



**HON CRAIG EMERSON MP**

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THE SERVICE ECONOMY  
MINISTER ASSISTING THE MINISTER FOR FINANCE ON  
DEREGULATION

**Radio National Breakfast**

Fran Kelly  
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**SUBJECTS:** *Bank Lending Complaints*

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KELLY: Well, it's that evaporating line of credit that Phil Toner(\*) was just talking about, and the urgent need for fresh capital, that has so many in the business sector concerned.

But Australian banks deny they are deliberately making life difficult for small business.

Today in Melbourne the two groups will be brought together by the Federal Small Business Minister Craig Emerson, who joins us now.

Craig Emerson, welcome to *Breakfast*.

EMERSON: Thanks Fran.

KELLY: Minister, what's the key complaint you hear from the small business sector when it comes to the issue of bank lending?

EMERSON: It's actually twofold. One is that there's not enough money available from the banks for small business; and the other is that the price is too high.

On the other hand, the banks are saying that they are now lending in the order of \$20 billion more to small businesses than they were in mid-2007. They do concede on the price side that all the reductions in the Reserve Bank cash rate have not been fully passed through, but then they point out that quite a lot of the money that they lend they actually obtain from overseas and the price of that has gone up.

So we're in this world of claim and counter-claim, and it seemed to me that the smartest thing that I could do as a minister would be get the two sides together and see if we can get to the bottom of this.

KELLY: So how are you going to do that? What assurances are you hoping to get from the banks today?

EMERSON: I would like to see the banks provide assurances that the, that they will provide ample funds for viable small business propositions - existing and new - and that the price will be reasonable - that is that over time, as the cost of funds for them falls, then they will do everything possible to pass that on to small businesses.

And the reason I'm putting a couple of little qualifications in that answer Fran is that banks themselves point out that it's a more risky environment with what's happening around the world than it was a couple of years ago, but then, they say that they're keen to take on new customers; viable small businesses

So let's see if we can get some assurances along those lines.

KELLY: It is like we're operating in parallel universes at the moment because...

EMERSON: Yeah...

KELLY: ...the small business sector is absolutely adamant that the banks aren't passing on - (a) passing on the RBA rate cuts to small business loans. Well you've acknowledged that. And the banks acknowledge that. But they're saying that's a major thing. But they're also saying the banks are calling in their loans for the slightest of reasons, even for some businesses that have good payment records, and so their access to credit is just not assessed on their ability to pay. And they say that is a major stumbling block.

I don't know how a government; or is there anything government can do to alter that mindset if, if that's...

EMERSON: Well...

KELLY: ...if that's the banks risk aversion policy?

EMERSON: Yeah, and it is risk aversion, and perhaps a few years ago, in the middle of this sub-prime crisis - and I'm talking about what was happening in America more than here - that risk was priced at a very low rate; maybe zero; and now it's switched around to, you know, being extreme risk aversion by financial institutions around the world. And that itself is affecting both the cost and the amount of credit that's available.

One thing that I can do is take it upon myself to provide a clearing house service within my own office - that is, as individual small businesses come up with stories about how they're being unfairly treated, I can set up a clearing house in the office, get that information - usually via email - to the banks and make sure that it gets attention, not just at the branch level where the problem has originated, but up the line. And I'm happy to do that.

KELLY: It's pretty tough; I mean, small business operators say, well they had to endure the run of rate rises under the Howard Government, and they're not sharing in the relief of the rate cuts under the Rudd Government, which makes life hard. Now I'm not sure what you could do about that. But there does seem some anomalies.

The Small Business Association for instance says, where the private residence of a business borrower is used as mortgage security for a business loan, banks are charging an extra one and a half per cent approximately above the interest rate for the same house if it was not providing security for the business loan. How do you figure that?

EMERSON: Ah well, again, this is one of the bank practices; and you're right that one of the most common forms of finance for small business is that which is backed by the value of someone's home. And look, I'm not here - you probably should talk to the Australian Bankers Association as to any changed behaviour in that regard.

What we will do is raise these exact sorts of examples today. We've set aside more than two hours, so that we're not just talking, Fran, in the abstract. But, I'm actually encouraging small business organisations to bring along cases like that. We're not going to be able to resolve them all today, but, we will refer situations, examples like that to the Australian Bankers Association, who I expect will then give them to the banks to be able to respond to.

So this is the beginning of a process, not the end of it.

What I would like to do is be constructive about it. It's easy for me, as a politician, to say everything that banks do is bad. I actually think that through a collaborative approach - maybe I'm a bit too optimistic about this - but a collaborative approach we might be able to make some progress. And we've just got to move on from the counter-cla... claim and counter-claim.

KELLY: Sure, no suggesting everything the banks' doing is bad, but the banks have had a fair bit of support from the government through this with bank guarantees. Should the government have done more early to help shore up the small business, which provides four million jobs in our economy; and are you considering, will you consider something like a bank guarantee lending facility for small business?

EMERSON: Well, in terms of acting early, in fact the Coalition's criticism of Labor is that we acted too early and too decisively.

KELLY: Well what about this notion of a, of some kind of lending facility guarantee?

EMERSON: Well I'm not going to get into, you know, suggestions, of policy suggestions here Fran. I'm sorry about that. I know it's a perfectly reasonable question to ask, but I just don't want to speculate about what, you know, might happen or might not happen. I don't want you to take anything out of that at all other than to say that I can't help you on that front.

KELLY: Okay.

EMERSON: What I can do is work with the banks, with small business, to get a better result for small business.

KELLY: Minister, thanks very much for joining us.

EMERSON: Okay. Thanks Fran.

KELLY: That's Small Business Minister Craig Emerson; hosting a summit today between the major banks and the leaders and representatives from the small business sector.

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