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SME Finance Group

# The Changing Credit Landscape In Australia

# What It Means To You

LASA
LEADING AGE SERVICES AUSTRALIA
*The voice of aged care*

# Credit landscape

- Economic conditions are good with growth expected in 2018.
- Consumer and Business sentiment is improving.
- Commercial delinquency is low.  No expected increases.
- No significant increase in interest rates in the foreseeable future.
- APRA are tightening regulation on Banks. About to do same with 2nd tier funders.
- Regulation is impacting credit decisioning.
- Credit is available but application processes have changed to meet regulatory requirements.


# The Regulatory Squeeze

- APRA made a conscious effort to cool the property market and it appears to be taking effect.
- New requirements on foreign investors purchasing property in Australia has slowed the demand significantly.
- Stringent restrictions placed on banks interest only portfolios.  Banks now converting customers to Principal and Interest facilities resulting in higher repayments to borrowers.
- New regulation on Capital allocation will force banks to be more selective in what products they will offer customers and what markets they will be in.
- Banks could become wholesale funders to other financial institutions to avert Basel III and Basel IIII requirements.
- Credit is available but application processes have changed to meet regulatory requirements.

# A New Wave Of Lenders Have Emerged

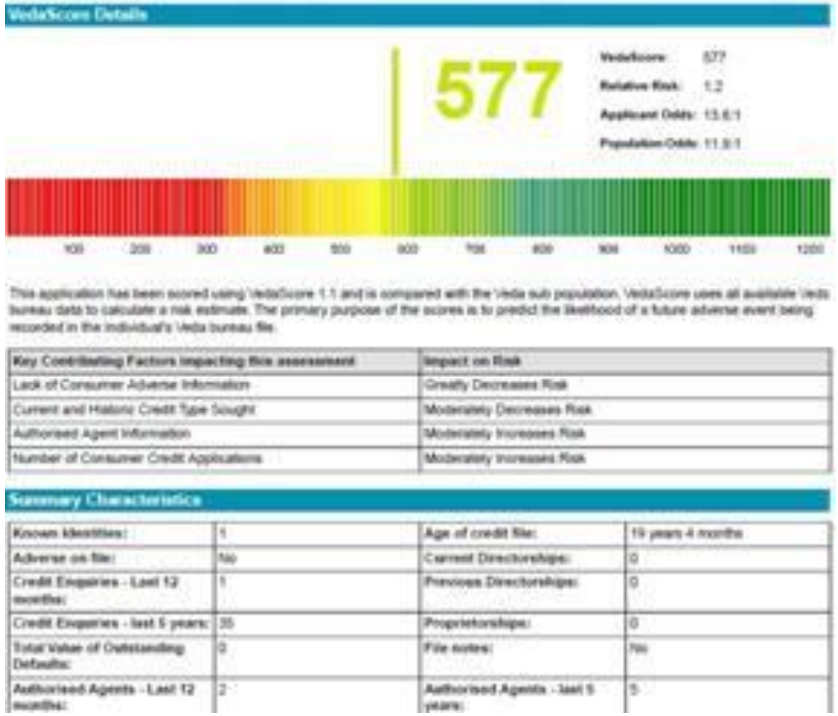
- The SME sector has long been neglected on funding requirements and banking facilities
- “Fintech” companies are emerging with new participants offering funding lines to SME’s
- Loans to support business cash flow are now available without the need for property as security.
- Funds are readily available. No longer do you need to wait 6 weeks for the bank to approve and fund your loan.
- Interest rates are becoming more competitive in this sector but buyer beware there are some lenders charging exorbitant rates.
- New entrants are also in the mortgage lending market from Private Equity backed organisations to Private Investors.

# Change in reporting agencies

- Veda Group Limited was Australia's leading provider of credit information and analysis.
- In 2016 Veda Group was acquired by Equifax Inc. a global leader in Consumer and Commercial credit information.
- Australia has moved to a Comprehensive Credit Reporting (CCR) model.
- Equifax has brought a suite of analytical tools that provides greater depth in the reporting of consumer and commercial credit files.
- Banks and financiers are using the reporting available to make more informed credit decisions.
- It is now imperative that business owners know their credit score and the things that impact it.


