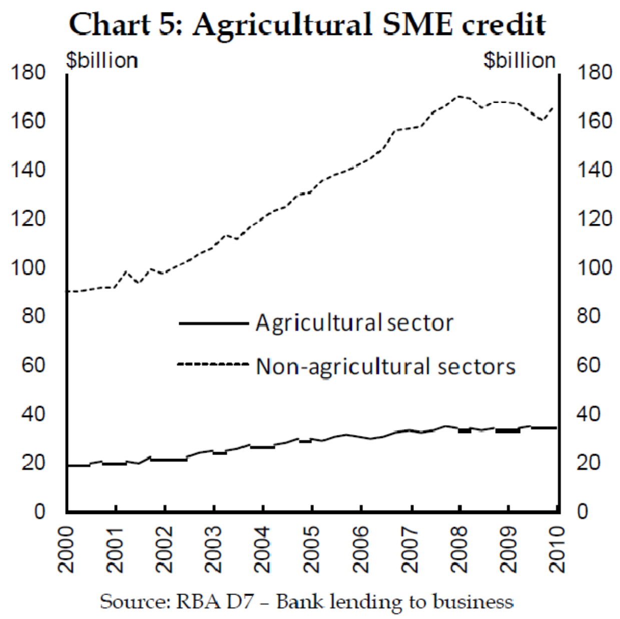
Chapter 5

Finance for regional SMEs

5.1 The committee was asked to make a 'comparison between the credit options available to SMEs located in regional Australia and metropolitan areas.'

5.2 Treasury reports that between June 2007 and September 2010, 'the stock of outstanding credit to SMEs in the agricultural sector increased in nominal terms by around 75 per cent between September 2009 and September 2010'. Comparatively, for the same period the stock of outstanding credit for SMEs in other sectors increased approximately 85 per cent.[1]

Figure 5.1 Stock of outstanding credit[2]



5.3 Treasury further reported that credit outstanding to SMEs in the agricultural sector rose by approximately 8 percent from June 2007 to September 2010, compared with a 7 per cent growth across other SME sectors.[3]

5.4 None of the ADIs presenting evidence to the inquiry informed the committee that their lending policies differed between SMEs in regional and rural areas and

1 Treasury, *Submission 16*, p. 8.

2 Treasury, *Submission 16*, p. 8.

3 Treasury, *Submission 16*, p. 8.

SMEs in metropolitan areas. ANZ and NAB stated that the same lending polices applied to rural and regional SMEs and SMEs in metropolitan areas.[4]

5.5 In addition to finance that does not differentiate between industries, rural and regional SME may have access to financial products tailored to the agribusiness sector. ANZ, BankSA, BankWest, CBA, NAB and Westpac are among the providers of 'agri banks' specialising in loans to rural SMEs.[5] ANZ stated that its Regional Commercial Banking service offers many of the mainstream SME products and services, as well as 'specific products for farming business.'[6] Westpac Group explained that '[a]gribusiness lending products and bankers focus almost exclusively on the specialised lending needs of agricultural-based businesses.'[7]

5.6 Data from Canstar Cannex indicates that there are approximately 69 agribusiness finance options from nine 'agri banks' (Appendix 5). The kinds of finance available include residentially secured business overdrafts, residential secured variable business loans and commercially secured variable business loans. The interest rates for agribusiness loans are in most cases comparable to the interest rates attached to mainstream business loans. For example, one bank's commercially secured variable business loan has an interest rate of 7.94 to 9.74, which is the same as the interest rates applying to the equivalent agribusiness product. However, agribusiness products may also attract a higher interest rate. For example, the interest rate for one bank's residentially secured agribusiness overdraft is slightly higher than the equivalent mainstream business overdraft. The residentially secured business overdraft has an interest rate of is 9.81 per cent while the rate for the agribusiness residentially secured business overdraft varies from 9.81 per cent to 11.71 per cent.

