

## NEWS

# Loan decisions taking longer

## BUSINESS BUZZ

BY MICHAEL BAGSHAW

IS THERE a credit squeeze in the wake of the Banking Royal Commission? Not a formal one, at least.

But, there is little doubt the overall attitude to compliance and conservative lending within the banks has increased markedly since the Royal Commission report was handed down.

From my observations at the coalface, if your agribusiness is a top performer, with strong profitability, a solid track record, and high levels of equity, it could well be described as 'happy days'.

For agribusinesses in this position, the competition to win (or keep) your business is as strong as ever. For these agribusinesses, a loan interest rate with a three in front of it is not out of the question.

How banks calculate interest rates is a fascinating topic. Most people would have heard of the Reserve Bank of Australia cash rate. It is probably the most talked about financial indicator and is sitting at 1.5 per cent. There is even talk of this coming



**DIFFERING RATES:** While home mortgages are generally linked to the Reserve Bank of Australia cash rate, most agribusiness loans are instead linked to the Bank Bill Swap Rate.

down, due to slowing economic activity and flattening of bond yields.

Home mortgages are generally linked to the RBA cash rate. But, most agribusiness loans are generally linked to

the Bank Bill Swap Rate. It's a bit more complex than this, but is essentially the rate that banks lend to each other.

The cash rate is sitting at 1.5pc, and has been stuck at this level for quite a while.

In contrast, the BBSY moves incrementally daily, and is at about 1.75pc.

The BBSY has been coming down in the past few weeks. In time, this should lead to better margins for banks,

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What does this all mean to your business? Not that much if you are travelling along OK and do not ask any questions of your bank.

and maybe interest rate deductions for customers.

It may take a while to filter through though, as banks generally lock in tranches of funding for fixed periods.

For those agribusinesses that are on the margins, it is a different story in the present climate.

Loans may well still get approve, or they may not. Regardless, the approval time has increased, as have the hoops required to jump through.

Another category of agribusiness that may find the going a bit tougher in the short-term is an enterprise that wants to expand quickly.

These businesses are usually historically very strong performers and are willing to take calculated risks and expand their businesses in

large chunks. I have done deals like this in the past. With a good plan backed up with history and cash flows, its normally not an issue.

I suspect in the present environment, these types of deals will take a lot longer to finalise, as they generally make the business fall outside preferred lending ratios for a period of time.

What does this all mean to your business? Not that much if you are travelling along OK and do not ask any questions of your bank.

If you are purchasing more property, or want to review your present interest rates, it is very relevant. Banks will negotiate rates, but you have to ask. Gather up your information, put it together and get on the phone. You might be surprised what happens.