Government ploughs $500m into neobank Judo to spur SME loans

INVESTMENT
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Challenger bank Judo has secured a $500 million investment from the government to help provide loans to small businesses.

The government announced yesterday it would invest an initial $250 million into Judo’s lending warehouse through the Australian Office of Financial Management’s (AOFM) Australian Business Securitisation Fund and a further $250 million through its recently announced Structured Finance Support Fund (SFSF).

Judo co-founder and co-chief executive David Hornery said the $500 million investment came at a crucial time for small businesses around Australia, many of which were battling for survival.

“It is really about underpinning our capacity to provide funding to SMEs at a time when it has never been more important,” he said.

“These two entities are coming together to provide a substantial and valuable injection to the SME community.”

The investment from the AOFM makes Judo the first recipient of capital from the government’s $2 billion small and medium enterprise funding scheme that was unveiled in November 2018.

The radical federal government intervention is designed to strengthen competition with the big four banks, while offering more options for businesses that struggle to secure loans. The $2 billion comes from Commonwealth bonds and the investments are treated as assets in the federal accounts, which means the scheme does not increase net debt but exposes the government to bad debts.

In addition to these funds, the investment in Judo also comes from the government’s $15 billion SFSF, which was announced by Treasurer Josh Frydenberg on March 19. The fund was established with the aim of ensuring continued access to funding markets impacted by the economic effects of the coronavirus pandemic.

Judo was granted a full banking licence in May last year and recently secured a new $350 million licence in May last year and recently secured a new $350 million line of credit from Citi.

Mr Hornery said the bank had a strong pipeline of demand and had built its deposit book to almost $1.4 billion. Nevertheless, he said the government’s investment would bolster Judo’s capacity to be in the market at a time when its customers needed it most.

“The government has made a whole series of substantial and targeted interventions in the market,” he said.

“This is a really substantial additional signal of support by the government of the sector.”

Mr Hornery said the government’s investment was material and targeted and allowed Judo to really accelerate its growth in the market. “It has never been more important to provide liquidity to SMEs, both funds have acted substantially and decisively to ensure that liquidity is extended in an expedited fashion,” he said.

Mr Hornery said the first tranche of funds would be available “pretty much straight away” and would have a direct and positive impact on small and medium businesses.

The AOFM is expected to field funding requests from a host of fintechs including Prospa, Zip and Flexigroup.

The office initially said it would call for a second round of proposals before July 1, 2020 but a spokesperson said it now intended to make an assessment of market conditions in early July 2020 before proceeding.

Judo was started by Mr Hornery and co-founder Joseph Healy after the two former National Australia Bank executives had the idea for a challenger bank over a Friday night beer at a pub in 2013.

‘Invaluable’: David Hornery.