lock-in.

Three years is the industry standard, and it's the standard for a reason. It's long enough that you're not constantly doing loan renewals, and short enough that the bank's cost of funds stays low and the rate stays sharp. When I'm getting quotes for comparison, three-year pricing is what I ask for.

That said, the edges are worth knowing. Sometimes a bank's two-year money is substantially cheaper and they'll offer that. Sometimes their five-year cost of funds is barely different from their three-year, and they'll offer five years as a point of difference, and if the cost difference is minimal, take it. Going shorter than three years can also make sense if you know changes are coming anyway, or when the bank's current cost of funds is unusually high. But be warned: anything under three years starts to feel like you've only just finished the last renewal when the next one lands on your desk.

Longer terms are good in theory. In reality, most people's lending needs change within three years anyway, let alone fifteen, and when they do, you end up making changes to the facility regardless of what term you signed. You also should be looking at the market every few years to check you're still with the right bank at the right rate, and a long term you're not using is just a premium you paid for nothing.

Which brings us to the 15-year terms some lenders offer as a point of difference. They're generally more expensive, because the bank's cost of funds is higher and the bank carries more risk over that time frame. It's not magic, and you're paying for it. But there are two situations where it can still be worth it. The first is if you're expecting a long stretch of what looks like financial underperformance, say a five-to-ten-year program of heavy spending on infrastructure and improvements, and you don't want to be out in the market renewing loans in the middle of it with ugly-looking numbers. I'd note that even then, underperformance driven by reinvestment can usually be explained to a bank so you're not punished for it. Being able to tell the story behind the numbers is really important, and it comes up again in the chapter on how to apply. The second situation, and in reality the main one where I'd suggest it, is if your debt is low, you don't really care what the rate is, and what you really want is to minimise paperwork and headaches for the next decade and a half. That's a legitimate thing to pay for. Just know that's what you're buying.



PART IV

The lenders

Nine lenders, four types. Who they are and how to choose between them.

CHAPTER 13

The different types of banks

I'd group the lenders into four main categories: the big four, the second-tier or regional banks, the specialists, and the government lenders.

Start with the big four: CBA, Westpac, ANZ and NAB. Because of their sheer scale, if you fit their criteria, they're on average going to be the cheapest, and probably the least flexible. Agri isn't their sole focus, and that cuts both ways. When one of them decides it wants to build market share in the sector, it can price so low it's nearly a loss leader, and everyone benefits who happens to be borrowing at that moment. The important thing to understand with these banks, and really with all banks, is that appetite is set at head office. A bank decides how much exposure it wants to a particular industry or a particular geography, and that appetite moves around. So if you come up for renewal and your own bank of fifteen years isn't pricing aggressively to keep you, it may have nothing to do with you or your business at all. It might just be that head office has enough north-west Queensland cattle exposure this year. No reflection on you. Also worth knowing: big four bankers tend to move around inside the organisation, so the relationship you've built has a way of walking out the door every few years.

The second tier is BOQ, Suncorp and Bendigo. They're similar to the big four, decent scale, full range of other banking, and they can be very competitive on price. When their appetite is right, or a deal suits their book, they can be more flexible on pricing and will sometimes beat the majors even on a stock-standard deal. More often, though, their real value is for people who don't sit perfectly inside big-four guidelines. Where a major says no or prices you badly because you're slightly outside the box, Suncorp or BOQ can often be a bit more flexible about how they approach the deal.

There's also a newer challenger worth knowing about in this bracket: Judo Bank. They sit naturally alongside BOQ and Suncorp in that their value is flexibility, but they take it a step further. Judo lends on judgement rather than a standard model. Their bankers assess the deal and the people, not just the ratios, and that means they'll look seriously at deals the other banks won't touch at all: higher LVRs than the standard thresholds, complicated tenure, standalone transactions that don't fit anyone's guidelines. The trade-off is one you can guess by now. That flexibility is priced in, and their rates are generally noticeably higher than the banks that said no. That's not a criticism. Paying more for money nobody else will lend you can be a perfectly good deal. Just be clear that that's the deal.

