Senate Inquiry into Access to Small Business Finance

Submission by Mortgage and Finance Association of Australia (MFAA)

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Mortgage and Finance Association of Australia

The Mortgage and Finance Association of Australia (MFAA) represents the interests of over 12000 mortgage and finance brokers of whom around 1000 are involved either partially or totally in sourcing equipment and commercial finance for their clients.

Access to Small Business Finance

MFAA has previously (July 2009) raised concerns with The Treasurer about the difficulties being experienced by members in sourcing finance for their small business clients. Whilst acknowledging the difficulties impacting lenders in funding lending over 2008/2009 our members raised the following practices that they had become aware of in attempting to negotiate finance for their clients. The impression given was that lenders were looking at ways not to provide credit rather than examining proposals with a view to providing credit:

- Unrealistic information requests
- Slow assessment process
- Reduction in lending values against assets
- Measuring the value of a proposal purely from historical accounts which are well out of date and have little relevance on the future performance of the borrower

Since that letter, we have further recently canvassed members as to their observations/concerns about finance for their small business clients.

These are listed in dot point format below. We would be happy to speak to and expand upon these points if required by the Senate Committee.

- Lack of market competition.
- Banks determining the credit appetite through lower lending values on property.
- Over analysis of credit where risk is not taken and priced accordingly.
- More stringent hurdles placed around servicing of the debt from historical accounts rather than future revenue.
- Increase in Bank's margins through re-pricing of their book rather than increase in their assets (loans).
- Time taken for assessment and long decisioning results in opportunities missed.
- Liquidity issue raised constantly, however, pricing is not the main issue with clients but rather getting access to funds to take advantage of business opportunities. Cost of funds can be overcome by providing a tranche to the SME sector and pricing accordingly.
- Reduction in non-bank sector where there was previously a higher appetite for risk.
- Accountability on the decision maker ie. fear of being held accountable for a decision.
- Regular review process where clients may have good behaviour but not necessarily have their financial statement up to date. Banks calling up debt when there is no default other than they create an event of default as the lending is traditionally "on demand".
- Property development funding more difficult through lower lending values, higher presales (sometimes greater than 100%). Tightened underwriting standards in this sector makes property development lending difficult.
- Lack of cash flow lending for good businesses with sustainable revenue. Banks requiring tangible, property security.