Exclusive

SME lending falls with house prices

Matthew Cranston

Apr 4, 2019 — 7.12pm

KEY STATISTICS

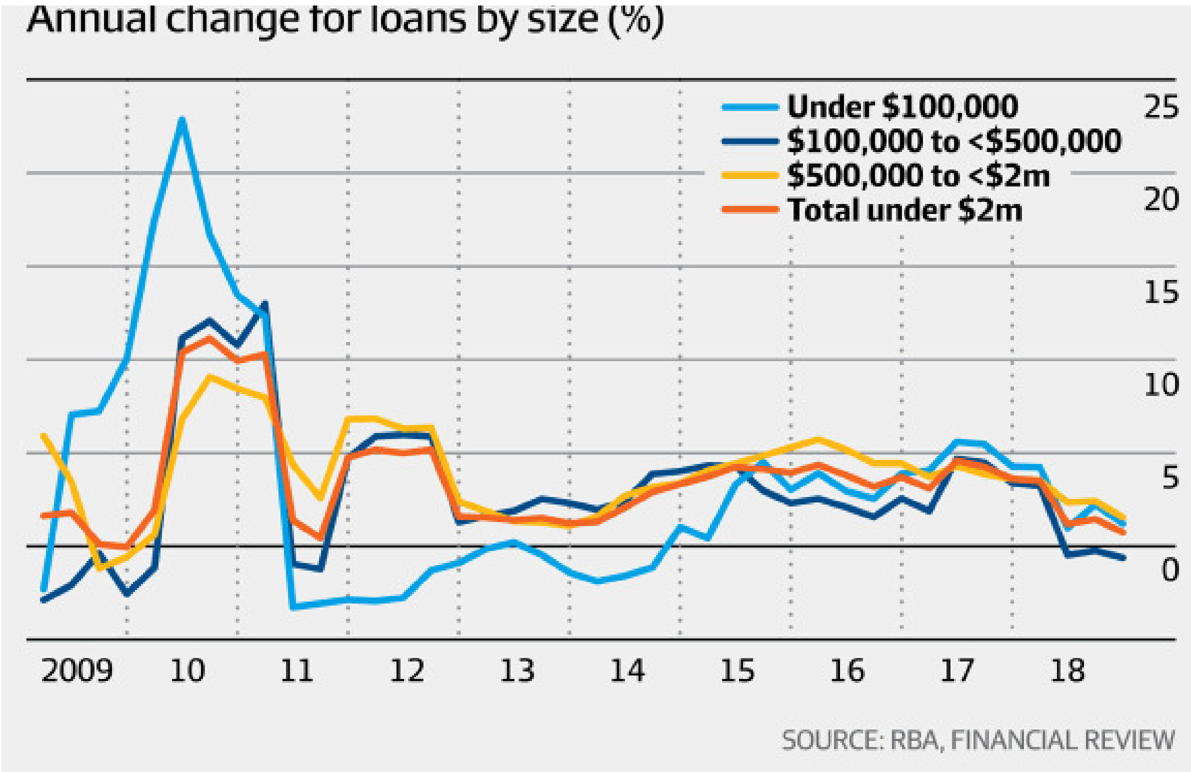
-0.5pc Growth in bank loans of between $100,000 and $500,000 is down -0.5 per cent.

0.8pc Growth in loans of $2 million or less slowed to just 0.8 per cent growth

2013 In the $500,000 to $2 million bracket loan growth has slowed to the worst rate since 2013.

Growth in lending to Australia's economic engine room of small business has dived, according to analysis of Reserve Bank of Australia data, and while banks say their doors are open, small business operators insist they are not.

Analysis by *The Australian Financial Review* shows growth in bank loans of between $100,000 and $500,000 has been negative for the last three quarters, with growth in that loan segment down 0.5 per cent in the December quarter – the worst rate of annual growth for seven years.



Falling house prices, which make it harder for businesses to use their property as collateral, and more restrictive self-imposed lending restrictions by banks are the key factors behind such a slowdown.

"For the lower end of town it's just impossible to get anything," said Townsville-based chartered accountant Todd Hodkinson. "People go to contact the bank and they say 'no chance'.

"I have plenty of clients who have found it very difficult to borrow. Some of them have tried to sell their business but people can't buy it because even the buyers can't get finance."

Townsville, which sits in Australia's most marginal federal electorate of Herbert and has been hit by falling house prices, is a prime example of how important the treatment of small business by both major political parties will be for winning over voters in the upcoming election.

Growth in loans of $2 million or less slowed to just 0.8 per cent – the worst it has been since 2011. In the $500,000 to $2 million bracket, loan growth has slowed to the worst rate since 2013.

"This all confirms what we are hearing which is that there is a credit squeeze for small business," Council of Small Business of Australia chief executive Peter Strong said.

He was one of the strongest proponents of the federal government's $2 billion Australian Business Securitisation Fund, which is investing in small and medium enterprise (SME) credit to encourage smaller banks and non-bank lenders to on-lend to small businesses on more competitive terms.

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His colleague David Gandolfo, whose mortgage-broking business Quantum Business Finance writes more than $500 million in loans for business every year, said a lot of small business loans were being done through personal finance instead of the normal business loan channels.

"But even going down that channel does not make up for the disconnect between the appetite from small business to invest by borrowing and the banks' appetite to lend," he said.

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"Banks have a self-imposed consumer credit-style guidance on lending to small businesses which the Hayne royal commission specifically said should not be applied."

Recommendation 1.9 of the royal commission said the National Consumer Credit Protection Act 2009 should not be amended to extend its operation to lending to small businesses.

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Falling housing prices can also affect the borrowing capacity of small businesses given that housing wealth is often used as collateral. Banks are more risk averse.

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Business restructuring partner at KordaMentha, Scott Langdon, said this was the big hit to small business borrowing.

"If the banks don't lend to small business there are not many other opportunities – they could go to lenders like Prosper but that's too expensive," he said.

"What they need is credit lines of two to four years, but that needs property for security and with falling prices the banks won't do it."

New NAB chief executive Philip Chronican even hinted to a parliamentary inquiry into Australia's four major banks last month that falling prices could see the bank review business loans.

"If the underlying security value declined and it declined by more than the buffer we had allowed for when writing the loan, then we would need to talk to the borrower about bringing the loan back to a better ratio," he said.

Talk to your bank

Australian Banking Association chief executive Anna Bligh said overall business credit had been growing, with official figures showing business credit rose 4.6 per cent, or more than $43.6 billion, over the year to the December quarter.

“Banks remain open for business and continue to lend to Australian business both large and small," Ms Bligh said.

"I’d encourage anyone interested in growing their business to talk to their bank about the right finance option for them."

The lion’s share of growth in business credit has been in facilities $2 million and over, which would generally be considered to be lending to entities larger than small business.

Loans to small business in agriculture have been hard hit, while loans to small businesses in mining have shown growth.

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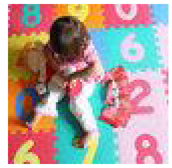

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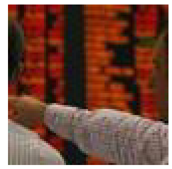

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