

10 April 2010

The Secretary
Senate Economics Committee
Department of the Senate
Parliament House
CANBERRA 2600

Dear Mr Hawkins

The National Australia Bank welcomes the opportunity to provide comment to the Senate Economics Committee's inquiry into *Access of Small Business to Finance*.

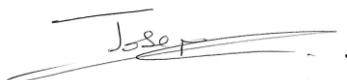
NAB is a member of the Australian Bankers' Association and has contributed to the submission the Association has made and is broadly supportive of its content.

This submission seeks to provide further comment on the issues before the Committee where NAB has particular expertise or industry experience to further assist the inquiry and wider Parliament. Specifically, details of NAB's support for the business sector with reference to recent lending activity are included, and information on NAB's industry leading microfinance products designed to meet the finance and credit needs of Australia's smallest and newly emerging businesses.

Two additional documents accompany this submission: a NAB Fact Sheet on a recent initiative the business bank took to abolish a range of fees and charges for our small business customers and a recent speech I delivered to the American Chamber of Commerce (AmCham) in Melbourne entitled: *Banks, Business Lending & the Economy* which addresses many of the issues before the Committee.

Finally, I remain available to meet with Committee members to expand upon the NAB submission; if you require further information on this matter, please contact Dallas McInerney, Group Manager, Government Affairs & Public Policy, t: 02 9237 9206.

Yours sincerely,



Joseph Healy
Group Executive
Business Banking
National Australia Bank and Business Banking



National Australia Bank has been growing and expanding its support for Australia's small businesses across a full range of banking activities,. This has been at a time of when much of the financial industry retreated and withdraw its support for this sector.

Profile

NAB Business Banking is Australia's leading business bank with a team of over 5,000 business and specialist bankers nationally. The business includes operations, marketing, and finance professionals who service the full spectrum of the business sector, from small businesses through to Australia's largest ASX-listed corporations.

Specifically, NAB has more than 3000 Business Bankers located in 225 sites and has hired an additional 300 business bankers over the past two years. There is ongoing expansion of our dedicated business banking sites with 9 new locations identified for establishment and operation since 2007/08.

Importantly, the executive team of the Business Bank has collective industry experience of many decades across a number of jurisdictions; this internal store of knowledge and management expertise best equips NAB to anticipate and meet the needs of its customers as they face into the challenges of a changing business environment.

NAB's commitment and engagement with the small business sector

In recent years, the leadership of the NAB's Business Bank has been actively engaged with the issues concerning credit flows and access for small businesses. This has included regular engagements and briefings with the Federal Minister for Small Business, Mr Emerson, ongoing liaison with leading business industry associations, particularly the Council of Small Business Associations of Australia (COSBOA), a leading role in the Primer Minister's Small Business Forum convened by the Australian Government in October 2008 and recent briefings with the Opposition spokesperson, Mr Bilson MP.

NAB's commitment to provide direct finance to Australian small businesses is unmatched by any other financial institution. Over the past two years, NAB has invested heavily in customer facing relationship roles to assist and support small business owners, and prospective small business owners.

This investment to date has realised an additional 500 staff directly working with customers, giving NAB the capacity to provide an individual relationship manager to approximately 150,000 more small businesses, above and beyond our current customer base.

As referenced above, NAB has been growing its network of business bankers significantly; importantly, each banker has individual local authority to assess and approve business loans applications.

