



## MONEY DUE REWARDS:



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### The Credit Drought

For those of us who live in inland rural areas, the drought has had a depressing and sobering affect. There is something inherently stressful in seeing so many parched paddocks, but days pass by without any sign of the rain which is so badly needed. Now, however, it seems that we may be in for another kind of drought – and this one won't only be affecting rural people.

What I am contemplating about is a "credit drought". This is a period when new loans, and even refinanced loans will become more difficult to obtain, possibly creating difficulties for individuals or businesses who have borrowed aggressively.

This situation can be traced back to the easy availability of credit from the US based securitised debt markets which continued for a number of years until 2007. The over-abundance of funding over a decade or so allowed the rise of the non-bank lenders, such as Aussie Home Loans and RAMS, as serious competitors to the major banks.

Now, however, the boot is seriously on the other foot. Following the recent "sub-prime" loans crisis, there has been a significant consequent effect on all global credit markets. As a result, many non-bank financiers have all but closed up shop, given that their source of funds has now dried up. This leaves the major banks in a strong position, and they will be able to reassert their dominance in a situation where interest rates are higher, but loans are still hard to get.

According to recent figures from the Reserve Bank of Australia, the private sector in Australia has \$243 billion of securitised debt. This is the debt which will now need to be refinanced elsewhere when it matures.

On this topic, Saul Eslake, chief economist at ANZ was recently quoted as saying this: "Of course, only a proportion of this debt will mature in the next 12 months (and some of it...won't mature until the underlying mortgage is discharged). But clearly, the banking system cannot both meet normal growth in demand for credit and absorb maturing securitised debt...Hence credit rationing, at least for business borrowers, is becoming a reality."

What Mr Eslake is saying, is that some businesses won't get the finance they are hoping for in the next little while because there won't be enough money to go around.

For some farming businesses, which may already be financially stretched due to the drought of the last few years, this may be a distressing "double whammy". Many in this sector have been kept above water during the last couple of years by the largesse of a very sympathetic Federal Government. With the recent "changing of the guard" in Canberra, a continuation of this level of support is not assured.

For the sake of the many rural producers with high level of debt, I do hope we receive good rain this year.

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