



Commercial Asset Finance Brokers Association of Australia Limited

ACN 129 490 133

National Professional Body of the Equipment Finance Industry

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
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Inquiry into Access for Small and Medium Business to Finance

Background

The **Commercial Asset Finance Brokers Association of Australia Ltd (CAFBA)** welcomes the opportunity to respond to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Access for Small and Medium Business to Finance.

CAFBA represents Finance Broking firms whose prime area of business is the distribution Equipment Finance facilities to commercial clients. CAFBA members are career professionals who understand every aspect of the funding process, and recognise the potential difficulties which could be experienced by business borrowers in this market.

CAFBA-affiliated broking firms are small businesses whose client base is largely made up of other small businesses. This area of finance broking is long established and was well entrenched in business lending up to two decades before the growth of the distinctly separate Mortgage Broker market which emerged in the early 1990's.

CAFBA is the result of a 2007 merger between the Australian Asset Finance Association (AAFA) and the Australian Equipment Finance Association (AEFA). CAFBA now represents more than 150 member firms, comprising approximately 500 individual business writers. The combined annual volume of Equipment Finance transactions arranged by CAFBA members is approximately \$6.1 Billion per annum. We are the only professional body in Australia which is specific to Commercial Equipment Finance broking.

Preamble

CAFBA members' area of practice is generally as an intermediary between banks and commercial borrowers, and is generally specific to providing Equipment Finance to those borrowers. Accordingly, our commentary and responses to the terms of reference below are in the context of the Equipment Finance sector.

1. The types of finance and credit options available to small and medium business (SME's) in Australia;

With reference to the Equipment Finance Market the following are the main products dealt with by CAFBA members:

Commercial Hire Purchase: The hire purchase agreement is a contract where the lender (the "owner") gives the "hirer" possession and use of an item of equipment in return for regular payments. When the final payment is made, the "hirer" owns the goods.

Finance Lease: The lender purchases the equipment required and then leases the goods to a business entity. The business entity then enjoys the use of the equipment for an agreed time in return for rental repayments. The lender may invite the business entity to purchase the goods at the end of the lease term.

Operating Lease: An operating lease is an agreement between a business entity and a lender to rent equipment for use in business entity for a fixed period. At the end of the fixed period the goods are returned to the lender.

Novated Lease: For employees who have the option of receiving a car as part of their salary package. The employer pays all rental payments to the lender and the employee enjoys use of the motor vehicle.

Chattel Mortgage: The business entity takes ownership of the goods upon delivery and the lender secures the loan by registering a charge over the goods.

2. The current levels of choice and competition between lending institutions, but not limited to, credit availability, fees, comparative interest rates and conditions for business finance;

With reference to the Equipment Finance market, bank and non-bank lenders tend to operate in slightly different areas of the same market. Examples of Bank lenders who are active in this sector are:

1. National Australia Bank
2. Westpac
3. ANZ Bank (and Esanda)
4. Commonwealth Bank.
5. Bendigo and Adelaide Bank

2. The current levels of choice and competition between lending institutions, but not limited to, credit availability, fees, comparative interest rates and conditions for business finance (cont)

Examples of Non-bank lenders in this market include bank-owned subsidiaries, general finance companies, smaller private “Leasing” companies and “point of sale” motor vehicle finance companies:

6. Macquarie Leasing Pty Ltd
7. BOQ Equipment Finance Ltd
8. St George Equipment Finance
9. Capital Finance Australia Ltd
10. Service Finance Pty Ltd
11. Morris Finance Ltd
12. BMW Australia Finance Ltd (and several other branded vehicle finance companies)

The banks listed 1 to 5 above offer finance and leasing facilities which are broadly similar to each other in terms of pricing, types and sizes of facilities available, credit criteria and borrower profile. These banks do rely on brokers to distribute their products, but they also have a retail presence which has diminished in many regional areas.

The non-bank lenders listed 6 to 12 above collectively cover a more diverse range of client types and transaction sizes, however they do not necessarily have a regional or retail presence and tend to rely on intermediaries and brokers such as CAFBA members to distribute their products. SME located outside of major cities would not have access to many of these lenders and their products without the presence of a Commercial Asset finance broker in their region.

The broker channel therefore becomes the third tier in the distribution of Equipment Finance products, accounting for \$6 Billion annually. These financial products are sourced from the full range of bank and non-bank lenders listed above, as well as others.

Brokers are equipped to differentiate the features and benefits of each lenders' products, and inform their clients accordingly. The broker network extends well into rural and regional areas where many of these lenders are not represented, and those lending products would not otherwise be available to borrowers.

3. Credit options available from banks, non-bank lenders and second tier lenders;

Please refer to 1 and 2 above.

4. The impact of financial institution prudential requirements and banking guarantees on lending costs and practices;

No comment from CAFBA

5. Comparison between the credit options available to SME's located in regional Australia and metropolitan areas;

Please refer to 1 and 2 above.

6. The impact of lenders' equity and security requirements on the amount of finance available to SMEs;

The primary security for equipment finance is the equipment itself. It is a normal requirement for directors of a company to provide personal guarantees for the provision of equipment finance facilities. In the event that a borrower is in need of a guarantee from an independent third party, the code of banking practice requires that the guarantor has sufficient details provided to it about the borrower, the guarantee is limited to that specific transaction and they are given the opportunity to have independent legal advice. They are also given a time period to make the decision.

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;

The Consumer Credit Unit of Treasury released a Green Paper (Phase Two of the COAG National Credit Reforms) in July 2010, of which a major component was examining the provision of credit to Small Business. This paper flowed from the National Consumer Credit Protection (NCCP) legislation that commenced 1 July 2010 and examines the possibility of applying consumer style legislation in the provision of credit to small business.

This would result in 96% of Australian businesses being made subject to additional layers of compliance and regulation when seeking credit. Enforcing a regulatory regime on the provision of credit to SMEs will add a cost burden to small business, as well as serve to restrict the amount of credit available to small business which it clearly needs to continue to provide economic benefits to the nation.

Regulatory intervention in the Business finance market would have adverse cost and time implications to Equipment Finance brokers, which would only serve to constrict commerce within the small to medium business sectors without delivering any corresponding benefit.

Equipment Finance Brokers meet the business community's need for prompt service and ongoing relationships are integral to the Equipment Finance Broker's business. To properly act on a client's behalf it is common for Equipment Finance Brokers to arrange and manage multiple credit facilities as instructed by clients, where the ability to settle immediately is critical to the client's business. Equipment Finance transactions often need to be discussed, approved, documented and settled within a matter of days (sometimes within one day).

The broader imposition of unnecessary consumer style protections would delay the provision of necessary finance facilities, and would ultimately disadvantage small business operators. For example the disclosure requirements of the NCCP would be logistically impossible in most instances, and impose time delays and costs, which would be to the detriment of the commercial borrower.

8. The need for any legislative or regulatory change to assist access by SME to finance;

Please refer to 7 above

9. Any other related matters

CAFBA has been seeking to be included as a stakeholder member of the Industry and Consumer Representatives Consultation Group since the publication of the Green Paper in July 2010. Such important matters deserve thorough and widely represented consultation – at present there is no small business representation listed as being a member of the consultation group

The current contacts for further discussion are:

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Yours faithfully,

Commercial Asset Finance Brokers Association of Australia Ltd



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