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Big banks pressure loan rivals

STEPHEN JOHNSON

THERE are fears the major banks will consolidate their hold on the lending market and force non-bank competitors to offer fewer products.

This would put extra pressure on small businesses with cash-flow problems, which might normally think about taking out a loan to cover their shortfalls, the Council of Small Business Organisations of Australia says.

It urges small operations to shed staff, rather than take out loans as competition among lenders dries up.

The extent of the lending drought has been made clear by financial research group Cannex, which showed the number of low-documentation loan products on offer fell by 15 per cent in the first seven months of this year.

Last month, 38 lenders were in the low-doc business, down from 46 in January, with 153 products on offer, the data shows.

Cannex says low-doc loans are often taken up by self-employed people who earn an adequate annual income, but on a more volatile basis.

"People are finding it risky to lend... based on what is happening on the capital market," Cannex financial analyst Joshua Zenas says.

This year, HSBC, Macquarie Group and Virgin Money have dropped out of the low-doc loan market, as have non-bank lenders

small outfits

Bluestone and Ironbark Mortgage Solutions.

Council chief executive Tony Steven says small companies are better off cutting costs than getting into more debt to cover their cash-flow problems.

"My advice to small business is to be very careful and wary of loans to cover cash flow in a downturn in the economy," Mr Steven says.

"In the economic cycle, efficiency gains have to be instituted - whether that means cutting staff or finding cheaper, quicker processes."

Consumer group Choice spokesman Christopher Zinn says the major banks are more likely to increase their market share as higher global borrowing costs make non-bank lenders withdraw from the market.

"Our fear is that without competition from the non-bank sector, it does allow the banks far more freedom to further their interests," Mr Zinn says.

"The rise of the non-bank industry led to a lot of price and terms of conditions competition and new products, which was terrific for the consumer."



KICK-START: Business partners Matthew Persichini and Alex Pesa. Picture: TAIT SCHMAAL

Rent, try and buy delivers the goods

VALERINA CHANGARATHIL

YOUNG entrepreneurs in South Australia are getting help from all quarters to set themselves on the way to bigger things.

Matthew Persichini and Alex Pesa opened takeaway outlet Fire & Stone this month with help from Queensland-based rental finance company Silver Chef.

A listed entity, Silver Chef has helped set up about 250 businesses in SA, mostly in the catering sector.

It has helped fund kitchen equipment worth \$15,000 at Fire & Stone.

Mr Pesa said Silver Chef's low interest rate of 7 per cent and its rent-try-buy system were the clinchers.

"We can upgrade the equipment or buy it outright, the model gives us more flexibility," he said.

Silver Chef has \$65 million worth of equipment in the market across Australia, said managing director Allan English.

"We wanted to free up cash for start-up entrepreneurs, give them a chance to get in and run their business, and then make the decision to spend on buying or upgrading equipment," he said.

The rent-try-buy model was offered by some retail companies but the key difference was the contract period, Mr English said.

Silver Chef offered 12-month, renewable contracts compared with three-year lock-in deals offered at many other companies.

"I think owning a business is a faster way to get ahead," Mr Pesa said.