



Regional First Farm Buyers Guarantee

Proposed Policy Initiative Paper

AgForce YPC Regional First Farm Buyers Guarantee (RFFBG) Scheme– Access to Capital

Draft for Discussion: November 2022.

Policy Objectives:

Design a scheme to assist young people interested and experienced in the rural industry to purchase their first farm.

Assist in the growth and development of people in the regions and their communities for the betterment of our state and nation.

Policy Priorities Framework

The AgForce YPC proposes the Regional First Farm Buyers Guarantee Scheme (*RFFBG*).

Specific Policy Recommendations for the First Farm Buyers Guarantee Scheme

A government-backed guarantee scheme to assist in the shortfall in equity required by commercial lenders, less an individual equity deposit contribution, to assist in the purchase of a rural property.

WHAT IS IT

An Australian or State Government initiative that aims to support eligible regional first farm buyers to purchase a farm sooner.

- A loan guarantee scheme. Loans are administered by lenders (commercial banks, QRIDA, RIC) with a Guarantee backing from the Australian or State Government.
- Guarantees limited to a set number of places (*between 100 to 10,000 places, to be determined based on appetite of Government Guarantee*)
- Available rolling 3 years, reviewed every 12 months

HOW IT WORKS

An Australian Government or State Government scheme. The *RFFBG* can be used to purchase a first Farm with a combination of a minimum deposit provided by the applicant and a deposit amount guaranteed by government, (the difference in equity deposit required - up to 40 percent), to fund a rural property purchase with a participating lender (lender's credit criteria to apply).

The Guarantee is not a cash payment or a deposit for a farm loan, simply a guarantee, hence no money goes out.

Eligible regional first farm buyers are able to purchase in the regional area they have worked and lived in during the preceding 12-month period, or an adjacent regional area.

Note: A working example is highlighted in Appendix 2

WHO IS ELIGIBLE

- Sole Traders, Partnerships, Companies, Trusts
- Australian Citizens who are under 40 years of age
- New entrant, first farm/land buyers
- Applicant must be owner/operator
- New loans, for purchase of agricultural land to be used for primary production
- Live in a regional community, or adjacent to regional area for the majority of their time
- Must have 5 years primary producer experience (*definition of Primary Producer to be further defined*)
- Show 3 years' experience operating a profitable primary production business or showing the potential to be profitable
- Relevant training, certifications, or recognition of prior learning to confirm necessary skills are developed
- Provision of acceptable budgets, detailed business plan, resilience plans, etc.
- Adequate funds for working capital, plant and equipment, and over-draft facility
- External non-primary production income permitted.

Nb. Definition of a regional area, highlighted Appendix 3.

KEY FEATURES

- Maximum Lending, up to \$5 million dollars (indexed annually to remain commercially relevant)
- Loan Terms, up to 30 years
- Maximum Deposit Guarantee, up to 40% (pending lenders equity deposit criteria)
- Age limit, up to 40 years of age
- Loan provider: Commercial lender, RIC, QRIDA, other.
- Live in the region
- Agricultural experience, minimum 5 years as primary producer
- Strong business and cash flow planning skills
- Resilience and preparedness planning
- One time loan facility: Option to exit the scheme, once refinanced or land sale.

ELIGIBLE PROPERTIES

- Agricultural land, suitable for and used for primary production as a going concern.

PROPERTY PRICE THRESHOLDS (if applicable)

- Limited to the lending threshold of \$5 million dollars

Benefits of the Regional First Farm Buyers Guarantee Scheme

- Regional investment by Government into regional areas and communities
- Aligned to Regional Development programs to divert populations out of urban to regional areas
- Keeps young producers in regional communities for the longer term
- Transfer of knowledge from older generation to new entrants, ensuring preservation of regional area knowledge
- Supports new generation of farmers and producers that are connected to regional areas at grass roots
- The Government guarantee of first farm deposit difference, up to rural equity loan deposit criteria
- Builds on the First Home Buyers Guarantee Scheme (FHBG), up to 15% deposit on 20% home loans, to keep people in regional communities
- Excludes greater capital city areas, must meet definition of regional area, (refer appendix 3)
- Honors the responsible lending obligations of commercial lending institutions

Note: The Appendices highlights important considerations, such as questions to be answered, working examples, definition of what defines a regional area, and a disclaimer.