The main specialist in this space is Rabobank. Their sole focus in Australia is agriculture, and their standard product has some attractive attributes: the all-in-one facility typically runs a 15-year term with a cash management account built in, so all your working capital sits against the

loan balance. The trade-offs are real too. Because of the long term and the flexibility, the rate tends to be substantially higher than the major banks. Rabobank's counter-argument is that they're not actually dearer once you count the valuation and establishment costs the other banks hit you with every few years. Two problems with that. First, it tends to get said without actually knowing what the competition would charge, and some banks won't charge you valuation or establishment fees at all. Second, Rabobank also tends to charge an undrawn funds fee, which plenty of their customers don't realise they're paying. Run the full comparison, the higher rate plus the undrawn fee against what the other bank actually charges, and even with a valuation and an establishment fee in the mix, the other bank will still likely come out substantially cheaper. Don't let anyone wave away the competition's costs without putting the actual numbers on the table. That goes for every lender, not just this one. The other trade-off is that a pure agri bank doesn't work as well for your other banking and lending needs, and may not suit people with meaningful off-farm income. What I find in practice is that people who are with Rabobank like it for the service, and because they're not paying valuation and establishment fees every few years. What I'd say to that is: anyone borrowing above $3 million should be getting that level of service from any bank. If you're only getting it from one, that's not a reason to stay. That's a reason to ask your broker why the others aren't delivering it.

While we're on specialists: there are also lenders like StockCo, Elders and Nutrien who do livestock finance, and various providers of equipment finance. They have their place, but they're a different tool for a different job. This guide is about term debt against property, so I'll leave them there.

Last, the government lenders, QRIDA and RIC. These offer extremely concessional rates and terms, and the trade-off is that they are often very onerous, both to get the loan in the first place and to satisfy the annual review requirements. My advice here is short. If you're eligible for one of these loans, or you already have one, stay as long as you can. Grit your teeth and do the paperwork every year. No commercial lender can realistically compete with them, and the paperwork is the price of the cheapest money you'll ever borrow.

CHAPTER 14

Which type of bank should you go with?

The way I think about all these lenders is that there's no right or wrong answer, just pros and cons. And all of it assumes you actually have a choice. If you don't fit the majors' guidelines, you take what you can get, and the decision makes itself. But if you've got a decent debt level and you're a good customer, you've got three genuine decisions: a major or a smaller lender, an agri specialist or a bank that does everything, and a lender that's been in the sector forever or one that's newly hungry for it.

On major versus smaller, the standard trade-off is that with a major bank, the reality is you're just a number, and you may get less personal service than with a smaller regional lender. But it isn't always so. Get the right bank manager, and you can be with a major and still get personal service from the individual you deal with. The institution doesn't care about you, we've covered that, but the person can, and often does. Which means the real question isn't major versus small. It's what the specific banker in front of you is like, and how long they're likely to stay in the chair.

On specialist versus generalist, the trade-offs are the Rabobank trade-offs from the last chapter: a product designed for agriculture, against a higher rate and a bank that can't do much for the rest of your life. If you have any off-farm income, assets or lending, a generalist bank may well be the better fit.

On long-established versus newly hungry, remember that appetite moves. A bank pushing hard into agri will price aggressively to build its book, and there are real savings in being one of the deals it wins. The trade-off is that appetite built quickly can retreat quickly, and you may come up for renewal with a lender whose head office has moved on. A bank with a long track record in the sector has usually proven it stays through droughts and downturns. You're weighing a sharper rate today against steadier appetite when things get lean.

