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Media Release

Middle markets the sweet spot for business lending, report finds

(9 March 2005 – Australia) Australia's middle markets are proving to be a sweet spot for banks looking to increase their business lending as mortgage borrowing softens, according to a new report by East & Partners.

Using a structured sample of 847 enterprises in the A$20 to 340 million turnover segment, East's Commercial Treasury Banking Report into customer demand and behaviour in this market shows 73.9 percent of these companies are using A$ Term Loans compared with 70.9 percent in the previous report.

Engagement of other Debt products, such as Overdraft Facilities, Commercial Bills and Leases have all increased over the past six months.

"The appetite for debt in the commercial market supports our view that the business lending market as a whole will grow around 12 percent over the next year," East & Partners principal analyst Paul Dowling said.

"Customers in this market segment have historically been fairly conservative and stayed lightly geared but this seems to have changed over the past 12 months as these businesses have developed more optimism about their growth prospects, and are looking to fund much of this with new debt," he said.

"The Top 500 corporates by contrast are now behaving very conservatively, carefully managing their balance sheets and not taking on new borrowings. Banks looking to make up the shortfall caused by the slowing house market on one hand and top end corporate demand on the other, are clearly now focussing on these middle corporate customers, particularly the lower A$20 to 100 million turnover end of the segment," Mr Dowling said.

"It has become an ultra competitive segment, with fully 45 percent of companies saying they have been hit for their business by competitor banks in the last six months," he said.

The report shows National Australia Bank is the leading A$ Term lender to the middle markets, slightly improving its share of primary A$ Term Loan relationships from 24 percent six months ago to 24.1 percent in this latest report, despite its widely reported troubles.

NAB is followed by Commonwealth Bank which has also gained A$ Term Loan customers with 23.3 percent market share compared with 23.0 percent in the July 2004 report. Westpac and ANZ shed a small amount of share while St George, HSBC, BankWest and Citigroup all gained A$ Term lending customers.

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“Further reinforcement of this particularly high level of competition is evident in customer satisfaction ratings with Value for Money in A$ Term Lending showing significant improvement over the past six months,” Mr Dowling said.

Westpac, BankWest and NAB all experienced notable jumps in their Value for Money satisfaction ratings and these can be expected to flow through to improving market share positions over the coming year.

“One conclusion that can be drawn from these climbs in Value for Money satisfaction is that middle market customers are experiencing heightened price based competition,” Mr Dowling said.

“This is strongly reinforced by customer ratings on Pricing Competitiveness for each of the Big 4 banks which have also shown marked jumps over the past six months relative to their regional and international bank competitors,” he said.

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