5.7 The committee did not receive evidence that clearly indicated a lack of banking competition in regional areas. It did hear that there had been a move out of regional banking in the past, but that there were signs of that trend being reversed.[8] ANZ stated:

> We believe that, despite the retreat of some finance providers during the GFC, the market for small business banking remains competitive with a range of lending and deposit products targeting this segment across both metropolitan and regional geographies.[9]

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4 ANZ, *Submission* 14, p. 10; NAB, *Submission 19*, p. 11.

5 Canstar Cannex, 'Business Banking – Compare Interest Rates and Star Ratings', http://www.canstar.com.au/business-loans/ (viewed 11 April 2011).

6 ANZ, *Submission 14*, p. 5.

7 Westpac Group, *Submission 9*, p. 3.

8 Mr Paul Orton, Director, Policy and Advocacy, New South Wales Business Chamber, *Proof Committee Hansard*, 4 March 2011, p. 29.

9 ANZ, *Submission 14*, p. 4.

5.8 The ABA argued:

> We are seeing, particularly in regional and rural areas, more and more of the decision making being devolved down to people in the branches or the subregional managers for the very reason that they are the people who can make the soundest judgments about what is going on in that region.[10]

5.9 In some regional markets, individual lenders – often mutuals rather than major banks – may have a strong presence:

> We have at least two regional members where almost a third of their lending is commercial, which is highly unusual. It just goes to show that in those regional markets they are very well established, they know those markets very well.[11]

5.10 Overall, the mutual sector is particularly well-represented in regional Australia:

> Mr Lawler—I think the fact that we have such a big footprint in regional Australia reflects the fact that there is demand for institutions, and historically there has been demand for institutions like ours. People want to have access to banking services. They want to be able to retain their capital locally. They want to be able to speak to lenders who understand them, understand their business and understand the local community.[12]

5.11 There are also intermediaries, such as brokers, stepping in to address the gap created by a lack of bank branches at the regional level:

> The commercial asset finance broker is a vital distribution network that provides small and medium businesses located in regional Australia an increased level of access to finance. Many regional towns or areas no longer have a bank branch physically present or, if they are one of the lucky ones, they might have one of the big branches represented. Outside of the big four, there are many lenders who provide asset finance to small and medium businesses—Capital Finance, the Bank of Queensland and Macquarie—but they do not have an extensive branch network in regional Australia. This is where the commercial asset finance broker provides access to finance for businesses located outside of major cities.[13]

5.12 Representatives of CAFBA demonstrated that what is important to successful regional lending is not an on-the-ground presence of the lender, but of someone who understands the business that is seeking funds. CAFBA gave an example of successfully assisting businesses to borrow funds from banks that did not have a

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10 Mr Steven Münchenberg, Chief Executive Officer, Australian Bankers Association, *Proof Committee Hansard*, 4 March 2011, p. 58.

11 Mr Luke Lawler, Abacus, *Proof Committee Hansard*, 4 March 2011, p. 6.

12 Mr Luke Lawler, Abacus, *Proof Committee Hansard*, 4 March 2011, p. 7.

13 Mrs Kathryn Bordonaro, Committee Member, CAFBA, *Proof Committee Hansard*, 4 March 2011, pp 17–18.

regional presence, and contrasted this to the inability of the business to borrow from a local bank, because despite having local staff, 'they just did not understand the goods.'[14]

5.13 The committee notes concerns that the loss of some funding sources, following the GFC, may have disproportionately affected regional institutions. The government is taking steps to address these concerns:

> We have been particularly concerned with the demise of the securitisation market, and that was a good funder of small business. The regional lenders especially—lots of representations have been made to us by institutions such as the Bank of Queensland and Suncorp and smaller lenders which may be closer to the market—have been affected by the demise of the securitisation market. That is why in the banking package we are pushing to try to revive the securitisation market and to try to get a corporate bond market going, because we think, again, that will provide funding.[15]