And a note on how using a broker changes this whole decision. A broker widens your realistic options, because some of what you'd otherwise need from the bank, responsiveness, quick answers, someone pushing when things need pushing, the broker provides instead. That can make it perfectly workable to take a sharp rate from a bank or banker whose service would otherwise frustrate you. And if the service does fail, the broker is also the one who'll tell you when it's time to jump ship, and where to.



PART V

Playing your hand

The life of a loan: getting it, keeping it, improving it, and knowing when to walk.

CHAPTER 15

How to apply for new lending

The process of applying for new lending looks long and drawn out, but it's actually quite simple. Assuming you're going to shop the deal around properly, the first step is putting together a loan proposal. I think of it as two documents: a Word document and an Excel document. The Excel document is the livestock schedule and cashflow forecast. The Word document is the proposal itself, and it covers five things.

First, the transaction overview: what is actually happening here? What's the total lending, who's the borrower, what assets are offered as security, what's the operating business, and who owns what. This is also where I include a summary of the people involved, and not just the borrowers. The history of the operation, the family members in the business, even the accounting and legal relationships around it, anything that gives the bank comfort there's good management in place. The people element of banking is still real, and it cuts both ways, especially when it comes to the discretion on your margin. On the positive side, showing good management, good ability and good integrity gives the banker a reason to push harder for sharper pricing, because they're the one who has to argue your case to credit. On the negative side: if a banker doesn't want to deal with someone, because they've been a bad customer before, or they've got a reputation for being painful or for lacking integrity, the banker will find a way to put a red line through the deal.

Second, the purpose of funds, and this is a separate thing from the transaction overview even though they sound the same. It doesn't just matter what the loan is secured against. It matters what the money is for. The purpose section explains what the plan is: how this lending grows the business, makes it more profitable and more sustainable, and, the bank's favourite part, makes it better able to pay the loan back.

Third, security. Details of the assets on offer, plus a full statement of position, every asset and every liability, so the bank sees the complete net position. They'll generally run two separate calculations here: what's the overall net position of the customer, and what's the LVR on the specific assets being offered.

Fourth, servicing. This ties to the Excel document: the livestock schedule, the cashflow forecast, current loan repayments and what repayments look like with the new lending, and the family's living expenses, showing the whole thing carries without undue pressure. State your assumptions explicitly, because every bank has different guidelines, ratios and sensitised rates, and you want your numbers to be checkable against any of them.

Fifth, risks and mitigants. The only rule here is transparency. Anything the bank ought to know about, a risk to the business, something that could affect repayments down the track, call it out yourself. Banks will work around most risks they know about upfront. What they won't forgive is

finding one you didn't mention. And there's a bonus: naming a risk and showing you already have a plan for it demonstrates exactly the substance of management that banks respond well to. A risk you've planned for reads as competence. A risk they discover reads as concealment.

Once the proposal is together, the next question is where to send it. At every bank there's typically one individual banker who'll champion and assess the deal, maybe with a team behind them, and a credit manager they'll package it up for. Knowing who those individuals are matters. So does knowing what kind of deal each bank currently wants, because sometimes you'll emphasise different aspects of the same deal for different banks, depending on what you know appeals to them.

Then you wait for the responses, and it's often surprising how different they are. It's not rare for one bank to quote a sharp rate on generous terms while another declines the same deal outright. There's no law that says banks have to agree, and they routinely don't. The difference might be bank policy, bank appetite, or the discretion of the individual banker, their manager, or the credit manager. Same paperwork, different humans, different answer. One important technical point: a bank declining at this stage is not declining you a loan. They're declining to tender for it. Nothing hits your credit history.

When the responses are in, you weigh up the pros and cons of each offer, and this is where some horse trading can happen. Like any negotiation, some things are easier for the other side to give than others. You might get an undrawn funds fee reduced or waived, or a line fee converted into the interest rate. And you can always just ask for a better rate. My approach here is transparency again. These bankers work on deals like yours every day and know roughly where the market sits, so I've had more success just saying it straight: this is the best offer we've received, can you match it or beat it in any meaningful way, and giving them the chance to respond. This is also the moment people get fixated on establishment fees and valuation costs, and on bigger loans that's usually the wrong target. A one-off fee is a one-off. Ten basis points off the rate, or an undrawn fee waived, compounds for years.

