NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 459 [CW486E]

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459. Mr W A S Aucamp (Northern Cape: DA) to ask the Minister of Finance:

What steps the Government and the Land Bank have taken regarding the farmers who had to endure long droughts, fires, locust plagues as well as the effects of Covid-19 to assist by restructuring their loans in order to enable them to pay back their loans/bonds now that the drought is over and farming conditions have improved?

CW486E

REPLY

The Land Bank loan portfolio includes farmers operating across the majority of the predominant agricultural sub-sectors including grains, maize, livestock, trees and crops, and is relatively dispersed across South Africa's geographical footprint and agricultural regions.

The farmers, constantly navigate a number of risk factors which create headwinds, including amongst others, droughts, disease, floods, competition against international players that benefit from subsidies, exchange rate volatility, inadequate access to funding and capital-intensive operations, plus an evolving technological landscape. These headwinds place underlying farming operations under stress and give rise to instances where farmers default on their loan obligations.

The Bank's most effective way to maximise the probability of recovering distressed farming operations has been to work closely with the farmers and provide the appropriate financial and non-financial assistance following tough financial and sector related challenges and seasons. This approach often enables the farmers to continue planting, harvesting and present the potential to recover from one or two poorer seasons, as opposed to the institution of immediate legal foreclosure. Land Bank strives to assist farmers and only proceed with Legal action against defaulted borrowers as a last resort.

The Bank's operating model, risk mitigating strategies, disaster response framework, capacity, capability, policies and procedures have been geared, as an ordinary course of business, to work with farmers in finding solutions to mitigate risk to their operations and also provide targeted solutions in instances where farmers experience distress and default on their facilities as a result of such risk factors.

The Bank consistently deploys a wide range of resources and forbearance solutions to restructure farmer loan facilities and restore their defaults.

The key objective of granting forbearance measures is to pave the way for non-performing borrowers/farmers to exit their non-performing status, or to prevent performing borrowers from reaching a non-performing status. The Bank's forbearance measures always aim to return the client's debt exposure to a situation of sustainable repayment. Most solutions will involve a combination of different forbearance measures, potentially over a different time horizon with a mix of short-term and long-term options.

Forbearance measures are defined as restructured repayment conditions designed to address financial difficulties over the short-term or long term. Forbearance measures are considered and offered when the borrowers have experienced an identifiable event which has caused liquidity constraints. Evidence of such an event should be demonstrated in a formal manner (and not speculatively) via written documentation with defined evidence to show that the borrower's income is projected to recover and bring the client out of repayment default.

The contractual terms for any forbearance solution should ensure that the bank has the right to review the agreed forbearance measures if the situation of the borrower improves and more favourable conditions for the Bank exist to consider the adoption of the original contractual conditions.

Most forbearance solutions will involve a combination of different measures. The following, short- and long-term measures have been offered to farmers when confronted with sector, market and industry related challenges such as drought, floods, disease, and Covid19:

SHORT TERM SOLUTIONS

- **Interest payments only**
  - During a defined short-term period, only interest is paid on credit facilities and no principal repayment is made. The principal amount thus remains unchanged, and the terms for the repayment structure are reassessed at the end of the interest-only period, subject to the assessment and validation of the client's repayment ability.
- **Reduced payments**
  - Decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's affected cash flow situation and then continue with the repayments on the basis of projected repayment ability. The interest is still subject to full repayment.
- **Grace period/payment moratorium**
  - An agreement allowing the borrower a defined delay in fulfilling the repayment obligations, usually with regard to the principal and interest.
- **Arrears/interest capitalisation**
  - Forbearance of arrears and/or accrued interest arrears by the addition of those unpaid amounts to the outstanding principal balance for repayment under a sustainable rescheduled programme.

LONG TERM SOLUTIONS

- **Interest rate reduction**
  - Permanent (or temporary) reduction of interest rate (fixed or variable) to a fair and sustainable rate.
- **Extension of maturity/term**
  - Extension of the maturity of the loan (i.e. of the last contractual loan instalment date), which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- **Additional security**

    - Additional liens on unencumbered assets may be obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.

- **Sale by agreement/assisted sale**
    - The Bank and the borrower may agree to voluntarily dispose of the secured asset(s) to partially or fully repay the debt.

- **Rescheduled payments**
    - The existing contractual repayment schedule is adjusted to a new sustainable repayment programme based on a realistic, current and forecasted assessment of the borrower's cash flows.

- **Disbursement support - new credit facilities**
    - Providing new financing arrangements in order to support the recovery of a distressed borrower.

- **Debt consolidation**
    - Entails the combination of multiple exposures into a single loan or a limited number of loans.