Lending Volumes

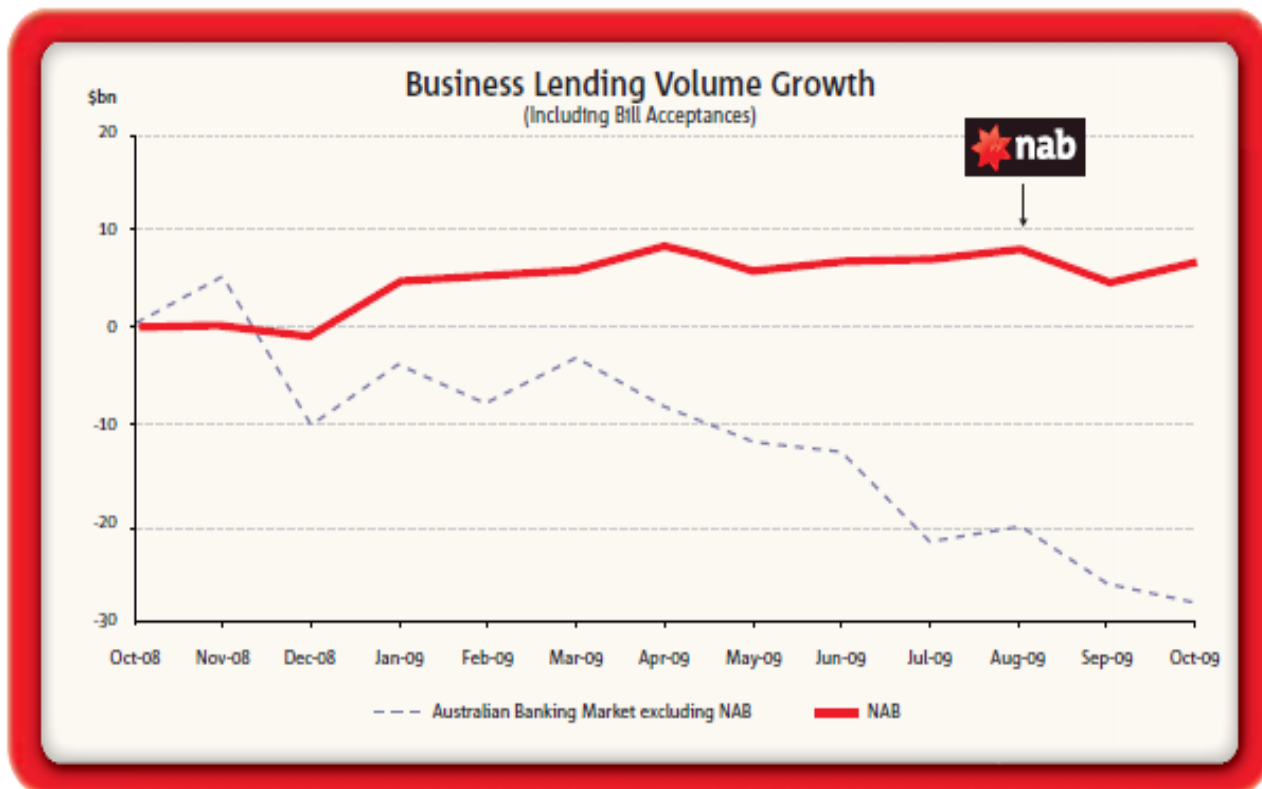
“..NAB is the acknowledged industry leader in business lending – especially to the SME sector. In Australia, NAB has total outstanding loans of over \$100 billion, approximately 30% of all lending to the SME sector... by the end of 2009 our lending book to SMEs had grown by \$5 billion – in an environment where the majority of our competitors had gone backwards. NAB’s lending to SMEs has grown by more than 100% since 2005. APRA figures show that all the other banks, in aggregate, reduced business lending by \$28bn in 2009. We were proud to be the largest lender to SMEs during one of the toughest economic periods in our history.”

**Joseph Healy, Group Executive,
Business Banking, February 2010**

In the 2009 financial year, when system growth in lending to small business declined 3.5%, NAB lending to small business (through its **nabbusiness** business unit, which covers businesses turning over between \$1m and \$40m per annum) **increased by over 9%**.

This level of support is a result of several initiatives undertaken by NAB which were explicitly designed to increase its support of this sector of the Australian economy at a time of need following the onset of the global financial crisis.

The charts produced below provide further industry data of bank system lending to the business sector relative to the NAB performance.

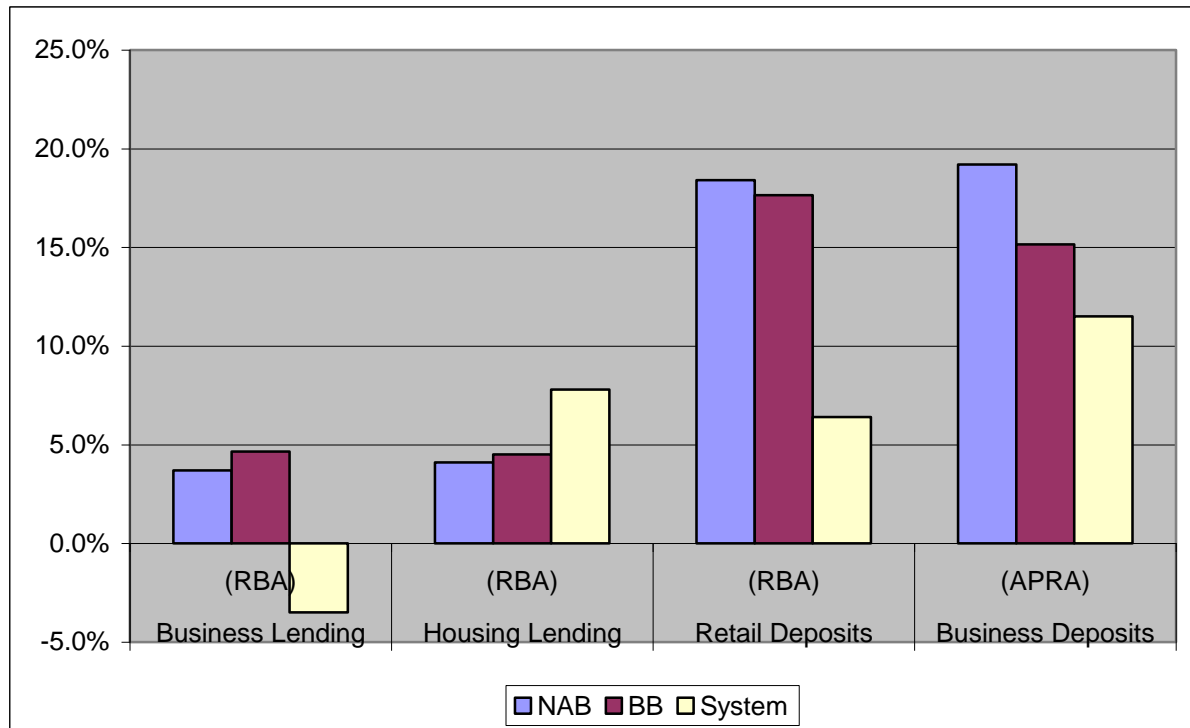


Source: APRA Monthly Banking Statistics / NAB-adjusted post publication: October 2008 – October 2009

NAB Business Bank and System - YTD August 2009.