Then the decision gets made, and the boring part starts: the mechanics of putting the loan in place, providing every piece of information and evidence the bank requires, and preparing and executing the paperwork. Nobody enjoys this bit. It ends.

CHAPTER 16

The annual review

Following on from the question of how much time your banking takes: it's worth understanding what's involved in the annual review, both on your current facility and when you're comparing new ones, because the requirements differ between lenders.

Some reporting requirements are set by regulators and will look much the same at every bank. Others are the bank's own, and vary case by case depending on your situation and the lender. Most commonly you'll need to provide updated financials each year, and potentially an updated statement of position, livestock schedule and cashflow forecast, depending on your position. Some banks will ask for more.

I know it can feel like a waste of time, providing a stack of information every year for a facility that's just going to roll on regardless. Here's the thing to remember: in most cases your banker doesn't want to ask you for any more than they have to. The requirements are the bank's, not the banker's, and they don't have discretion over them. So there's no point complaining to the person who didn't set the rules and can't change them. Do the paperwork, keep it tidy, and treat a clean annual review as part of the cost of cheap money. It's also, quietly, part of your case for better pricing: a client whose information turns up complete and on time is an easier client to fight for.

The annual review is also a sensible moment for a light check of the market, and I want to be clear about what that means, because it's different from the full shop-around at renewal. This isn't going around the grounds to every bank. It's your broker, who already has all your information in front of them anyway, having a brief look and checking that your facility is still generally close to the market. Most years the answer is that it is, and you carry on as you were. But if things have changed substantially, your rate, your position, or the market itself, your broker may recommend shopping the loan around properly, even with years still to run on the term.

CHAPTER 17

The loan renewal

The loan renewal is a different thing altogether from the annual review, and my main advice is: don't be surprised if it turns into quite an involved process. A renewal is essentially a brand-new loan, and the bank has to assess it as one. If they want to keep you, they'll make it as easy as they can, streamline what they're allowed to streamline, and reuse what they can reuse. But some requirements apply to any new facility, whether regulatory or the bank's own conditions, and there's no way around them.

This is also the moment where the bank's appetite, which we've talked about all through this guide, can show up at your kitchen table. You signed a three or five-year term, and now the bank is suddenly looking at everything in much more detail. Sometimes that's because your position has changed, business conditions have moved and you're not as strong under their servicing and security guidelines as you were, in which case the banker really does need to take a proper look. And sometimes it's nothing to do with you at all. It's a head-office appetite decision, and you're just the renewal that came up after it was made. You usually can't tell which one you're getting from the inside.

Either way, the conclusion is the same. The renewal is a natural time to look at the market, because you already have to pull together a fair bit of information and do the paperwork anyway, so the extra cost of shopping the loan is at its lowest. Use it to check whether your current lender is still the best fit and still has the most appetite for your loan, right now. If they are, you've lost nothing and gained a benchmark. If they're not, you found out at exactly the right moment.

CHAPTER 18

How to reduce your interest rate

If you want a better rate from your existing bank, there are four ways to go about it, in escalating order of effectiveness.

First, you can just ask. It sounds too simple, but understand why it works: your banker has a lot of clients and a lot on. Reviewing your loan structure, unprompted, to find you a discount is not front of mind, and even if they notice you're paying more than you need to, making changes is work, and there's nothing in it for the bank. The bank is a business. If you're on a higher rate than you could be, there is no incentive whatsoever for anyone to ring you up and mention it. So the phone has to be picked up from your end.

