

SMEs say property weakness hurting their access to credit

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Small business borrowers are struggling under the twin burdens of more cautious lenders and falling house prices, with a new survey showing eight in 10 SMEs have or expect to find it more difficult to get the finance they need in a weakening property market.

The impact of sharply lower real estate values has been confirmed in a survey of 1257 small and medium-size businesses commissioned by specialist lender Scottish Pacific and provided exclusively to The Australian Financial Review.

"When we last assessed the impact of the property market in September 2017, three out of four SMEs said property prices were having no direct impact on their businesses," Scottish Pacific CEO Peter Langham said.

In the latest research, only one in five SMEs said they had not seen a direct impact, Mr Langham said.

"For any SME owner who feels compelled to rely on providing property as security for their business loans, the credit squeeze may well be on."

The survey was directed at CEOs or senior financial staff of businesses with annual revenues of \$1 million to \$20 million across industries and states, and was conducted from late November to late January.

It found that 45 per cent of respondents feel property market conditions are already making it harder to obtain credit, while a further 35 per cent said they are yet to feel any impact, but expect to in the near future.

Property prices are having more impact on SMEs in Victoria and NSW, affecting 48 per cent and 46 per cent of small businesses, respectively, while 39 per cent of Queensland SMEs were feeling the impact.

About a third of all small business lending by the major banks is secured by real estate, according to the Productivity Commission, and closer to half of such borrowing outside the big four.

Regulators have become concerned about a slowdown in SME lending over the past year, and that the implementation of some of the banking commission's recommendations around the definition of an SME would further crimp credit flow.

Discussions with clients suggested the fallout from the royal commission was also being felt, Mr Langham said.

"It's not just small businesses, but some medium-sized businesses too, who are saying 'the banks are looking at us in a different way than they did a year or 18 months ago'," he said.

Adelaide Bank will tighten the documentation needed to access its Smart-Suite Commercial credit products, which provide commercial loans secured by commercial or residential property. Every loan application will require client account statements for all related income-earning entities and security providers.

The loans provide up to 75 per cent loan-to-value ratio for loans of up to \$1 million and 70 per cent to \$5 million.

This month the bank tightened analysis of borrowers' domestic credit, such as consumer credit cards and introduced tougher terms for those borrowing \$1 million, or more.

"Our product suite remains robust and in line with our ongoing commitment to meeting the changing needs of our partners, customers and industry," a bank spokesman said.