Growth %.

	Business Lending (RBA)	Housing Lending (RBA)	Retail Deposits (RBA)	Business Deposits (APRA)
NAB	3.7%	4.1%	18.4%	19.2%
BB	4.7%	4.5%	17.7%	15.2%
System	-3.5%	7.8%	6.4%	11.5%



Business Banking Fees

In its submission to this inquiry, the Reserve Bank of Australia noted that in the 2009 financial year, bank fees had risen more quickly than in previous years and on 2008 data, lending fees were equivalent to about 50 basis points on the stock of banks' outstanding business lending.¹

NAB's own research indicated various business banking fees and charges were problematic and confusing for small businesses acting as an impediment to a practical and productive banking relationship.

In January 2010, NAB responded with a comprehensive reform package which abolished a range of fees for its business customers (see attached fact sheet); an initiative applauded by the Council of Small Business Organisations of Australia.²

¹ RBA Submission to the Senate Economics Reference Committee, 2008, pg. 5

² COSBOA Media Release, 27 January 2010

The reform package included:

- The abolition of inward and outward dishonour fees on business accounts from 1 February 2010
- The abolition of the Periodical Payment Deferral Fee from 1 February 2010
- The abolition of the cash-handling fee for over the counter deposits and withdrawals from 1 February 2010
- The introduction of a \$1000 *buffer* for all Overdrawn (Reference) fees from May 2010.

Almost 500,000 business account holders will benefit from these changes. In particular, the introduction of the \$1000 buffer will eliminate approximately 30% of overdrawn (*reference*) fees currently being charged - largely benefiting NAB's small business customers. In fact, two thirds of small and micro customers who have previously paid this fee will no longer be charged.

Prudential settings favour residential based lending

Recent changes to the banking supervision accords overseen by the Basel Committee on banking supervision and enforced by Australian regulators implicitly encourage banks to favour residential mortgage lending over business lending.

Under the Basel I requirements, loans to individual borrowers for housing or other purposes which were fully secured by a registered mortgage over a residential property were assigned a risk weighting of 50%, subject to certain criteria.

In 2007/08, the Basel II requirements came into effect with an initial purpose of establishing an international standard for regulators to use when creating regulations about how much capital banks need to put aside to guard against financial and operational risks.

The practical impact of the move from Basel I to Basel II has been a significant reduction in the level of regulatory capital that major banks are required to hold against their residential portfolios. As a result, Australian commercial banks can do up to five times more mortgage lending relative to business lending in terms of capital management.

The posture of the current prudential settings poses longer term risks to the ability of Australian enterprises and companies to access adequate funding for future growth, expansion and employment opportunities (*see attached speech by Mr J Healy, NAB Group Executive*).

NAB urges the Committee to further examine the issues associated with prudential policy and banking capital requirements and their impact upon business lending trends of Australian financial institutions.

Finance for Australia's smallest businesses: NAB's Microenterprise Loan Programme

NAB notes the Committee's express concern on issues relating to access to finance for 'start-up' businesses and obstacles encountered by smaller or 'micro' businesses.

This type of business lending has been a point of focus for NAB for some years. While microenterprise lending has a long and successful record in developing countries, to date its application in developed economies like Australia has been limited.

In 2006, the Boston Consulting Group (BCG) volunteered its services to help NAB understand the needs of microenterprise customers and the key issues associated with delivering an end-to-end program in Australia.

The report "***Establishing a Microenterprise Development and Loans Program in Australia***" was published in October 2006. The findings from this study have provided the basis for *NAB's Microenterprise Loan* program which was launched in March 2007 and provides unsecured business loans of between \$500 and \$20,000 for people on low incomes, with few or no avenues to access affordable business credit.

Over the last 2.5 years, NAB has piloted its not-for-profit Microenterprise Loan program; supporting over 315 businesses with unsecured, business loans of between \$500 and \$20,000, with total lending now exceeding \$4.7M.

The program's 'whole of community' approach involves the support of community and government organisations to help reach eligible customers well beyond NAB's branch and business banking network; and to provide the necessary business training and mentoring to eligible loan applicants.

NAB's Microenterprise loan commitments as of March 2010

Number of loans - 318

Number of declines - 87

Average loan size - \$14,848 (range extending from \$2,000 to \$20,000)

Total amount of loans written - \$4,721,700

Loan purpose - business only

Default rate - 8.5%