Appendix 1

Future Policy Development Considerations of the RFFBG scheme:

The below parameters to be discussed and clarified, through research, investigation, consultation, and development:

Considerations and Questions to be answered

1. Determine participating lenders: determine target financier:
 - a. Commercial Banking System
 - b. Government Lenders - QRIDA or RIC, Government may not want to compete with commercial banks, offering low deposit loans.
 - c. QRIDA enabling Act will be under review soon, can this proposed program or policy intent fit within a revised program offering?
2. Interest rate types applicable:
 - a. Interest Rate caps
 - b. Interest rate discounts
 - c. Interest only periods, i.e., first 5 years
 - d. Fixed and variable terms, or combination thereof
3. Equity Deposit amounts:
 - a. Minimum Deposit contributed by lender; minimum deposit amount contributed by the applicant?
 - b. What will be accepted combination of equity/cash deposits?
 - c. Will first farm buyer loans support equity from partners, parents, equity in existing assets, cash gifts or gift assets?
 - d. Will evidence of savings record be requested?
4. Time value of money: Calculation of cost total cost of program to Government and will they support this amount
 - a. Time frame of scheme: Available rolling 3 years, reviewed every 12 months
 - b. Lending for 5 million dollars, up to 10 million dollars
 - c. Is there a limit on number of places per year?
5. Other parameter questions: Policy Program expansion/program offering confirmation:
 - a. Should succession planning be part of the end-to-end service. Funding arrangements that support market entrant paired with those exiting the market. Similar to the Cultivate farms program (which is not funded and would be a good fit).
 - b. Do we want to pursue exemptions, and concessions, such as CGT, retirement, small business, Stamp Duty or other, to support policy?
 - c. Does AgForce establish a YPC taskforce/or group of specialists, together with those within banking expertise, to recommend a way forward?
 - d. Why should this policy position be supported at the consequence of a neighbour (i.e., over 41 years of age) wanting to purchase the same property?
 - e. What will be the definition of primary producer?
 - f. Do we default to the policy framework of the Regional first home buyer's scheme, acknowledging home buyer verses land buyer argument?

Appendix 2

Working Example:

The Lending criteria

New entrant would like to buy a property for \$2 million dollars.

They have cash of \$200,000 to contribute toward the purchase.

New entrant is seeking a loan of \$1.8 million dollars against the rural property worth \$2 million dollars.

Effectively making a 10% contribution and looking to borrow 90%.

Typically, the banks will only lend 70% of the rural property value (In this instance \$1.4 million dollars).

However, the applicant is borrowing \$1.8 million dollars.

The bank will provide the \$1.8 million dollars, knowing that the 20% difference (in this case \$400,000 dollars) is being guaranteed by the government.

The Guarantee

This guarantee only comes into effect if the applicant can no longer meet their loan serviceability obligations (impaired) and the property is sold.

The Sale

If the property is sold for less than the original purchase price, the guarantor becomes liable.

i.e., Property is sold for \$1.6 million.

After repaying the \$1.8 million loan, there is effectively a \$200,000 dollar deficit (not taking into account interest and fee's).

Triggering the Government Guarantee

This \$200,000 amount is covered by the guarantor (which in this case is the Government). Being the government guarantee of up to 20 per cent, of an impaired Scheme-Backed Loan, including outstanding principal and interest, and fees in accordance with the Deed of Guarantee.

Assumption(s):

- Determine if this is 20% of the impaired loan amount \$1.8m which is \$360,000, or is it 20% of the deficit (20% of \$200,000, is \$40,000)
- This model assumes a new entrant has the ability to save \$200,000 (on a 1 million dollar purchase), plus equipment and stock, working capital, plus fund an overdraft facility, and sufficient credit buffer to sustain negative years, all before age 40.

Appendix 3

Definition: What is a regional area?

Definition 1

To confirm whether you live in a regional area, and where you may be able to purchase, you can access the Regional Checker at nhfc.gov.au or designated regional areas for home dwelling: [Home Guarantee Scheme regional checker \(nhfc.gov.au\)](#)

A regional area is defined as: the Statistical Area Level 4 (ASGS SA4 2016) areas in a State or the Northern Territory that are not a capital city of that State or Territory; and Norfolk Island; or the Territories of Jervis Bay, Christmas Island or Cocos (Keeling) Islands; as defined in the version published by The Australian Bureau of Statistics (ABS) in July 2016.

Definition 2

Regional Designated Areas, by postcode, as defined by Department of Home Affairs: [Designated regional areas \(homeaffairs.gov.au\)](#)

The regional definition is comprised of 3 categories and offers regional incentives for skilled migrants who migrate to locations classified as Category 2 'Cities and Major Regional Centres' or Category 3 'Regional Centres and Other Regional Areas'

- Category 2 – 'Cities and Major Regional Centres' of Perth, Adelaide, the Gold Coast, the Sunshine Coast, Canberra, Newcastle/Lake Macquarie, Wollongong/Illawarra, Geelong and Hobart
- Category 3 – 'Regional Centres and Other Regional Areas (Include Designated regional area postcodes as per below table).

Appendix 4

Disclaimers

If you are considering entering into contracts relating to purchasing land, you may wish to discuss with your participating lender (and broker, if applicable) or financial advisor all of the potential risks that may be associated with these transactions and potential implications of changing interest rates to land prices, relevant to your individual circumstances.