Second, ask and bring evidence that your risk has dropped. This gives your banker something to work with, a legitimate reason to go back and review your pricing. Remember from the pricing chapter that your margin is driven by the risk band you sit in, and bankers have some discretion over bands, if they can justify it to credit. Maybe your stock numbers have built up and servicing has strengthened. Maybe property values have risen and your LVR has fallen. Both are exactly the evidence a banker needs. One rule of thumb on the LVR side: moving down from 70% or 60% towards 50% or 40% improves your pricing case, but below about 40%, the risk stops changing much from the bank's point of view, so don't expect the discounts to keep scaling forever.

Third, offer to change to something cheaper for the bank to fund. The most common version of this is moving some or all of your loan off an all-in-one style product with full repayment flexibility onto something more limited. By this stage of a loan you usually know how much flexibility you actually need. If the plan only involves paying a small portion off over the next few years, you don't need the ability to pay the whole thing down at any moment, and you're paying for that ability anyway. Keep a portion of the loan flexible and put the rest on a set-and-forget product. The other version is shortening the term, say coming off a 15-year or 5-year term onto a 2-year term. Either way you're reducing the bank's cost of funds, and some of that saving can come back to you as rate.

Fourth, and in reality the way to do it properly: run a full review, shop the loan to other banks, and come back with evidence that you have options. If your bank can't meet what the market is

offering, you go elsewhere, and they know it. Unsurprisingly, this gets more of a reaction than vague questioning. A banker can wave away grumbling. A competing written offer goes to the pricing team.

CHAPTER 19

When to leave your bank

If you've shopped your loan around and another lender in the market beats your existing facility, you've got a decision to make. Four things to weigh.

First, how much will you actually save, per year and over the life of the loan? This is the total-cost calculation again: the rate, any line fees and undrawn fees, how you actually use the facility, plus any valuations or other charges either bank will require along the way. Not the headline rate difference. The full number, over the full term.

Second, how much will it cost to switch? There may be an establishment fee or a valuation with the new bank. But here's my observation after doing a lot of these: people consistently overestimate switching costs. These facilities all come up for renewal anyway, changes are coming at some point regardless, and a valuation or a modest establishment fee is a smaller deal than it feels like. The rule of thumb I work on: if the first year's savings exceed the switching costs, the rest of the loan term is pure gain, and the move usually more than pays for itself.

Third, is the new bank going to be easier or harder to deal with, and does their product actually fit how you operate? Look past the headline rate to the practical questions. How do you manage your cashflow, and does the new facility let you pay down and redraw the way you actually work? What does that cost? Can you park spare cash against the loan? And, importantly, can the new bank handle the changes you can see coming, succession, expansion, whatever's on your horizon? The cheapest facility that can't do what you need next year isn't cheap.

Fourth, how much of your time will it take? Your time is finite, and switching banks costs a real amount of it, both in the move itself and in establishing the new relationship. The benefit has to clear that hurdle too, not just the dollar costs. Sometimes a slightly worse rate with a bank that never wastes your time is the better deal. Just make that choice deliberately, with the numbers in front of you, rather than by default because leaving felt like too much hassle.



PART VI

The broker, and the proof

What I do, how I get paid, and five times it worked.

CHAPTER 20

What brokers do

So what does a broker actually do? The short answer is that a broker is a middleman between the bank and the client. I know "middleman" isn't usually a compliment. Bear with me, because once you look at what each side is dealing with, the middleman starts to make a lot of sense.

Start with the bank. A bank usually knows what it wants in a deal, but it's not always able to come straight out and say it, and when it does say it, it says it in bank language. At the same time, a bank is a big organisation that is chronically understaffed at the front line. Bankers are busy and under pressure. So the bank is often quite happy to pay a broker to bring them a customer with the deal already vetted, the information already put together, and the customer already understanding what's on offer. The broker has done a chunk of the bank's work for it.