5.14 The committee also understands that the National Farmers Federation, in conjunction with Canstar Cannex, is developing an 'NFF Agribusiness Monitor'. In announcing the new service, Mr Jock Laurie of the National Farmers' Federation argued that at present:

> It is virtually impossible to know, with any certainty, how your farm loan compared with others in the market, what the interest rate are and how they compare across various loan products...This makes the decision about changing your bank difficult and, ultimately, thwarts competition.[16]

5.15 The NFF Agribusiness Monitor is intended to 'shed new light on bank rates and products',[17] to assist agribusinesses to make an informed decision when selecting a finance option.

5.16 Evidence indicates that the SME agribusiness shares the challenges of all SMEs and others largely unique to the agribusiness sector. Treasury stated that rural debt outstanding has increased in recent years and reported that '[c]ash flows to rural sector businesses can often be volatile, particularly as a result of extreme weather events, such as droughts and floods.'[18]

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14 Mrs Kathryn Bordonaro, Committee Member, CAFBA, *Proof Committee Hansard*, 4 March 2011, p. 18.

15 Mr Jim Murphy, Executive Director, Markets Group, Treasury, *Proof Committee Hansard*, 4 March 2011, p. 36.

16 Mr Jock Laurie, National Farmers Federation, 'Lifting the lid on bank interest rates for farmers', Media Release, 14 December 2010.

17 Mr Jock Laurie, National Farmers Federation, 'Lifting the lid on bank interest rates for farmers', Media Release, 14 December 2010.

18 Treasury, *Submission 16*, p. 9.

5.17 It appeared that there is a range of measures in place to assist SMEs affected by extreme weather events. Treasury advised that the Australian Government is providing the following assistance:

- Farmers and agriculture-dependent small businesses experiencing drought may be able to access interest rate subsidies of 50 per cent of the interest on loans for the first year of an Exceptional Circumstances declaration, and 80 per cent for second and subsequent years. These subsidies provide recipients with up to $100,000 per year, and up to $500,000 over 5 years.
- Affected farmers may also access professional advice and financial planning assistance that helps them develop business plans and identify ways to improve their farm management practices.
- Employees, small businesses and farmers who have lost income as a direct result of the extreme weather events since November 2010 may be able to access the 'Disaster Income Recovery Subsidy' announced on 10 January 2011, which provides a fortnightly payment of up to the maximum rate of existing Newstart Allowance for 13 weeks.[19]

5.18 ADIs also indicated that there are measures in place to address cash flow concerns resulting from recent natural disasters. ANZ and CBA have advised that the ADIs are providing loan assistance to SMEs affected by the extreme weather events in recent months.[20] Abacus advised that its members are providing affected SMEs hardship relief, which includes deferred loan repayments.[21] ANZ also stated that cash flow concerns are factored into the bank's agribusiness loans:

> This segment...offers specific products for farming business, such as revolving lines of credit which are specifically structured to account for typical (i.e. infrequent) agribusiness cash flows as interest can be charged in accordance with the customer’s income (i.e. monthly, quarterly, half yearly or yearly).[22]

5.19 Overall, Treasury reported that the regional banks 'have done reasonably well,'[23] while the ABA considered that the 'outlook from the banking sector is very positive for regional areas because of where commodity prices are.'[24]

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19 Treasury, *Submission 16*, pp 9–10.

20 ANZ, *Submission 14*, p. 7; CBA, *Submission 17*, p. 2.

21 Mr Lawler, Abacus, *Proof Committee Hansard*, 4 March 2011, p. 8.

22 ANZ, *Submission 14*, p. 5.

23 Mr Jim Murphy, Executive Director, Markets Group, Treasury, *Proof Committee Hansard*, 4 March 2011, p. 38.

24 Mr Stephen Carroll, Policy Director, Australian Bankers Association, *Proof Committee Hansard*, 4 March 2011, p. 52.