To lend or not to lend

Judas Iscariot's guide to effective credit management

Put simply, the government's three year guarantee on deposits has been a windfall for the Big 4 while little short of a whimper for the rest of the market.

Since its introduction in October last year customers (and money) have been walking in the collective door at the Big 4 without them having to do much extra in the way of marketing or customer acquisition.

In fact, there has been a significant drop in the level of competitor bank solicitations experienced by the corporate market in the last six months with all banks reducing pitch levels - a marked 73.2 percent increase of those corporates experiencing no competitor bank approach at all over the past 6 months. This, combined with a substantial drop in outlook churn for middle market borrowers is delivering a once in a career moment for business bankers.

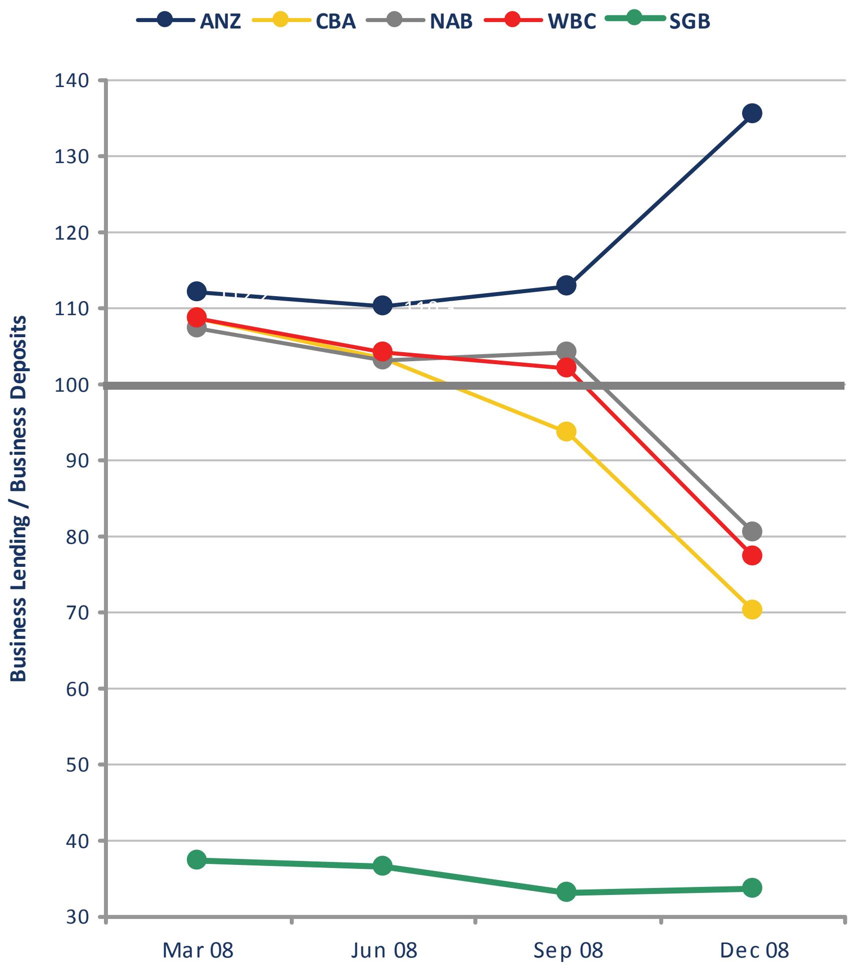
With continuing demand for credit and interest rates falling, although nowhere near as sharply as in retail mortgage lending, why are banks seemingly tightening their lending and increasing their margins?

There has been much written about this and clearly the banks are repricing for risk, but why are lending criteria being tightened so much that a major depressive effect on demand for credit in business is occurring? Customers are being told every day credit is drying up and they can expect a lot of pain in rolling over existing facilities.

A dramatic take on how the majors are managing these dynamics is contained in the figures below – a major sea change occurred in September last. ANZ is the only Big 4 bank lending more to business relative to its take of business deposits, a divergence that has been increasing over the past 12 months. The other Big 3 banks are on an opposite path with business lending tracking at less than business deposits and this "gap" has been steadily widening over the past 12 months.

ANZ has also been the most aggressive with the issue of bonds into the capital markets which would help in some way to explain the obvious disparity from the other majors. All of the Big 4 however are now very proactive in cross sell and almost demanding that businesses use their primary lender for their other business as well and these business feel a sense of being held to ransom. This may all be good for the banks right now but when additional choice returns to the market for businesses those banks being over aggressive now will be paying the price later as customers flock to alternative suppliers.

Business Loans vs Business Deposits



Based on APRA data