Now the customer. You know your business better than anyone. You run it every day. But you don't speak bank, and you shouldn't have to. It's also a very inefficient use of your time to stay across the whole competitive landscape, every lender's appetite and pricing and quirks, for the one time every few years that it's actually worth looking at. The broker deals with these banks and these facilities day in and day out. They know what's happening in the market right now, and through sheer repetition they can hear the things a banker is saying without saying.

Here's how I'd explain the difference a broker makes. Going direct to one bank is like booking your cattle in with Townsville meatworks. Going to a couple of different banks yourself is like ringing Townsville and Rockhampton meatworks and seeing where the best price is. Going to an average finance broker is like going to an agent who knows the price at all the different works, and the cost of transport, and will handle the paperwork and book it in. And going to a good finance broker is like going to a good cattle agent who knows your operation, and can tell you what time of year to book in at which works, or whether you might actually be better off selling heavy feeder cattle instead.

That last step is the one that matters. The difference between an average broker and a good one isn't access to the banks. Anyone can ring nine lenders. In my view the two attributes that matter in a broker are judgement and intent.

Judgement means understanding both sides of the transaction. It's being able to piece together what's being said and what's not being said, on both sides of the table, and work out what's actually true. It's knowing what's realistic for the client and for the bank over the long term, and knowing the best way to structure a loan and package a deal up so that it works for both. Two brokers can take the same client to the same banks and come back with different outcomes. The difference is judgement. And part of it is knowing when not to push: if a broker puts a loan in

place that the customer can't safely pay back, everyone loses. The customer, the bank, and the broker.

Intent is a plainer thing, and there might be a better word for it, but it's basically making things happen. A bank can be a big bureaucratic machine, and deals lose momentum. Someone has to keep the thing on top of the banker's pile, chase the valuer, keep the accountant and the solicitor moving, and keep the family talking to each other. In a lot of transactions the broker is herding half a dozen people toward a settlement date. If nobody is pushing, things drift, and drift kills deals.

Now, how do brokers get paid? This is the part of the industry that tends to get talked about the least, so let me just lay it out.

A broker is paid commission directly by the bank. There are two parts. The trail commission is an ongoing percentage paid for as long as the loan stays in place, and it's broadly similar across lenders. That matters, because it means there shouldn't be much financial incentive for a broker to steer you toward one bank over another. The theory from the bank's side is simple: the broker has vetted the deal, packaged it, and will handle the annual reviews and renewals, so the bank is paying the broker to reduce its own in-house costs. That's also why the interest rate you pay through a broker should be much the same as going direct.

The trail is the bulk of how a broker gets paid over time, and it lines the broker's incentives up with yours in one important way: the broker only keeps earning it if the loan stays in place and you stay happy. Put you somewhere with the wrong bank and the wrong structure, and the broker ends up redoing the whole job or losing you. The lazy path and the right path point the same direction.

The second part is the upfront commission, paid when the loan is put in place. There's more discretion in this one. Depending on the size of the loan and the work involved, a broker can choose to dial their upfront commission down, and in a lot of cases that directly reduces the establishment fee the bank charges you. Worth knowing: even if the broker takes no upfront commission at all, the bank may still charge an establishment fee for the bank's own time on the deal.

Some brokers, and this is becoming more standard, also charge the customer a fee directly. Sometimes it's a straight fee. Sometimes it works like a retainer, refunded or offset against commission when the loan goes ahead.

Like any professional you deal with, the key is making sure you understand how your broker is paid, and that you're comfortable with it. A broker should have no problem at all with you asking exactly how much they'll earn from your deal, in dollars. If they get cagey about that question, that tells you something too.

Who I work with, and an offer that applies to anyone

I work with families with lending between $3 million and $50 million. The situations in this guide are their situations: buying the next place, working through succession, refinancing a facility that hasn't been looked at in years, or wanting to know the lending is right before the next move. That's the work, and it's all I do.

