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Media Release

Banks losing to brokers in business lending

(13 October 2006 – Australia) A significant and growing number of Australian businesses are looking beyond their banks for borrowing, preferring instead to source debt from commercial brokers, East & Partners' Australian Business Lending Markets 2006 Report shows.

East's report, released this week, reveals that more than a third of Micro Businesses (companies turning over A$1 to $5 million per annum); almost 30 percent of all SMEs (A$5 to 20 million); and almost 12 percent of the Commercial (A$20 to 340 million) enterprise segment will use brokers to source plain vanilla debt.

Just five years ago, less than six percent of all business lending was sourced from brokers.

East's Business Lending Report finds that 17.4 percent of all business lending is currently originated through brokers, representing more than A$90 billion of a total business lending market currently worth in excess of A$520 billion.

Micro Businesses and SMEs together account for 64 percent of broker originated lending. A smaller number of Commercial companies, which tend to be relationship managed by their banks, go to brokers to source debt.

"Businesses are going to brokers primarily to secure better and more flexible terms and collateral than they perceive they will get from their banks; it's not just purely about price," East & Partners principal analyst Paul Dowling said.

"Businesses, particularly smaller ones, can find the experience of applying for a loan from their bank cumbersome and generally quite negative, so if they can hand the hassle factor over to someone else and get the funding they require to grow their business, it's not surprising more and more are choosing to use brokers," he said.

"What is most worrying for mainstream commercial banks is that the third party channel is increasingly being regarded as 'what good banks used to be', that is, it's the brokers who are taking the time to get to know the customer's business," Mr Dowling said.

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"It's another example of the shallowing of relationships between banks and their small business customers.

"The broker channel has traditionally provided a vital channel for banks in regions where they don't have a physical presence, but given the volume now passing through this channel, it is imperative that lenders have a clear strategy for third party originators," Mr Dowling said.

"It isn't a one size fits all either – what works for one lender doesn't by any means suggests it will work for another. The key lies in clearly delineating why and how direct business lending is different to broker originated business for the individual institution."

Micro Business Markets – Key Reasons for Sourcing via Third Party Brokerage

N: 2441	**% of Micro Businesses**	
	2005	**2006**
More flexible terms	69.2	74.5
Pricing benefits	56.6	59.8
Collateral / security reductions	27.3	36.7
Keep additional debt away from main banker	9.3	10.4
Broker approached us	6.6	5.9
Other	1.2	1.1

Note: sums to over 100 percent due to multiple responding
Source: East & Partners Business Lending Report – 2006

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