Strong banks – strong Australia

House of Representatives Standing Committee on Economics

Review of the four major banks (second report)

Australian Bankers' Association

ABA01QON: 59

Mr CRAIG KELLY: In your time at the Australian Bankers' Association, have you seen any other government policy implemented that has had the unintended consequence of making the loaning to small business for the banks more risky and has therefore pushed up interest rates for small business?

Mr Münchenberg: I might need to take that one on notice. I cannot think of anything immediately.

Answer: The interest rates charged on loans to small business are influenced by the nature of the security collateral.

Reserve Bank data for February 2017 show interest rates as follows:

Small business variable term loan residentially secured	6.40 per cent
Small business variable term loan other	7.25 per cent
Small business variable overdraft residentially secured	7.25 per cent
Small business variable overdraft other	8.25 per cent

This indicates that riskier loans – in this case loans that are not residentially secured – are more costly for small business. This suggests that any government policy that makes loans for small business more risky could have consequences for the interest rates charged.

In terms of government policy that has had the unintended consequence of making lending to small business more risky, the most significant risk of this in recent years has been the proposed blanket ban on all non-monetary default clauses.