And if you've read this far and your honest reaction is that all of this sounds exhausting - the proposals, the tenders, the horse trading, the annual reviews - then you've understood the guide perfectly. It is exhausting. That's the whole reason my job exists. You don't have to run any of this yourself. You pick up the phone, I review your existing lending, and I tell you straight whether there's anything worth doing. If there isn't, you'll know your setup is right, which is worth something on its own. If there is, I handle the whole thing: the proposal, the banks, the negotiation, the paperwork, through to settlement. You run the place. I deal with the banks.

The offer is wider than that, though. I'm happy to have a phone call with anyone who has a question about their finances, whatever their situation. If it's not something I can help with, I'll tell you that straight, give you my thoughts, and point you in the direction of someone who can.

CHAPTER 21

Case studies

Everything in this guide so far has been the theory. Here are five situations I've actually helped clients with, names and identifying details changed, that show how it plays out in practice. Each one ends with what it means if you're in a similar position.

Buying the fattening block: an expansion

A family operation running a breeder block worth around $12 million, with $3 million owing against it, wanted to buy a fattening block to expand the enterprise. All up, the new lending came to about $6 million: the purchase itself including stamp duty, around $500,000 of infrastructure spending across both the existing block and the new one, and around $500,000 in additional cows and calves to bring the country to fully stocked. So roughly $9 million of total debt against the combined operation. And with the additional lending in place, the rate actually came down, about 1% cheaper than their existing facility.

The security side of this deal was straightforward, and that's the first lesson. The bank assesses security on the as-is position, and if you already own a place with minimal debt against it, then from a security point of view, you can definitely buy another one. That's my rule of thumb from the start of this guide doing its work.

The real job was servicing. With an expansion, what the bank wants to see is your existing historical financials married up to projections showing what the combined operation will look like. And the projections have to be supported by the history. If your existing block has run a certain carrying capacity, certain expense levels, certain weaning rates, don't hand the bank projections that assume dramatically better numbers on that same country. They won't believe you, and worse, they'll start wondering about the rest of your numbers.

One more thing worth doing in this kind of deal: where you can, show the bank that the expansion reduces risk even as it increases debt. Two blocks across different country, different sectors of the market, different rainfall, that's diversification, and a well-put argument for it helps the bank get comfortable with the bigger number.

If you're in this position: your security probably isn't the problem, your projections are. Build them off your actual history, explain every assumption that differs from it, and make the diversification argument work for you. *(See the chapters on security, servicing, how banks make money, and how to apply.)*

Buying out the parents: a succession

A young couple were both going through succession with their respective parents at the same time. He was set to end up with an unencumbered fattening block. She wanted to buy her parents' breeder block, which suited the fattening country well. Her parents didn't need full payment upfront, so they provided vendor finance for around half the purchase.

The structure is the interesting part. We used the fattening block, the more valuable asset, as security for the purchase of the breeder block. That avoided cross-collateralising multiple properties, and it left the breeder block clean, so the bank could take clear first priority on its security while her parents kept the option of a mortgage over the breeder block for their vendor finance. Everyone's position stayed simple and separate, which matters enormously in the middle of two families' succession planning.

Their existing bank, the one they'd used for their cattle trading, declined the deal. The reason: the cattle that went with the fattening block were being transferred using a double shuffle and wouldn't come across for another couple of years, so on paper, the servicing looked short. And to be fair to that banker, for the first two years it was short. What we did with the incoming bank was show it honestly: five years of cashflow forecasts demonstrating that for the first two years, the cashflow wouldn't fully cover regular repayments, and that with enough headroom built into the loan, they'd get out the other side, when the breeder block's calves grew out to bullocks and sales more than covered the repayments from there on.

Once the security and servicing evidence was together, multiple lenders were keen to tender. We got a very sharp rate, and just as importantly, a structure that could flex as both families worked through their succession planning with their accountants and lawyers, without the finance getting in the way of the family arrangements.

