

**Parliament of Australia: Senate**

**Economic References Committee**

**Inquiry into Access of Small Business to Finance**

**SUBMISSION BY LIGHT OF DAY INC**

## **EXECUTIVE SUMMARY**

Light of Day Inc is an association of concerned investors in the unlisted property sector.

The unlisted property sector, comprising property funds and property syndicates is the home to some \$60 billion of investors money in over 200 entities, holds large amounts of the savings of up to 240,000 small business retirees.

Investors have sought out this sector, which invests in commercial property and some residential development, as a capital stable investment class with reliable income, suitable for superannuation funds and other retirement savings. The investment characteristics of direct property as an asset class provide excellent diversification benefits for portfolios including an allocation to listed equities.

The underlying commercial property market has performed well through the recent credit induced downturn, with vacancy rates rising only a small amount and rental incomes maintained.

Investors in the unlisted property sector are horrified that distributions have been cut or suspended and withdrawals frozen, not due to problems in the property market, but due to increases in banks fees and margins of up to 500%.

The borrowing expenses of entities in the unlisted property sector has increased due to the collapse in competition to the big four banks and following the introduction of the guarantee on deposits up to \$1 million (the Financial Claims Scheme) and the substantial reductions in new lending by foreign banks.

The position of business borrowers, including the unlisted property sector has been exacerbated by capital adequacy requirements which have caused oligopolistic banks to increase lending to households and reduce lending to business, while subsidising residential lending with increased margins and charges on business lending.

The fees and charges currently being imposed by the big four banks in the unlisted property sector cannot be justified by increased cost of funds nor by reference to increased risk, given the sound performance of the underlying property market through the recent downturn.

This gouging by the big four banks is converting the retirement savings of small business into bank profits, perhaps at the rate of \$500 million per year. In addition, bank requirements for premature principal reductions are reducing the value of accumulated superannuation and other retirement savings. This will result in unanticipated demands on Centrelink pensions.

Light of Day favours a well-capitalised and profitable banking sector but the behaviour of the big four banks is completely at odds with many of their public statements vowing transparency and fairness, among other virtues. Light of Day has set out some alternative courses of action available to lenders, more consistent with their public stance.

Light of Day seeks the outcomes set out in item 1.5 of the submission, based on the conclusions at item 7 of the submission.

The submission contains actual case studies and examples of correspondence with one of the banks.

Light of Day would welcome the opportunity for its spokesperson, Owen Lennie to present in person to the Committee and, if the committee considers that this would be useful, some of the investors affected would make themselves available to speak with the Committee.