



Bank Lending to Small Enterprises in South-West Regional, Western Australia

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The South-West region consists of twelve local government areas in which Bunbury and Busselton are the two major commercial centres. Many small businesses are concentrated in these centres in particular in Bunbury, there are more than two thousand small businesses in the trades of retail trade, property and business services, restaurants, motels, other service industries such as automobile repair, food packaging and distribution services, and so on. Furthermore, many small businesses are family businesses and predominately run by family members. Small businesses in these regions are generally prefers to finance itself with debt in particular bank loans rather than equity. Australia's major banks are dominating the small business banking segment. Closures of many major bank branches in rural and regional Australia apparently become a major hurdle for small businesses to raise fund. In fact, small businesses in rural and regional areas do not have any luxury to choose their lenders such as those second tier banks including BankWest, Bendigo, Suncorp and St George which are recently very keen to provide funding for small businesses in major cities regional Australia. Moving out of major banks in regional Australia may prove to be an opportunity for those non-major banks to penetrate into rural and regional Australia market, however, in many situations, a bank such as Bendigo is invited to setup bank branches in South-West regional, WA areas in the form of Community Banks involving commitment and supports from regional communities by pooling and deposit of funds to those bank branches. This research paper focuses on the lending practices of banks to small businesses in South-West regional areas. Loan managers in major banks based in Bunbury and second tier banks in other regional areas in the South-West have been interviewed leading to analysis, findings and conclusions are summarised in this paper. Few important issues are worth to be considered in detail. New small businesses have difficulties to produce the necessary financial statement figures that banks require including two to three year financial statements and bank transaction statements in order to assess the owner's creditworthiness. There are nonconforming lenders provide low document loans for proprietors access to affordable funding by using their property as a collateral security. Small businesses



are not the same, nor are their finance needs. Bankers require: to provide the right total business solution for small business borrowers to ensure survival of the businesses from types of accounts to lending options available; to be flexible to their minimum borrowing requirements; to examine package incomes from types of facilities, credit limits and utilisation rate, fixed deposits with the potential lenders, usages of other lenders' services such as investment funds, insurance and share trading services; to be proximate to borrowers who will be frequent users for banking services. Currently, it seems no financial services package available to offer all solutions to all key business requirements such as routine and non-routine transactions, investment, finance, cash flow management, risk management, firm financial planning, business consulting, seminars and other tailored made services to small businesses in the South-West Regions. It is quite important to provide finance and administration related knowledge supports by training courses and seminars to managers or owners of small businesses in the regional areas since training programs are scarce and they will add in significant value to customer relationships.