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Better off going for brokers

Brokers can often negotiate more favourable terms for small businesses, writes **Mark Fenton-Jones**.

Business advisers are predicting that as the cost of business finance goes up, small to medium-sized businesses will make greater use of finance brokers to get a better money deal.

"Traditionally, the major banks would have captive SME customers who would put up with substantial margins on the base interest rate, up to 2 or 3 percentage points, due to inertia or just because they didn't know any better," said Robert Powell, a director in BDO Kendalls' business advisory services.

"This was a great situation for the banks because they were able to take advantage of the loyalty factor to maximise profits.

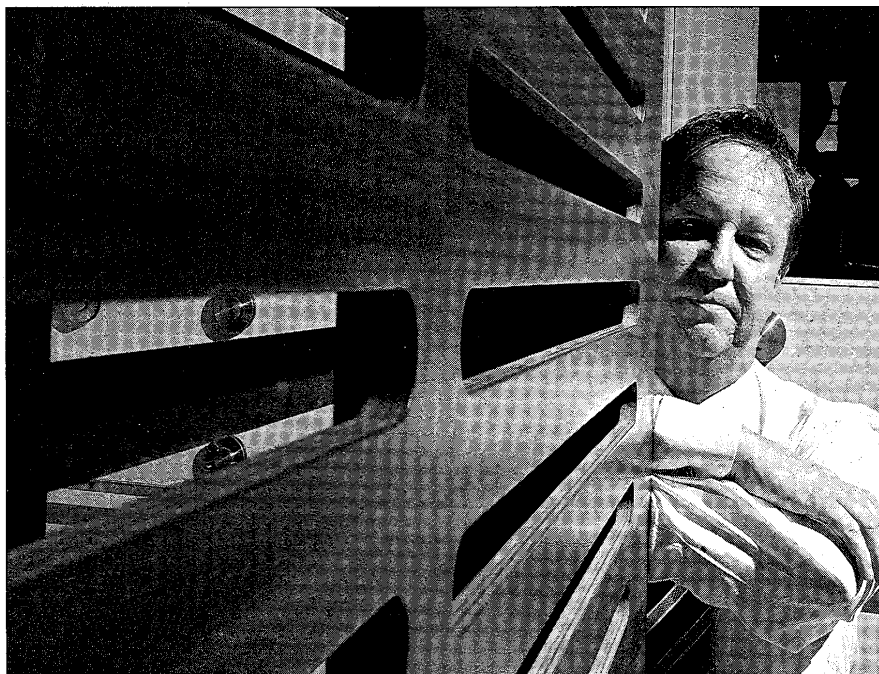
"SMEs are a lot better educated now and they know that the way to get the best terms on a finance deal is to get the banks to compete against each other. Which is exactly what brokers do."

Mr Powell, who advises any clients re-evaluating their finance facilities to talk to a broker, said that virtually all who went this route now used a broker.

The motivation for switching from a bank to a broker was either because the existing finance was too expensive or they were dissatisfied with other parts of their current deal.

A broker can compare the loan requirements of up to 60 providers on its database and negotiate a better deal on behalf of the business owner. Avanti Commercial, for example, has 57 lenders on its books, including all the major banks, as well as super funds, private funds and institutional funds.

"With these deals it's all pricing for risk," said Paul Heilig, the head of lending for Centric Wealth, which specialises in providing wealth advisory and accounting services. "The banks are looking to take as much security as they can,



Robert Powell . . . advises any client re-evaluating finance facilities to talk to a broker.

Photo: ROB HOMER

including the personal security. We are able to unravel that and help with the structuring of the debt, working closely with accountants."

In 1999, Mr Heilig and Sheyne Walsh established Kingsbridge and Eagle, a boutique brokerage house with a portfolio of nearly \$1 billion under management that became

our function," Mr Heilig said.

For instance, the loan might have restrictive covenants and conditions, which can be costly and time consuming, especially when it requires annual reviews and audits.

"A lot of what we do is to negotiate those things out of the loan agreement," Mr Heilig said.

"If clients have approached banks directly and they come to us we are able to normally get them better rates."

part of Centric in August 2007.

"There's definitely been an increase in SMEs using brokers and third-party firms like ourselves," Mr Heilig said.

Though room for negotiating in the home-loan market is limited, in these commercial transactions, the broker endeavours to show the lender that the security they want for their funds is excessive.

"The more we mitigate risk, the better pricing that we get on behalf of the client, and that is really

"By limiting the restrictive covenants and by limiting the conditions, what we are actually doing in the long term is saving those businesses money and time."

Customers of brokers usually pay nothing for a loan sourced by a broker — the bank pays the brokerage — unless it is a large complex transaction that attracts a separate fee.

Asked how much small businesses can expect to slash off their loan costs, brokers declined to make a

general statement, emphasising that each deal was different.

"But what we find is that if clients have approached banks directly and then they come to us, we are able to normally get them better rates than the marketplace," Mr Heilig said.

The national president of the 9000-member Finance Brokers Association of Australia, Peter White, said more brokers were training for commercial lending. The association was established in 1992.

Mr White, who is also managing director of Avanti Commercial and specialises in the commercial sector, described the lending volumes at his firm as bottoming out in November before the election, before climbing back in December to double their historical levels for that month, and almost tripling the usual volume this month.

January is usually a quiet month for the industry, but Mr White described the market take-up this month as "mind-boggling".

Uni business course

The University of Ballarat teamed up with Mentre, the Melbourne-based commercialisation mentoring and coaching organisation dedicated to the small to medium technology business sector, to start a diploma of business development, a course that focuses on commercialisation for a range of business types. The program is designed for start-up and growth-stage technology companies, established small businesses or corporations planning to expand into new markets or services.

Debit card in business

Westpac is offering a business debit MasterCard that will allow businesses to transact straight from their business accounts. Peter Hanlon, Westpac business financial services group executive, said the debit card would help businesses better manage their cash flow by changing their banking behaviour. "Business can use the debit card for transactions over the phone and internet and anywhere MasterCard is accepted using the available funds in their account," he said. "We think the new card has the potential to change the way small businesses transact, in particular replacing cash and cheques."

Caxton in Australia

Caxton FX, a UK-based specialist provider of discount and personalised foreign exchange and payment services, has entered the Australian market and will target SME and corporate clients that focus on importing and exporting in the Asia-Pacific region. The company, which has been in the UK for six years, said it decided to set up in Melbourne to better service global clients and expand its client base.

On the bright side

Businesses in Australia are resilient in the face of global financial turmoil, according to the 2008 Grant Thornton *International Business Report*. The annual survey of 7200 privately owned businesses in 32 countries shows that despite the sub-prime mortgage crisis and the credit crunch, 77 per cent of Australian businesses are optimistic about the economic outlook for the next 12 months. Australia is above the world average of 56 per cent.

Compiled by Mark Fenton-Jones and Damien Lynch