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Submission to Senate Inquiry about Small Business to Finance

As a small businessman and consultant to organizations involved in many areas of business from Mining ,Transport , retail outlets and Pastoralists , I would like to share some experiences with this inquiry.

I operate a feedlot business in South Australia which I purchased some five years ago with approximately 50% equity and borrowed funds supporting the balance of purchase.

The property was leased back to the Vendor and showed a yield to me of 9%.I had a facility to pay Interest only for two years. This gave me some room to move so at the end of Interest only period I extended this facility and this has allowed me to expand my business in other areas. The Commonwealth Bank was very supportive of such endeavors and arranged other loans very easily because my cash flow was very good.

After the Global Financial Crisis I have found the banks lending criteria to have altered very significantly in as much that I have been scrutinized much more intensely and whenever I indicated that the interest rate be reviewed in a falling interest rate environment I was intimidated by the threat that should I submit the enterprise to review that then the loan facility for interest only MAY be questioned and could be withdrawn.

I accept that banks needed to review all loans but it made running a business very uncertain at a time that the Government was supporting banks.

The Governments support for the banks was to stabilize economy and business at a very uncertain time.

My experience with a Liquor store at the time was similar in as much that a squeeze on capital needed to purchase stock was imposed.

This obviously threatened the running of enterprise.

At this time I reflected upon the need for access to stable sources of capital to business that would allow for long term business decisions to be made. This needed to be less dependant upon equity which varies in Financial crises but more reflected upon the business itself and its management.

This of course was the role of the now abandoned Commonwealth Development Bank which grew out of the Mortgage Bank following the Depression.

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It provided long Term loans of 4% for up to 40 years for good businesses to access capital and develop regardless of seasons and short term crises.

It allowed good businesses to grow with certainty.

There would be opportunities today for such a bank and many Super Funds able to invest in secure Government backed bank loans with a secure but lower Interest rate.

I urge Senators to look at the History of the Commonwealth Development Bank, why it was important to Australia post Depression and how it grew many businesses until it was phased out by Keating Government.

I became very aware how good businesses in Australia failed or were damaged by events out of their control over GFC and how Banks have used the crises to consolidate and reduce competition at the expense of business and homeowners.

It seems that Banks have been the big winners and not small business.

Had a Government backed Bank with fixed loan rates over long terms been in place then business could have weathered the crises in far better shape.

I fear little has changed in post GFC and if we do not protect ourselves then the double dip that follows will wipe out many Australian good businesses.

Kind Regards

A simple rectangular box with a thin black border, intended for a handwritten signature.

Ross.M.Wood

30th March 2010