

LISMORE & DISTRICT FINANCIAL COUNSELLING SERVICE Inc.

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1st February 2011

Committee Secretary

Parliamentary Joint Committee on Corporations and Financial Services

PO Box 6100

Parliament House

Canberra ACT 2600

Australia

By email: corporations.joint@aph.gov.au

Dear Committee Secretary

Re: Inquiry into Access for Small and Medium Business to Finance

The Lismore & District Financial Counselling Service is a non-profit community based organisation providing free, confidential financial counselling to the people of the Northern Rivers of NSW.

During the last 2 years we have seen a growing number of small business owners contacting us because they are experiencing financial difficulties due to the GFC and local economic conditions. They now represent 15% of our new client case load.

During the course of our casework a number of issues have arisen that are pertinent to the Terms of Reference of this Inquiry.

These are:

- The Sale of a business is often thwarted by the inability of prospective purchasers to obtain finance. This means that viable businesses may be lost to a community as existing business owners decide to close their doors or liquidate their business.
- The abuse of low doc loans by credit providers and the necessary legislative changes to respond to this has reduced the availability of credit to businesses
- The use of bogus “business declarations” to lend to non business people leading to restrictions on business borrowers as necessary legislative changes are introduced
- Excessive supply of personal credit facilities to small business owners in particular credit cards
- Lack of access to legal advice about credit and rights. Small business owners are often precluded from accessing free community legal services, Legal Aid, tenancy advice (leases) due to the business nature of their issues.
- Lack of access to advice to ensure they can meet Centrelink requirements for additional assistance. This has been tightened up in recent times meaning that many struggling small businesses are missing out on legitimate assistance and forcing them to seek additional credit. This impacts directly on the families of small business owners.
- Lack of free access to professional assistance/accounting when a business is financially stressed, failing or closed to address reporting requirements for ATO, ITSA, ASIC and

Centrelink

- Use of family members personal assets as guarantee on business purposes loans

The new Credit Laws will further impact on this situation. We support the tightening of these credit laws. However there is an urgent need for support and advice to be made available to small business owners who will find their short term survival threatened on by these changes.

We urge the development of specialist financial counselling services for small business providers experiencing short term financial difficulties, enhanced levels of support for new businesses and the provision of community based services to assist businesses in short term difficulty to meet their mandatory reporting requirements (when there are insufficient funds to pay for professional assistance).

Provision of these sources of assistance would allow businesses to better assess the viability of their business plan and the viability of keeping their business going before seeking finance or refinance. This would ease pressures on small business people and their families and the credit providers from non performing and defaulting loans.

Thank you for giving us the opportunity to make a submission on this important issue.

Yours sincerely

Steve Snelgrove
Lismore & District Financial Counselling Service Inc
Manager

Terms of Reference

That the Parliamentary Joint Committee on Corporations and Financial Services be required to inquire into and report on the access for small and medium business to finance, and **report by 30 April 2011**, with particular reference to:

- (1) the types of finance and credit options available to small and medium business (SMEs) in Australia;
- (2) the current levels of choice and competition between lending institutions, but not limited to, credit availability, fees, charges, comparative interest rates and conditions for business finance;
- (3) credit options available from banks, non-bank lenders and second tier lenders;
- (4) the impact of financial institution prudential requirements and banking guarantees on lending costs and practices;
- (5) comparison between the credit options available to SMEs located in regional Australia and metropolitan areas;
- (6) the impact of lenders' equity and security requirements on the amount of finance available to SMEs;
- (7) policies, practices and strategies that may restrict access to SME finance, and the possible effects this may have on innovation, productivity, growth and job creation;
- (8) the need for any legislative or regulatory change to assist access by SME to finance; and
- (9) any other related matters.