If you're in this position: a decline from your own bank doesn't mean the deal is undoable, it may just mean it needs to be told properly. Show the shortfall honestly, structure headroom through it, and pick security that keeps each family's position clean. *(See the chapters on security, servicing, and how to apply.)*

Getting the house in order: a refinance ahead of succession and expansion

A client group with over $10 million of existing debt planned to buy out some family properties and take over family debt in the coming years. As a standalone transaction, a clean $10 million facility is attractive lending, and the quotes that came back offered substantial interest savings on their existing arrangements.

But the real value came from telling the future story. We put the succession and expansion plans in front of the bankers: this isn't a $10 million customer, it's a $10 million customer on the way to considerably more. Remember how banks price, the model, the risk bands, the banker's discretion. Growth is exactly the evidence a banker can take to credit to justify sharper pricing, because the bank isn't just pricing today's loan, it's pricing the relationship it gets to keep. The bankers we spoke to got discretion to price more aggressively, and did.

If you're in this position: if there's a bigger future coming, don't keep it a secret. The growth story is pricing leverage today, even before any of it happens. *(See the chapters on how banks make money, how banks price, and how to reduce your rate.)*

The property that looked like a hobby: a refinance with off-farm income

A client owned a substantial property, worth around $12 million with $6 million of debt against it, but was paying a comparatively high rate. The reason: the agricultural enterprise was effectively run as a hobby, while the client's time and attention, and income, went into a successful off-farm business. On the property's standalone numbers, the historical performance looked poor, and when we took it to market, some lenders simply weren't interested.

Two pieces of evidence changed the picture. First, the property had just been leased out for a set annual amount, so the historical underperformance was ending, replaced by contracted income. Second, the off-farm business income was more than strong enough to carry the group's servicing, but it sat across multiple businesses and trusts, so the job was showing the bank how the whole group tied together, and that the real risk was far lower than the property's standalone numbers suggested.

On that evidence, an incoming bank offered a rate saving of around half a percent. I took that offer back to the existing bank, who responded by cutting their rate substantially, but they held on to a significant line fee. And that line fee mattered more than it looked, because the client's plan was to pay the loan down hard over the next few years, and a line fee is charged on the facility limit, not the balance. So the existing bank's improved offer got worse every year as the

balance fell, while the incoming lender charged no line fee at all. We moved. The first-year saving was substantial, and it ramped up through years two and three.

If you're in this position: banks price the story the numbers tell, so if the numbers tell the wrong story, fix the story with evidence, a lease, a contract, the group structure laid out properly. And always price the fees against your actual plan for the loan, not the balance on day one. *(See the chapters on servicing, fees, and when to leave your bank.)*

Two jobs, two sources of funds: a refinance and top-up

A client with significant off-farm income wanted to do two things at once: expand the off-farm business, and spend on stock and infrastructure for the cattle property. The question wasn't whether they could fund it, it was which money should fund what.

We looked at the options across the whole position. Lending secured against the cattle property offered the cheapest long-term interest rate, so we used an increased facility from a new bank to fund the stock and the infrastructure. The off-farm business expansion was funded from cashflow and some asset sales, rather than borrowing at business rates. Each job got its cheapest appropriate source of funds.

One more choice worth noting: we deliberately took a product with a substantially longer loan term, because the client expected profitability to dip for a few years while the off-farm business absorbed its expansion. Rather than face a renewal in the middle of the ugly-looking years, they paid a little more for a term that let them get through to the other side without having to explain themselves at the worst possible moment.

If you're in this position: look at the whole position before funding any single piece of it, put the cheapest money against the job it fits, and match your loan term to the shape of the years ahead, not just to the sharpest rate on the page. *(See the chapters on the two loan types, loan terms, and servicing.)*

THE OFFER

Got a question about your lending?

I'm happy to have a phone call with anyone who has a question about their finances. If I'm not the right person to help, I'll tell you that straight, give you my thoughts, and point you in the direction of someone who can.

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