

Update provided on banks and lending to small business

Six banks meet with Small Business Minister

Sydney, 16 April, 2009: The Australian Bankers' Association (ABA) is again assuring the small business sector that banks' doors are open and they are lending to viable small businesses.

The ABA and representatives from ANZ, Bank of Queensland, Bendigo Bank, National Australia Bank, St George and Westpac met today with Federal Minister for Small Business, Independent Contractors and the Service Economy, Dr Craig Emerson, to provide an update from the Small Business Roundtable which was held on 6 March, 2009¹.

David Bell, Chief Executive of the ABA, said: "The Australian banks are well-capitalised and have performed well through this difficult period. Unlike many banks throughout the world, they are still profitable and continue to lend normally, albeit with some adjustments to reflect the deteriorating economic environment."

Price of credit²

Since the credit crisis commenced, banks have faced continual pressure on their cost of funds. The three sources of funding: deposits, short-term funding, and long-term funding have all contributed to this pressure, although short-term funding is starting to ease.

Interest rates for small business products are now at the lowest levels in four years (since February 2005) while the three-year fixed is the lowest rate on record.

The 100 bps fall for residential secured term lending is the largest monthly fall since August 1996 (110 bps), while residential secured overdrafts, other loans (both term and overdrafts) and small overdrafts have seen the biggest monthly falls on record.

When viewed on a quarterly basis, residential secured term lending, other loans (both term and overdrafts) and small overdrafts have seen the biggest quarterly falls on record, while residential secured overdrafts have seen the biggest quarterly fall since February 1997 (225 bps). The story is again similar for the past six months with record or near record falls.

Volume of credit

Banks advised the Minister that they are continuing to make loans to viable small businesses and many are looking to grow their loan books.

¹ This meeting involved banks, small business representatives and the Minister for Small Business, Independent Contractors and the Service Economy, Dr Craig Emerson. For the communiqué – please see this link on the ABA website: <http://www.bankers.asn.au/Communique-Small-Business-Roundtable/default.aspx>

² The data regarding the price of credit is sourced from the latest Reserve Bank of Australia (February 2009) and does not include any changes for the months of March or April as data is not yet available for these months.

Mr Bell said: "While there is reluctance of some businesses to take on more debt, banks are still lending to businesses with solid long-term prospects."

"Some member banks report that some businesses may be deferring plans for further business investment and/or expansion in the current environment, resulting in reduced demand for lending."

Meeting with Small Business Groups 8 April

At the 6 March Roundtable, the ABA and banks committed to continue liaising with small business groups. So on 8 April, a meeting was held with small business representatives from six groups – the Australian Services Roundtable, Council of Small Businesses of Australia (COSBOA), Franchise Council of Australia, Institute of Chartered Accountants, NSW Business Chamber and Real Estate Institute of Australia.

There was a positive engagement with the organisations represented and it was an opportunity to continue the discussions from the Roundtable.

Banks and the ABA committed to exploring ways communication could be enhanced between them and the small business sector. Information provided via fact sheets to the sector was considered to be the most efficient way of disseminating the information.

The ABA is working on four fact sheets:

- 1) How banks can help if a small business is experiencing financial difficulty;
- 2) Applying for a loan;
- 3) Explaining banks' costs of funding and pricing of credit which includes how business loans are priced; and
- 4) Lending policies and practices.

The ABA intends publishing this information on its website and the Smarter Banking for Small Business website: www.smallbusinessbanking.com.au. The fact sheets will also be provided to small business organisations so that they can forward to their membership.

Individual cases

The ABA continues to work with Minister Emerson's office which is acting as a clearing house for individual small businesses who are encountering problems with their banking services.

Thirty-four cases have been referred to the ABA which then provides the information to the bank involved.

Privacy considerations prevent the ABA from discussing these cases.

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