# Do you know your credit score

- In most OECD countries consumers and business owners are fully aware of their credit score.
- Australia is moving to a similar situation where this information will be available.
- The Equifax business credit score ranges from 1 to 1,200.
- It is calculated using the information on credit files.
- Things that have a detrimental impact on your credit score include:
    - Slow payments on credit and trade debt
    - Excessive credit enquiries
    - Directorship of multiple entities
    - Unpaid ATO debt



VedaScore Details

577

VedaScore: 577
Relative Risk: 1.2
Applicant Odds: 13.6:1
Population Odds: 11.9:1

100 200 300 400 500 600 700 800 900 1000 1100 1200

This application has been scored using VedaScore 1.1 and is compared with the Veda sub population. VedaScore uses all available Veda bureau data to calculate a risk estimate. The primary purpose of the scores is to predict the likelihood of a future adverse event being recorded in the individual's Veda bureau file.

| Key Contributing Factors impacting this assessment | Impact on Risk |
|---|---|
| Lack of Consumer Adverse Information | Greatly Decreases Risk |
| Current and Historic Credit Type Sought | Moderately Decreases Risk |
| Authorised Agent Information | Moderately Increases Risk |
| Number of Consumer Credit Applications | Moderately Increases Risk |

Summary Characteristics

| | | | |
|---|---|---|---|
| Known Identities: | 1 | Age of credit file: | 19 years 4 months |
| Adverse on file: | No | Current Directorships: | 0 |
| Credit Enquiries - Last 12 months: | 1 | Previous Directorships: | 0 |
| Credit Enquiries - last 5 years: | 35 | Proprietorships: | 0 |
| Total Value of Outstanding Defaults: | 0 | File notes: | No |
| Authorised Agents - Last 12 months: | 2 | Authorised Agents - last 5 years: | 5 |

# What is a good credit score

**Below average to average (0-509).** It's more likely an adverse event will be recorded on your file in the next 12 months. You are in the bottom 20% of Equifax's credit-active population. Many banks and financiers will decline an application based on this score.
**Average (510-621).** This score suggests that it's likely that you will incur an adverse event in the next 12 months. Your score places you in the bottom 21-40% of the credit-active population.
**Good (622-725).** Adverse events are less likely to be recorded for the next 12 months. You fall in the mid-range (41-60%) of Equifax's credit-active population.
**Very good (726-832).** Unfavourable events are unlikely to be recorded onto your credit file within the next 12 months. Your score places you in the second-highest percentile range of the credit-active population (61-80%)
**Excellent (833-1200).** Adverse events are highly unlikely to happen within the next 12 months when compared to the average Australian. The odds of no adverse events occurring on your credit file in the next 12 months are five times better than the population average and you are in the top percentile range (81-100%).


# What Impacts Your Credit Score

**Positive**

- Paying your accounts on time.  This includes credit accounts, utility bills and trade creditors.


**Negative**

- Not paying your accounts on time including judgements and defaults and not paying tax arrangements on time.
- Excessive credit enquiries.  Every enquiry has an impact on your score.  Beware of offers for credit cards, consumer cash loans or any other type of offer that involves a credit check.
- The number of Directorships has an impact on your credit score.  We have seen examples where an individual had a poor credit score because they were a Director of up to 10 companies.
- Poor history on debtor payments. The debtor payment history is compared to industry averages and if you fall below that average your score will be impacted.

# Tax Payments

- ATO debt has become a very topical issue.
- Many companies and individuals are repaying tax debt under an agreed arrangement with the ATO.
- While the ATO continue to offer these arrangements the major banks and financiers are taking a hard line on this and in most cases will not approve credit while such an arrangement is in place.
- There are a number of 2nd and 3rd tier lenders who will provide credit to organisations under an arrangement but interest rates from these funders are much higher.
- New regulation now allows the ATO to report a default to the credit agency if your payments are 90 days overdue on the agreed arrangement.
- Talk to your accountant about ATO arrangements.


# Summary

- The economic and credit landscape is positive but regulation is changing the credit assessment process.
- Lending in Australia is in the midst of a “Regulatory Squeeze”.
- New non-bank lenders have emerged under the guise of Fintech with new offerings for SME businesses.
- More data on credit files is readily available to the lending institutions.
- Slow payment to your creditors will now impact your credit score and your ability to fund your business.
- Know your credit score and protect it.
- Manage your tax position and understand the implication of ATO arrangements.

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# WE CAN HELP!

If you are wondering how this credit landscape can affect you and your business, we are here to help. As proud associates of LASA, we understand the environment you operate in and have the expertise to point you in the right direction and will even offer a free 45 minutes consultation with our team.

We can help you understand your position in the market and identify areas of improvement.

**Phone: (03) 8825 8888**
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**www.smefg.com.au**

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# Thank You

**Asset Finance**
**Commercial and Residential Property Lending**
**Business Cash Flow Lending**
**Fleet Finance**
**Vehicle Procurement**