MEDIA STATEMENT

Banks should spend more time on the Four Cs of lending rather than playing political games, says Judo

March 28, 2019

Banks have been accused of deliberately playing politics and creating confusion and anxiety among small-to-medium sized enterprises (SMEs) by claiming that tighter lending regulations are leading to a “credit squeeze”.

The co-founder and co-CEO of Judo Capital, Joseph Healy, said today that he supported comments this week by ASIC Chairman James Shipton, who said that responsible lending laws had been in place for more than a decade – and were not to blame for banks tightening credit.

“The banks are engaging in base political games by implying that they’re unable to provide credit because of the Royal Commission and the resultant imposition of tightened lending requirements,” Mr Healy said.

“The Royal Commission highlighted that the prevailing sales culture inside banks meant that they were not complying with responsible lending standards. They were not taking due care in ensuring that the level of debt sought by borrowers was sensible given their means. This is something that banks should have been doing all along; it is not a new revelation.

“The real credit squeeze has been evident for years.

“The banks have progressively moved from supporting SMEs to instead lending to households at eye-watering levels, with household debt at close to 200 per cent of disposable income, which is among the highest level globally.

“The amount of lending banks have provided into the speculative investor-based property market, often on an interest-only basis, is not banking; it is speculative gambling on rising housing prices.

“At the current levels, many commentators have questioned the prudence evident in such lending, and a reduction in the appetite to lend in this way is a positive and entirely sensible development, also known as responsible lending.”

Mr Healy said there were two core issues resulting in a market failure in lending to SMEs.

First, the SME sector has seen the banks restrict the provision of credit in the absence of property security, often the family home. In a sluggish property market, banks take a more pessimistic view on the value of property as security and thus the ability of SMEs to access credit is further hampered.

Second, the industrialisation of banking has meant that banks are less willing or able to evaluate SME borrowing requirements on the Four Cs of credit – Character (track-record, reputation of the owners), Capacity (or cash flows) to service the debt, Capital (the equity that sits behind the debt) and Collateral (security offered to support the credit).

In practice the industry has defaulted to the fourth C – Collateral and this has resulted in credit being available dependent on the valuation of property.

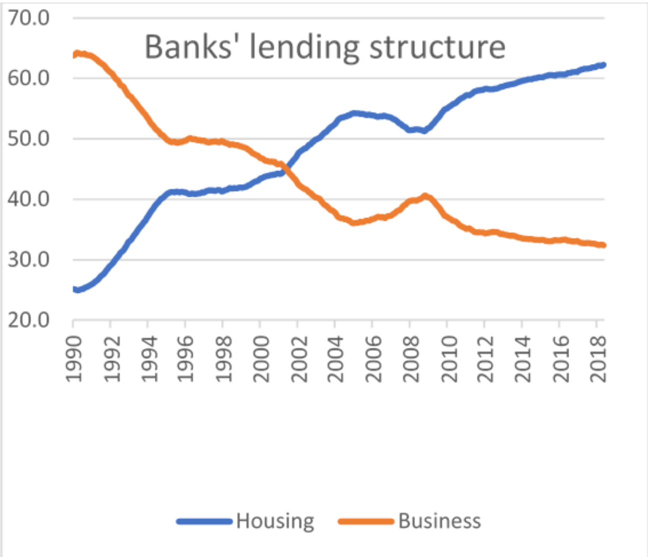
“This is hugely disappointing as many viable SMEs should be assessed on the strength of all Four Cs, not by a lazy default to the valuation of property,” Mr Healy added.

“A perverse consequence of this is that banks are more inclined to lend to consumers buying a holiday home, or an investment property, than to an entrepreneur seeking to invest in her business and hire ten people.

“In economic sense, this evidences a clear market failure and a reality.”

Mr Healy said total business bank lending was at 49 per cent of GDP, down from a peak of 62 per cent in 2008 - a material drop. On the other hand, household lending has grown to over 100 per cent of GDP.

The chart below illustrates the shift from business to household lending:



Source: APRA 2018

Mr Healy said research commissioned by Judo published in September 2018 confirmed a funding gap of up to $83 billion for SMEs seeking credit. This in the context of a SME bank lending market of $300 billion.

Media inquiries: William Roberts (Cannings Strategic Communications) +61 431 318 893.

Judo Capital has applied for a full banking license from the Australian Prudential Regulation Authority (APRA), to become the first fully licensed Challenger Bank for Australia's SME businesses.

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ABOUT JUDO

Judo Bank is challenging the one-size-fits-all approach to transform business banking in Australia. Built from the ground up by a small group of deeply experienced and highly credentialed banking professionals, Judo has been modelled on the successful challenger banks in the UK and US. Judo formally launched in March 2018 to provide a genuine alternative for small and medium-sized businesses to access the funding they need and deserve. Headquartered in Melbourne, with offices in Sydney and Brisbane Judo has a team of 70+ with plans to grow further in the coming months. For more information on Judo, please visit www.judo.bank.

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