

No shortage of lending hands

Banks have been keen to lend to business again, but caution and access to other funding has subdued demand for bank debt. However, regulations could limit supply again, Alexandra Cain writes.

In a sharp turnaround from the tight lending market experienced throughout the financial crisis, there are indications banks are now looking to increase lending to businesses to maintain profits. But opposing forces such as Basel III's new capital and liquidity rules could dampen banks' appetite for corporate lending in the future.

Three years after the height of the financial crisis, *CFO* magazine investigates businesses large and small to see where bank funding sits in the overall funding mix.

Peter Lewis, financial chief of media business Seven Group Holdings says the attractiveness of bank funding is not just relative to the cost of other funding sources. "We are perhaps thinking about bank funding as a little more short term than previously and considering capital markets for longer-term solutions. This focus is important for items like variable, non-core working capital funding needs. That's not to say bank funding is not important for longer-term solutions – far from it. It's just that there are additional opportunities at the moment."

Lewis says banks' predilection to lend to corporates could be influenced by tougher regulatory requirements. "Cost of capital seems to be an increasing issue for banks and Basel III seems to be mentioned a lot now. This obviously

is balanced by other market opportunities for corporates. Banks are also very focused on ancillary services to increase the overall return on funding provided."

He says the cheapest source of long-term funding is the US private placement market, but they need to balance single sources like that with the greater flexibility of bank debt. "Bank funding remains very relationship-driven, which provides comfort as needs change," he says.

A recent deal by Woolworths demonstrates this point. In early April 2011, the business was able to secure overseas debt funding of \$850 million for less than it could access bank funding in Australia.

Small end better

From a smaller company's perspective, Roderick Croes, finance director for leasing and fleet management business LeasePlan Australia, says the situation has changed dramatically from a year ago.

"There are more funds available for the right customer if the bank is happy with the credit profile of the business and the outlook for the particular industry sector."

Croes agrees with Lewis that "banks are very much interested in ancillary business such as transactional banking, foreign exchange and securitisation. If they see opportunities they are happy to

talk. Bigger banks are starting to increase loan facilities and are more willing to reduce margins to competitive levels. But we're never going to go back to the good old days [when credit was cheap prior to the financial crisis]."

Croes says the conditions banks attach to loans are also being relaxed. During the financial crisis he says, "there were more onerous conditions around loan-to-value ratios and we had to provide details for two years of receivables for our program of operational finance leases, and information about debtors versus creditors and sales proceeds at the end of leases.

"They were very granular in the type of information they required. But this seems to have eased as well. Now, if a bank is comfortable with the business, performance and strategy, it is happy to increase the facility."

LeasePlan has a total loan book of \$1.3 billion, funded through bilateral facilities with four banks as well as an intercompany facility with its central treasury. It also maintains a kangaroo bond program.

Profit drive

Back at the bigger end of town, Andrew Whittles, CFO of HGL, which supplies branded products to specialist markets, agrees banks are relaxing their lending criteria. During the credit crunch, the business

disposed of its non-core assets (primarily a book of listed shares) in order to pay down a \$40 million debt facility.

At the time, it did maintain a line of credit with its bank, but when the fee to maintain the facility of \$40 million almost quadrupled from pre-crisis levels, the business reduced the facility to \$10 million. "It just became too expensive to maintain unutilised lines," he says. "We've recently had discussions to increase the facility to fund operations and the bank has been open to this. It's a very different situation to 2008 and 2009 when banks were looking for any reason that you could breach covenants so they could reprice and reduce the facility. Now, if they are convinced you need the funding they will give it to you because they need the fees to maintain their profits."

Whittles is currently approaching banks for debt funding and maintains a core banking relationship with ANZ.

Patrick Winsbury, ratings agency Moody's senior vice-president, says there are multiple and sometimes conflicting drivers influencing banks' appetite for corporate lending.

"From a big picture perspective, there's not a huge amount of loan demand from corporates. Some sectors such as mining are also generating a lot of cash so they don't need to rely on bank funding."

Winsbury also points to Reserve



JIM RICE

Peter Lewis, Seven Group Holdings: Bank funding remains very relationship-driven, which provides comfort as needs change.

Bank of Australia data that shows companies have deleveraged and are sitting on large amounts of cash, another factor that is dampening the need for bank funds. "There's also no shareholder pressure to return cash," he explains. But there are a number of variables that continue to temper bank appetite

for corporate lending. "Through the crisis banks were conservative about lending and there was also a tightening of internal risk requirements, but that's starting to loosen up."

However, he says incoming regulatory requirements will mean it's not necessarily in banks'

interests to lend heavily to the corporate sector.

"Basel III will require banks to hold more capital, and corporate lending is capital intensive, adding to pressure on bank capital," he says. "Banks will also be required to raise more 'stable' funding for corporate lending than home lending, meaning

banks will have to increase the average tenor of their wholesale funding, which will be expensive. I don't think the banks would be too upset if large corporations tapped overseas bond markets more aggressively."

Given it's currently cheaper for highly-rated corporates to access debt funding overseas, it's likely many will continue to look globally rather than domestically for debt finance in the near term. ☒



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