

The Government is putting a huge amount of faith in the banks to step up to the plate with the \$90b Term Funding Facility



## **The \$90b Term Funding Facility for SMEs is a litmus test for the big banks.**

The TFF is a timely and essential initiative that could be the key to helping thousands of small businesses avoid bankruptcy. The Government is putting a huge amount of faith in the banks' ability and willingness to step up to the plate. They can't compel them to lend but by providing the TFF they have created the means to do so. It is now up to the banks as to how they respond.

The TFF should be a boon for the big four banks which have seen their share prices tank by an average of 40 per cent in the last month. To be able to access 3 year money at a fixed interest rate of 0.25 per cent per annum affords the opportunity to support struggling small business customers thereby regenerating loyalty and trust whilst helping rebuild earnings. The banks would be crazy not to take full advantage of this unique opportunity.

It's the call of the banks as to how they lend this \$90b but this is not going to be easy. The main concern is that because cash flow dynamics of many small businesses have changed dramatically in recent weeks, it is going to be extremely difficult to assess a borrower's capacity to service and repay new credit. Historic revenue numbers, cash flow forecasts and sensitivity scenarios are of limited value if a business has had to either temporarily close down or scale back. The big question, which no-one can definitively answer, is "when and by how much will revenues bounce back?"

Responsible lending obligations apply to loans made by banks under the TFF and it is in no-one's interests for the banks to freely dish out loans to cash strapped small businesses only because cheap money has been made available by the Government. Noting too that the banks have to provide security for the amount they borrow under the TFF.

Another concern is whether the banks have the people and systems needed to deal with the number of applications they will be inundated with in the next few weeks. If the banks are unable to respond quickly, it is going to be too late for many of

particularly when the data they have traditionally used to assess creditworthiness is less relevant?

#### **WHAT DOES THIS ALL MEAN FOR NON-BANK LENDERS.**

Non-bank lenders don't get to participate in the TFF. Not being able to access term funding at 0.25 per cent puts them at a huge funding disadvantage to banks. Non-banks cannot get anywhere near the banks' cost of funds and this will make them even less competitive and is likely to cause them to dip further into the lender of last resort or sub-prime space.

Non-bank lenders have not missed out all together though. They have been thrown a bone by the Government in the form of a \$15b investment in wholesale funding markets. If this \$15b is to be invested along the same lines at the \$2b which is being made available to the Australian Office of Financial Management to invest in the Australian Business Securitisation Fund (ABSF), then sub-scale unsecured lenders including fintechs are unlikely to be able to participate.

#### **FINTECHS ARE FIGHTING FOR SURVIVAL.**

Fintech SME lenders facing several major headwinds at the moment. Most are yet to turn a profit and not being able to participate in the TFF or even the ABSF makes it even harder.

Aside from the cost of funds disadvantage, they don't have the same security of funding. Lenders and shareholders need to be prepared to stay the course but in the current environment not all will be willing and able to do so.

Fintechs mostly lend unsecured and tend to lend further up the risk curve than the banks. It would be most surprising if default rates weren't escalating quickly.

Demand for credit has increased from cash strapped small business owners who don't see banks as the answer due to slow decision making times and strict approval and security requirements. It takes extra time to sort out the smaller number of credit worthy applications from the large number of struggling businesses clamouring for support.

Limited resources are being stretched in dealing with borrowers already experiencing difficulty. At the same time they need to reach out to the borrowers that are struggling but haven't yet put their hand up.

We were always going to see a fall out in the fintech SME lending sector when the inevitable downturn finally arrived.

Having said that, the Government needs to tread warily in perpetuating an environment that favours the big bank oligopoly over smaller and newer players. The banks still have a long way to go regain trust and having a range of viable non-

advantage of the opportunity the TFF presents.

Implementation of the TFF will be a litmus test for the banks.

Feedback and discussion is welcomed.

**Neil Slonim**  
**theBankDoctor**

[follow on Twitter](#) | [forward to a friend](#)

*Copyright © 2020 theBankDoctor, All rights reserved.*



[unsubscribe from this list](#) | [update subscription preferences](#)