



Australian Business Securitisation Fund (ABSF) Inquiry

As proposed, the ABSF will have a positive impact on the availability of finance for small and medium businesses. Whilst the timeframe has been short, the AOFM and Treasury have conducted a substantial and broad consultation process. From the direct discussions Narrow Road Capital has been part of, there has been a willingness to consider all industry viewpoints in formulating a strategy for the ABSF. The legislation currently before parliament provides the Minister and the Department substantial scope to implement policy that will deliver on the stated aims of the ABSF.

Effect on existing finance providers

The ABSF will be most effective if it assists small and medium sized finance providers to graduate to a level where they are able to access term securitisation funding without government assistance. This group of emerging lenders currently has limited options for raising debt capital, with a key hurdle being reaching sufficient size and maturity to attract bank warehouse lines. Prior to this point, when debt funding is available it is often quite expensive, which makes the interest rate that must be charged to their borrowers noticeably higher than it might otherwise be. This cost of funding issue for emerging lenders leaves them at a competitive disadvantage.

The ABSF is very likely to be a cheaper source of funds for these emerging lenders, for at least part of their journey to becoming an established lender. The introduction of the ABSF will have a negative impact on the small group of existing debt capital providers to emerging lenders. There will also be an impact on established SME lenders, as when emerging lenders reach sufficient scale, they will be able to compete with established lenders on price as well as service.

By looking to establish the ABSF, the Australian government has effectively determined that there is a sufficiently large group of underserved SME businesses seeking debt finance that intervention is justified. Put simply, the omelette of cheaper and more widespread SME lending cannot be made without breaking some eggs, in this case (i) debt capital providers to emerging lenders and (ii) established lenders.

The ABSF should therefore look to tread lightly in its intervention in existing markets. This could include working with existing debt capital providers to fund warehouses, with the ABSF sticking to senior positions and letting existing debt capital providers supply mezzanine capital. This approach would also allow the ABSF to benefit from the expertise of existing debt capital providers, as well as limiting the risk of taxpayer funds being lost.

The need for specialised expertise

The ABSF will be operating in an extremely specialised area of the financial markets. The complexity of the warehouse lending being contemplated is an order of magnitude higher than the RMBS purchased by the AOFM during 2008-2013. Particular areas of expertise required include structuring, documentation and credit analysis; areas where experience is acquired over many years of active participation. With the exception of legal expertise, the most experienced market participants in this area are typically found in boutique firms that have a small number of staff.

It is highly likely that the AOFM will need to run a tender process to find suitable firm/s to source, analyse, decision and manage the investments. An open tender should deliver the most cost efficient outcome for taxpayers, as well as identifying the firms that have sufficient expertise to handle these complex investments.

Conclusion

Narrow Road Capital appreciates the opportunity to make a submission and would welcome the opportunity to assist further. Feedback is welcome and can be sent to info@narrowroadcapital.com.