

# The Sydney Morning Herald

Business

## Crackdown on small businesses

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### BANKING

BANKS are set to wind up a growing number of **small businesses** that have fallen behind on their repayments, with lenders removing allowances made to customers during tough times.

Despite the improving economy, the Australian Banking Association chief executive Steven Munchenberg signalled the months ahead could prove challenging for borrowers in financial distress.

Mr Munchenberg said banks had nursed some of their struggling small business customers through the downturn, but this may change. As a result, banks could "very possibly" tip an increasing number of companies into administration. "We know that there are more and more businesses getting behind on their repayments," he told a Senate inquiry into small business access to credit in Sydney.

"After nearly two years of difficulty there will be ... circumstances where the banks say 'we are no longer able to support these businesses'. That's what we would expect coming out of an economic slowdown."

Official figures published earlier this month suggested the number of corporate insolvencies had peaked late last year, but Mr Munchenberg's view is consistent with reports from administrators and receivers, who say bankruptcies are rising as banks and the Tax Office take a harder line on collecting debts.

Mr Munchenberg's comments highlight the vulnerability of **small businesses** operating in weak spots of the economy, which face rising interest rates and a fragile household sector.

Banks were especially wary of lending to commercial property borrowers, he said, because the sector was hard hit by the downturn.

The Reserve Bank governor Guy Debelle also addressed the Senate committee. He said banks had passed on smaller interest rate cuts to **small businesses** than to mortgage customers.

After five interest rate rises of 0.25 percentage points since October, Dr Debelle said the interest rates that small business were now paying were "about the average of where they have been since 1997."

Competition between banks for small business had fallen but the improving economy would entice small banks and non-bank lenders to return to small business sector. "I would think we would see increased competition, in large part because we're looking at an economy which is growing pretty well with some pretty good opportunities."

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