



Business lending pressures to ease: RBA

Wednesday, 09 February 2011 10:48

Ryan Jon Dunn

The RBA has told a Parliamentary inquiry it believes borrowing conditions for smaller businesses will become easier, as the economy picks up speed, potentially providing relief for capital-starved SMEs.

The RBA said in its submission to the Parliamentary Joint Committee on Corporations and Financial Services, that loans to small business (which it classifies as loans under \$2 million) continued to grow during 2010, albeit at a slower pace than over the preceding decade.

The level of outstanding loans at the end of September 2010 was around \$200 billion, or 30% of the total business lending by banks.

But despite the slowdown in lending growth, the RBA also argues that the availability of credit to SMEs during the crisis has been "reasonable"—with some exceptions.

"In aggregate, the available data... suggests that small businesses in most industries have had tighter but still reasonable access to funds throughout the financial crisis."

"Property companies are a notable exception. Smaller developers may have also faced financing constraints as a result of the contraction in mortgage trusts. Liaison suggests that recent concerns for the retail and agriculture sectors have also resulted in some banks monitoring these sectors more closely."

However, the central bank also argues that as the economy improves, lending levels will rise as competition for SME loans increases.

"Past cyclical patterns suggest that competition for business lending is likely to pick up over time and there are some early signs of this in the Reserve Bank's liaison with medium and large businesses. Foreign-owned banks are also likely to look to expand their presence in the market as global conditions continue to improve."

But Australia's big banks do seem to have a growing appetite for SME lending.

NAB, which yesterday reported an 18% rise in first quarter profit to \$1.3 billion, said in its results that it has increased its business lending market share, although this came at the expense of fee revenue and margins.

CBA, which today announced a 13% increase in first half profits to \$3.34 billion, increased profits from their business and private division by 15% to \$506 million.

CBA said in a statement that it held "cautious optimism" about the financial outlook for 2011. Chief financial officer David Craig said that funding costs "just keep going up", and that he expected that to continue for at least another year.

Sue Prestney, principle of small business advisors MGI, says lending conditions remain relatively tight but competition is increasing.

"There is certainly a gap in the small business lending market," Prestney says. "And when that occurs, it's never long before someone comes in to fill it."

Prestney believes that it's the foreign banks, and not necessarily the non-banking lenders that will return to the market.

"The higher risk profiles of small businesses don't suit non-bank lenders. It's the foreign owned banks that will make a difference to the market."

Another area that Prestney believes can help secure finance is factoring.

"When small businesses have already received loans against their homes, there's often no other way to raise finance than to sell portions of their receivables."

Factoring has grown in popularity over the years as a small business financing method in Australia, increasing from around \$2 billion in 2001 to \$14 billion in 2010.