Commercial Asset Finance Brokers Association of Australia Limited

ACN 129 490 133

National Professional Body of the Equipment Finance Industry

30th March 2010

Mr. John Hawkins,
Committee Secretary
Senate Standing Committee on Economics
Department of the Senate
Parliament House
Canberra ACT 2600

Via email economics.sen@aph.gov.au

Dear Mr. Hawkins

Inquiry into the Access of Small Business to Finance

The **Commercial Asset Finance Brokers Association of Australia Ltd (CAFBA)** welcomes the opportunity to respond to the Senate Enquiry into the Access of Small Business to Finance.

CAFBA represents Broking firms whose prime area of business is the distribution Equipment Finance facilities to commercial clients. CAFBA members are career professionals who understand the funding process and recognise the difficulties experienced by all lenders in the current environment.

These broking firms are small businesses whose client base is largely made up of other small businesses.

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 $4.5 Billion per annum. We are the only professional body in Australia which is specific to Commercial Equipment Finance brokers.

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CAFBA's experience and that of its members, is that finance provided to small business for the acquisition of plant and equipment (i.e. income producing business assets) in the 2009/2010 period will show a decline of up to 40% from the high volume of business which was written in the 2007/2008 period.

This view is supported anecdotally by the Australian Equipment Lessors Association, who collate statistical information on behalf of banks and financier members.

We believe a combination of four main factors rather than a single factor have lead to this decline, being:

1. **An aversion to Credit Risk.** We believe that banks have a responsibility to continue to lend to small business and have made several undertakings to Government to do so. Members' experience, however, is that banks are taking an excessively cautious attitude to small business which is constricting trade and could in fact hasten the segment decline that banks are seeking to avoid. Recovery will come from the small business sector but will be delayed by restrictive lending practices. To that extent, the speed and size of the recovery is in the hands of the banks. Borrowers' confidence to apply for finance is diminished by the perception that they may no longer qualify for approval.

2. **A shortage of Funds:** The Global Financial Crisis has produced a shortage of funds available for lending, and we recognise that this leads to a reduced margin for risk and a more prudent approach to credit. However, lending risks can be reduced within the distribution channel by giving preference to those brokers who are dedicated to the Equipment Finance market and whose businesses adopt "Know Your Client" practices, rather than broader broker groups whose expertise lays elsewhere. CAFBA has made this representation to all banks with varying degrees of success.

3. **Fewer Lenders:** The number of Equipment Finance lenders servicing Small Business has more than halved in the last three years. Lenders whose products are no longer available to Equipment Finance Brokers include ABN Amro Ltd, Adelaide Bank, AGC Ltd (independently of Westpac), Bendigo Bank, Colonial State Bank, G E Commercial Finance, Members Equity Bank, Orix Australia Corp, Societe Generale (SG) Aust Ltd and Suncorp Metway Ltd. Each departure from this market removes a particular expertise or product range, leaving fewer options available to Small Business borrowers. A reduced number of lenders creates a greater reliance on the lenders remaining, and the ability for a borrower to spread lending exposure is diminished to the point where many who are otherwise creditworthy simply run out of places to borrow.

4. **Centralisation of Credit Assessment**. In order to rationalise costs, many lenders have centralised their Credit Assessment function. For example, loan applications from Far North Queensland may be assessed in Sydney, where there is no "local" knowledge of regional industries. This has impacted on the ability of rural and other localised industries to obtain funding.

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5. **A Decline in Demand for Credit:** Naturally a slowing economy will lead to a short term decline in business investment. However, the demand for finance facilities to Small Business is not being met by supply, notably for the reasons outlined above.

As the distribution channel for these lending products, CAFBA member firms are not in a position to remedy the issues raised above.

CAFBA would be very pleased to offer its expertise on issues relevant to the Commercial Equipment Finance industry. The current contacts for further discussion are:

President	David Gandolfo	Phone (03) 9006 1150
Vice-President	Terry Moody	Phone (02) 9439 6699

Yours faithfully,
Commercial Asset Finance Brokers Association of Australia Ltd

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