

Australian Business Securitisation Fund Inquiry

Submission to the Senate Economics Legislation Committee
March 2019

Australian Business Securitisation Fund

The Australian Chamber of Commerce and Industry (Australian Chamber) welcomes the opportunity to make a submission to the Senate Economics Legislation Committee for its inquiry into the Federal Government's Australian Business Securitisation Fund initiative, announced by Federal Treasurer Josh Frydenberg on 14 November, 2018.

The Australian Chamber supports efforts that would enable small and medium-sized businesses easier access to finance to maintain and grow their businesses.

We also believe in the need for greater competition in the banking sector, particularly in the light of the Hayne Royal commission, as this should lead to a lower a cost of funding for small business.

At face value, the introduction of the Australian Business Securitisation Fund would be a step in the right direction to achieve both these aims. Our only reservation is that it has fallen to the Federal Government to again intervene in the private sector.

SME Lending

Small businesses are often cited as 'the engine room' of the Australian economy, yet many are stifled by a lack of access to finance.

The Reserve Bank has raised the issue of a lack of competition in the small business lending market and that interest rates on small business loans are relatively high.¹

Over 80 per cent of small business loans are currently held by major banks.

According to the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) 'Affordable capital for SME growth' report in 2018, while SME's rely on credit to start, operate and grow their business, banks consider SMEs business "high risk".²

Furthermore, when the Banks do offer lending it is with restrictive terms and conditions at a price few can afford.

¹ <https://www.rba.gov.au/speeches/2017/sp-ag-2017-12-13.html>

² <https://www.asbfeo.gov.au/sites/default/files/documents/ASBFEO-affordable-capital-for-SME-growth.pdf>

The Ombudsman also quotes research by Judo Capital/ EST & Partners 2018 SME Banking Insights that found the two biggest funding issues for small business are a bank's insistence that a business owner's home is used for collateral and the turnaround time for credit approval.

Even when a home is put up as collateral it is often difficult to access additional funding at a later date.

Securitisation Fund

The \$2 billion Australian Business Securitisation Fund aims to provide a mechanism for smaller banks and non-bank lenders to raise wholesale funding at interest rates compatible to the major banks.

This will allow these smaller entities to enter or grow their share of the business lending market, creating a more competitive environment. We would envisage there would be some benchmark under the scheme to ensure the lenders were of sufficient quality and integrity to provide the service and positive outcomes that small business needs.

This increased competition from smaller lenders should benefit small business and allow for more competitive terms when taking out a loan.

However, this does not mean that small lenders are about to drop their standards in requiring borrowers to meet certain requirements. The Hayne Royal Commission showed only too well the devastating results from not adhering to strict lending practices. It is likely the business owner will still have to put up substantial collateral – like their residential home – to secure a loan.

The government's initiative will potentially result in lower interest rates for the borrowers if the success of Australia's residential mortgage-backed securities is held as a benchmark.

Reserve Bank data³ shows the average standard variable home loan offered by the banks is 5.37 per cent, yet a securitised principal and interest home loan carries an average rate of 4.30 per cent.

The data also shows the average interest rate for a variable small business loan secured by a residential loan is 6.47 per cent, while the average variable rate on credit outstanding for a large business is just 3.92 per cent.

Securitisation

Securitisation allows a lender to repackage a number of existing loans, which a securitisation fund will buy at a cost, providing the lender with fresh capital to on-lend, in this case, to small businesses.

The Australian Chamber notes the Australian Office of Financial Management will administer the new fund, consistent with its previous involvement in Australia's now well-developed Residential Mortgage backed Securities market.

Addressing a conference in July 2017, Australian Securitisation Forum CEO Chris Dalton noted the Australian RMBS market is one of the few such markets that has continued to function with relatively regular issuance since the 2008-2009 global financial crisis.⁴

³ <https://www.rba.gov.au/statistics/tables/#interest-rates>

⁴ <https://australiancentre.com.au/wp-content/uploads/2017/05/D2P2-Chris-Dalton-Paper.pdf>

By contrast there has been limited activity in similar European markets in recent history.

Mr Dalton puts this success down to a key initiative by then Labor Government during the heat of the GFC that directed the AOFM to intervene and invest up to \$20 billion in new RMBS issues, allowing small lenders to continue to operate their businesses to finance residential properties and fund new loans through capital markets at reasonable rates.

Summary

The Australian Chamber supports the introduction of the Australian Business Securitisation Fund.

The ability to raise finance is crucial to the wellbeing of Australia's small business sector if individual operations are to be successful and grow.

The introduction of the Australian Business Securitisation Fund will provide a vehicle for smaller lenders to gain a greater foothold in the business lending market and improve competition. In turn this should be to the benefit of small businesses.

Australia also has a good track record in the securitisation space.



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About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad.