



Small business

Australian Business Securitisation Fund

The Government is helping small businesses obtain loans by establishing a \$2 billion fund to lower funding costs for smaller banks and non-bank lenders.

Access to finance

SME conditions and confidence continue to be strong and a significant majority of SMEs are able to access suitable finance, particularly when using property as security.

However, there are ongoing concerns and gaps about the price of that finance. In particular, banks are generally reluctant to extend finance without real estate as collateral and smaller banks and non-banks have difficulty raising funds for SME lending.

- Around one-fifth of businesses report that they have found it relatively difficult to access finance. In addition, the proportion of small businesses that perceive it to be relatively easy to access finance has declined recently. (Sensis, RBA)
- The recent RBA report on Access to Small Business Finance (September Bulletin) found that entrepreneurs consider:
 - access to finance for start-ups is very limited;
 - banks are reluctant to extend finance without real estate as collateral; and
 - the process to obtain finance is lengthy and onerous.
- According to the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), sources of capital for growth are scarce and expensive.

Additional funding for smaller banks and non-banks that lend to small business

To lower the cost of funding for smaller banks and non-banks, the Government will support warehousing facilities for unsecured SME loans and invest in securities backed by unsecured SME loans. This will be achieved through the establishment of a \$2 billion Australian Business Securitisation Fund, to be administered by the Australian Office of Financial Management (AOFM).

The AOFM will partially fund new and existing warehouse facilities for unsecured SME loans alongside the private sector. This funding will be provided via purchases of short-term securities issued by the warehouse facilities, which are owned and operated by the private sector. The AOFM will prescribe the characteristics of these securities in order to determine its exposure to financial risks and the term of the funding provided.

The AOFM will also buy and hold securitised SME loans in order to support segments of the market where there are identifiable gaps. These purchases will be made alongside investments made by the private sector. In doing so, the AOFM will preference securitisations with specific design features that allow SME lenders to recycle funds from repaid loans to extend new loans.



Other countries have taken this step to improve financing conditions for SMEs

The Business Development Bank of Canada helps securitise loans and leases on automobiles and equipment issued by non-bank lenders, under its Funding Platform for Independent Lenders (F-PIL) program, and invests in these deals.

- It invested around C\$270 million (\$A287 million) in 2017-18, and currently holds about C\$470 million (\$A500 million) of these securities.

The British Business Bank helps securitise SME receivables from small banks and non-bank lenders, and invests in the senior tranches of these deals, under its ENABLE program.

- It invested around GBP 104 million (\$A186 million) in 2017-18, with total funding currently around GBP 340 million (\$A607 million).

A range of businesses will benefit from the Australian Business Securitisation Fund

With a larger pool of funds at their disposal, lenders will be able to extend more credit to SMEs at lower prices.

These loans can then be used for a wide range of business purposes including supporting cash flows, expanding or renovating operations, investing in inventory or new equipment.

This effect will be broad based and may benefit industries such as retailing, wholesaling, hospitality, trade services, professional services and more.

In terms of the business existing creditors have been supporting:

- Prospa makes unsecured loans up to \$100k and secured loans up to \$250k. It has lent a total of \$750 million to 15,000 SMEs since beginning operations in 2011. Last financial year it extended \$367 million in loans.
- OnDeck makes unsecured loans up to \$250k. Business borrowers are required to have at least \$100k in annual revenue, been in operation for 1 year and a minimum credit score.



THE HON JOSH FRYDENBERG MP
Treasurer

MEDIA RELEASE

[Insert date] 2018

MAKING IT EASIER FOR SMALL BUSINESS

The Australian Government continues to support small businesses by reducing red tape when accessing finance and making it easier for them to invest more in themselves and their employees.

The Government is working to help small businesses expand and attract employees by finding ways to reduce the cost and administrative burdens they experience day-to-day, including when accessing finance.

This significant package of reforms includes:

- Establishing a \$2 billion Australian Business Securitisation Fund, administered by the Australian Office of Financial Management, to lower funding costs for smaller banks and non-bank lenders, which would improve access to financing for small businesses
- Encouraging the creation of the private sector-owned Australian Business Growth Fund to fill financing gaps, which would allow banks and other financial institutions to collectively own the fund and make equity investments into businesses looking to scale-up

s 22

A strong small business sector means more jobs for Australians and more opportunities to build vibrant local communities across the country, and the Government is continuing to look for ways to help small business owners help themselves.

Small businesses make a substantial contribution to the Australian economy, particularly in the construction, professional services, and agriculture, forestry and fishing sectors.

Supporting small businesses helps support women as well. The Australian Small Business and Family Enterprise Ombudsman has also noted that the number of women business operators has grown faster than the number of male business operators over the past decade.

This new package is part of the Government's plan for a stronger economy by backing business to grow and create jobs.

Ends

On 14 November 2018, the Government announced the Australian Business Securitisation Fund (ABSF) (see <http://jaf.ministers.treasury.gov.au/media-release/051-2018/>).

The ASBF will invest up to \$2 billion in warehousing and the securitisation market, providing significant additional funding to smaller banks and non-bank lenders to on-lend to small businesses on more competitive terms. It will be administered by the Australian Office of Financial Management (AOFM).

Through the ABSF, AOFM will:

- fund new and existing warehouse facilities for SME loans alongside the private sector; and
- buy and hold securitised SME loans in order to support segments of the market where there are identifiable gaps.

Legislation will be introduced to implement the fund in early 2019, and its investment mandate and priority areas will be informed by extensive stakeholder consultation.

Interested parties can contact ABSF@treasury.gov.au for further details.

DATA ON DEBT AND EQUITY FINANCE FOR SMEs

Equity

Private Equity (PE) and Venture Capital (VC) in Australia

- Australia's private capital industry has raised a combined total of \$5.4 billion in commitments so far in 2018, spearheading the growth of the sector in Australia with an estimated \$25.8 billion in assets under management, according to the latest Australian Private Equity and Venture Capital Association's (AVCAL) annual Yearbook, released today in partnership with Preqin. Data compiled through the Preqin database - a leading global source of private markets data and intelligence - confirms the pace of growth in new fundraising in Australia is consistent with movements globally over recent years for more capital to be invested into long-term value-creating strategies such as private equity and venture capital.
- On the back of strong fundraising levels in recent years, around \$1.5 billion of new venture investment into promising early-stage and fast-growth Australian businesses (across 204 deals) was completed during the 18 months to June 2018. Investment capital deployed through PE funds for the same 18-month period was \$9.5 billion, which includes \$3.5 billion of investment in the first half of calendar year 2018 (across 24 deals).
- In the 18 months to June 2018 private equity investment in Australia has been dominated by sectors such as healthcare, food and agriculture and consumer products, while most venture investment has been directed into the information technology, software and telecommunications sectors.
- Key highlights from the 2018 AVCAL Yearbook, prepared in partnership with Preqin:

Venture capital

- Australian VC firms have \$6.9 billion in assets under management.
- As of September, VC funds raised \$1 billion in 2018, continuing the strong level of VC fundraising seen in the last few years.
- 20 VC funds were in the market to raise more capital as at September 2018.
- Almost \$1.5 billion in VC investment deals was recorded across 204 deals over the most recent 18-month period in Australia.
- VC investment totalled \$962 million in 2017 and \$495 million in the first half of 2018.
- The internet/software sector accounted for 56% and 61% of the aggregate value of VC deals in Australia in 2017 and H1 2018, respectively.

Private equity

- Australian PE firms have \$18.9 billion in assets under management.
- As of September, PE funds raised \$4.4 billion in 2018, the highest level since 2008.

- 10 PE funds were in the market to raise more capital as at September 2018.
- In the first half of 2018, 24 PE deals were completed for a total value of \$3.5 billion.
- The healthcare sector accounted for 45% of PE deal value in the first half of 2018 and 48% of all PE investment deal value in 2017, the highest of any sector.
- \$3.8 billion in aggregate value of PE exits was recorded in the first half of 2018 in Australia.

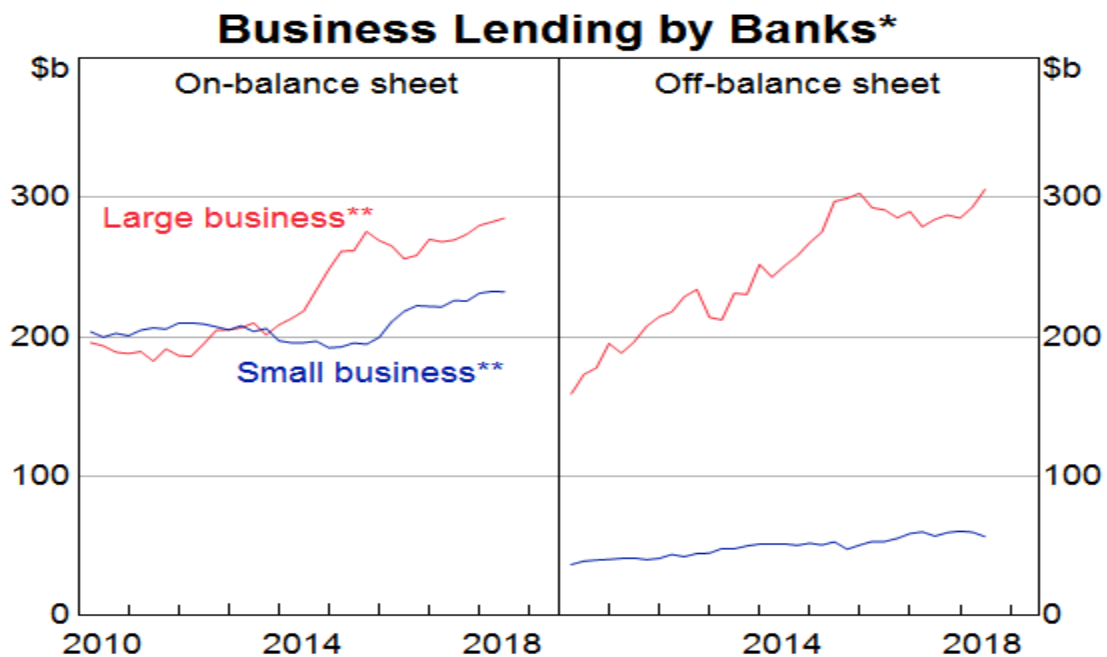
UK and Canadian BGFs

- The UK BGF was established in 2011 designed to make investments in the UK and Ireland in all industries, excluding financial services, property investment and certain other sectors such as arms manufacturing.
 - The fund has a capacity of up to £2.5 billion (\$A4.5 billion) and has invested around to £1.5 billion (\$A2.7 billion) in 239 companies.
 - It makes equity and subordinated debt investments between £1-10 million (\$A1.8-18 million).
- The Canadian BGF was announced in 2017 and began its operations in June 2018.
 - The fund has had an initial capital injection equivalent to CAD\$545 million (\$A580 million), with capacity to increase to CAD\$1 billion (\$A1.06 billion) depending on its success.
 - It makes equity and subordinated debt investments between CAD\$3-20 million (\$A3.2-21 million).

Debt

- Total small business loans (up to \$2 million) outstanding were \$285 billion as at June 2018. (RBA)
- The major banks accounted for over 80 per cent of SME lending in 2017. (PC Report)
- Bank lending to small businesses has been growing over recent years (Chart 1). However, it has tended to grow more slowly than their lending to large businesses. Also, banks' off-balance sheet exposures to small businesses are well below those to large businesses; this may reflect reluctance by banks to extend undrawn facilities, such as overdrafts and bank guarantees, to small businesses. Within lending to small and medium-sized enterprises (SMEs), the growth has been spread across both smaller businesses (the 'SME retail' exposures of the banks, which are below \$1 million) and medium-sized businesses (the 'SME corporate' exposures, which are typically above \$1 million) (Graph 4).

Chart 1

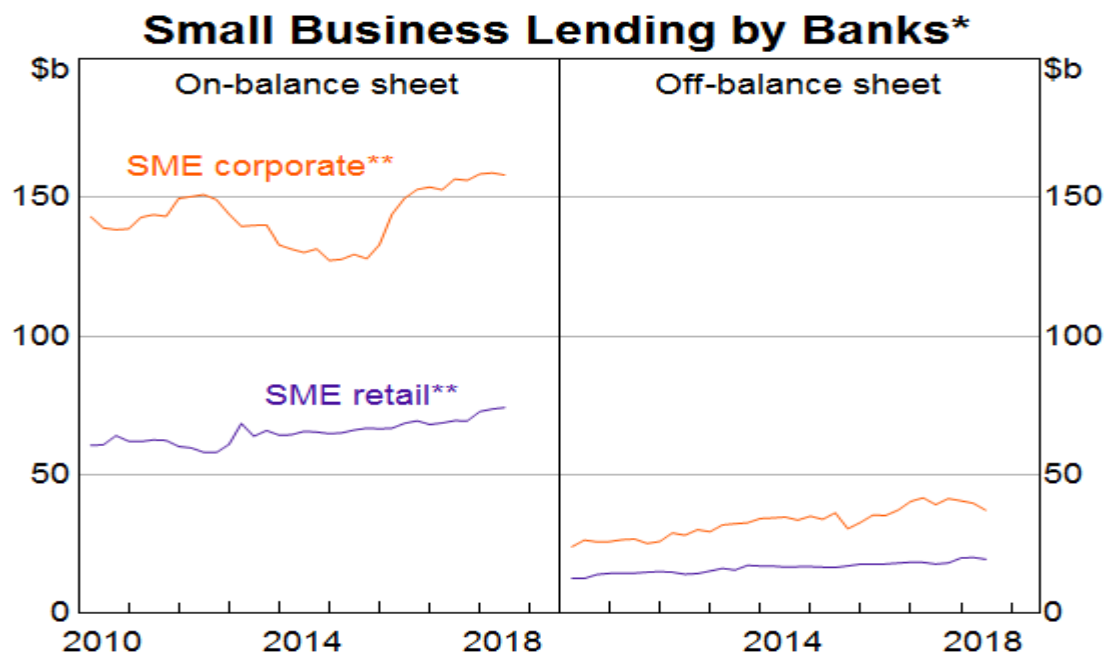


* Total exposures of banks allowed by APRA to use an internal ratings-based approach for credit risk management; break-adjusted

** Large business is the corporate category in APRA's capital framework; small business is the sum of the SME corporate and SME retail categories (the SME categories include businesses that have reported consolidated annual sales of less than \$50 million)

Sources: APRA; RBA

Chart 2



* Total exposures of banks allowed by APRA to use an internal ratings-based approach for credit risk management; break-adjusted

** The SME categories in APRA's capital framework include businesses that have reported consolidated annual sales of less than \$50 million

Sources: APRA; RBA

Securitisation Market – size and composition

- Total securitisation issuance in Australia has been around \$96 billion since 2016. Around 80 per cent of this was backed by residential mortgages. The other 20 per cent is mostly securitised automobile and equipment leases, as well as commercial mortgages and other receivables such as credit card debt.
- Non-resident investors hold around half of all securitisation issuance outstanding. About three-quarters of the domestic investor base is represented by ADIs, while the remainder is held by domestic real money investors (such as superannuation funds and insurance firms).

Known SME securitisation deal sizes and ratings (secured and unsecured)

- The market for SME securitisations backed by secured loans is well-established but represents a small proportion of total securitisation, with around \$4 billion of deals since 2016. Specific deals include:
 - Liberty’s SME Program raised \$1.35 billion (secured by commercial real estate);
 - CNH Capital raised \$1.25 billion (secured by agricultural and construction machinery);
 - Think Tank raised \$580 million (secured by commercial real estate); and
 - RedZed raised \$550 million (secured by residential real estate).
- In contrast, the market for securitisations backed by unsecured SME loans is at an embryonic stage. There have been only two such deals so far, with a total of around \$130 million, both originated by Prospa and sold privately to single investors. The second of these deals was rated by Moody’s, the highest tranche (approximately 80 per cent of the deal) rated A3/A- and the remaining tranches rated Ba2/BB and B3/B-. A further deal of around \$75 million by OnDeck may be imminent.
- Privately placed securitisation deals tend to be smaller in size but also less visible than marketed deals. Prospa and OnDeck are relatively new entrants which specialise in unsecured lending to SMEs funded by securitisation, and are likely to privately place securitisation deals at least until they achieve large scale.
 - Prospa raised \$83 million from a privately-placed ABS in early 2018. This follows an earlier privately-placed ABS that raised \$50 million in mid-2015.
 - OnDeck have not yet completed any securitisation deals in Australia. However, in mid-2018 it established a \$75 million securitisation warehouse facility, suggesting it plans to execute a securitisation deal of approximately such a size in the near future.

ACCESS TO FINANCE FOR SMALL AND MEDIUM BUSINESSES

FOI 2402
Document 5

TOP LINES: [Max 3 dot points at font size 16, font-type: Garamond – single spaced]

- The Government is working to help small businesses expand and attract employees by improving access to debt and equity finance
- The Government plans to establishing a \$2 billion Australian Business Securitisation Fund, administered by the Australian Office of Financial Management, to lower funding costs for smaller banks and non-bank lenders, which would improve access to financing for small businesses
- The Government is also encouraging the creation of the private sector-owned Australian Business Growth Fund to fill financing gaps, which would allow banks and other financial institutions to collectively own the fund and make equity investments into businesses looking to scale-up

COALITION ACTION: [Max 4 dot points at font size 12, font-type: Garamond]

- The Government announced on 14 November 2018 that it will significantly enhance access to funds for small business across the country through the introduction of a \$2 billion Australian Business Securitisation Fund and encourage the establishment of an Australian Business Growth Fund to provide longer term equity funding.
- The Australian Business Securitisation Fund will invest up to \$2 billion in the securitisation market, providing significant additional funding to smaller banks and non-bank lenders to on-lend to small businesses on more competitive terms. The Fund will be administered by the Australian Office of Financial Management (AOFM), consistent with their prior involvement in the Residential Mortgage Backed Securities Market in 2008.
- The Government is also in consultation with APRA and a number of financial institutions in regard to the establishment of an Australian Business Growth Fund that would provide longer term equity funding to small businesses. The Australian Business Growth Fund is expected to follow similar international precedents. By way of example, since its establishment in 2011, the United Kingdom's Business Growth Fund has invested some \$2.7 billion in a range of sectors across the economy.

KEY FACTS AND FIGURES: [Max 5 dot points at font size 12, font-type: Garamond]

- SME conditions and confidence continue to be strong and a significant majority of SMEs are able to access suitable finance, particularly when using property as security.
- However, there are ongoing concerns and gaps about the price of that finance. In particular, banks are generally reluctant to extend finance without real estate as collateral and smaller banks and non-banks have difficulty raising funds for SME lending.
- Around one-fifth of businesses report that they have found it relatively difficult to access finance. In addition, the proportion of small businesses that perceive it to be relatively easy to access finance has declined recently. (Sensis, RBA)

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| QTB Number: | QB18-000349 | Adviser: | § 22 |
| Contact Officer: | § 22 | Contact Number: | § 22 |
| Division responsible | Financial System Division | | |
| Office Responsible | Treasurer | | |

- According to the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), sources of capital for growth are scarce and expensive. Also, the recent RBA report on Access to Small Business Finance (September Bulletin) found that entrepreneurs consider:
 - access to finance for start-ups is very limited;
 - banks are reluctant to extend finance without real estate as collateral; and
 - the process to obtain finance is lengthy and onerous.
- Equity is available as an alternative to debt finance and may well be more suitable for businesses without access to collateral looking to scale up, but SMEs find it difficult to access equity beyond family and friends. While private equity and venture capital financing is sometimes available, its supply is limited, terms can be restrictive and control of the business can be lost.

KEY QUOTE: [Delete if not required. Do not include if document already at two pages.]

- *“The Australian Business Securitisation Fund will go a long way in meeting the financial needs of the Australian small business sector by stimulating greater competition in the lending market.*
- *Our 2017 report into barriers to investment identified a funding gap where small to medium enterprises (SMEs) did not have access to the finance they need to start or grow their businesses. More recent research by the Judo Capital/ East & Partners SME Banking Insights Annual Report found the funding gap is estimated to be in excess of \$80 billion. The new pool of capital will help address this gap, as smaller banks and non-bank lenders will have access to more capital specifically for the sector. This will increase competition in the market and increase access to affordable capital for SMEs.*
- *“While the Securitisation Fund will increase the pool of capital for medium-term lending, it does not address the need for long-term funding for high growth SMEs, which generate the highest growth in employment. It is critical the planned discussions fast-track the establishment of the Australian Business Growth Fund to address this long-term funding gap. Equally, the Australian Prudential Regulation Authority must action capital relief for the securitisation capital and the growth fund.*
- *“We call on all lenders to follow the lead of the National Australia Bank, Commonwealth Bank of Australia and HSBC in supporting the establishment of the Australian Business Growth Fund.”*
 - Australian Small Business and Family Enterprise Ombudsman

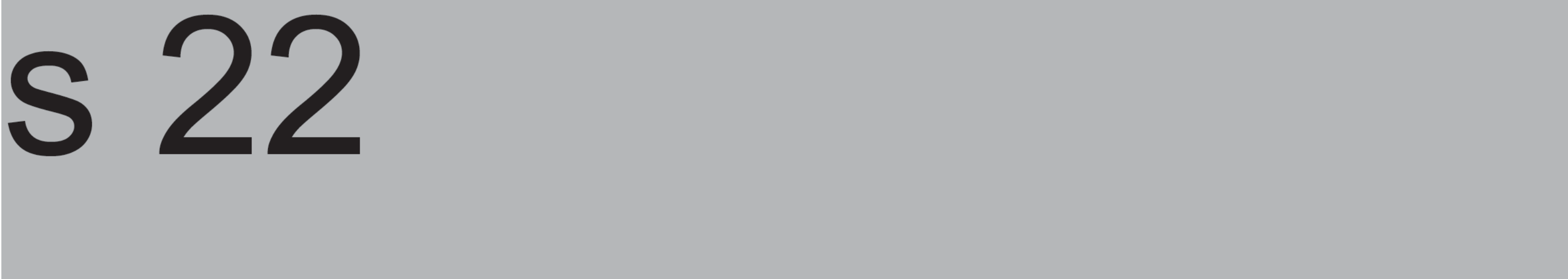
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- *“Small businesses find it difficult to obtain finance other than on a secured basis – typically, against real estate. Even when small businesses can access finance, funding costs are higher than they need to be. To overcome this and ensure that small businesses are able to fulfil their potential and continue to underpin economic growth and employment, the Australian Business Securitisation Fund will invest up to \$2 billion in the securitisation market, providing significant additional funding to smaller banks and non-bank lenders to on-lend to small businesses on more competitive terms.”*
 - Joint statement Mr Frydenberg and Senator Cash 14 November 2018

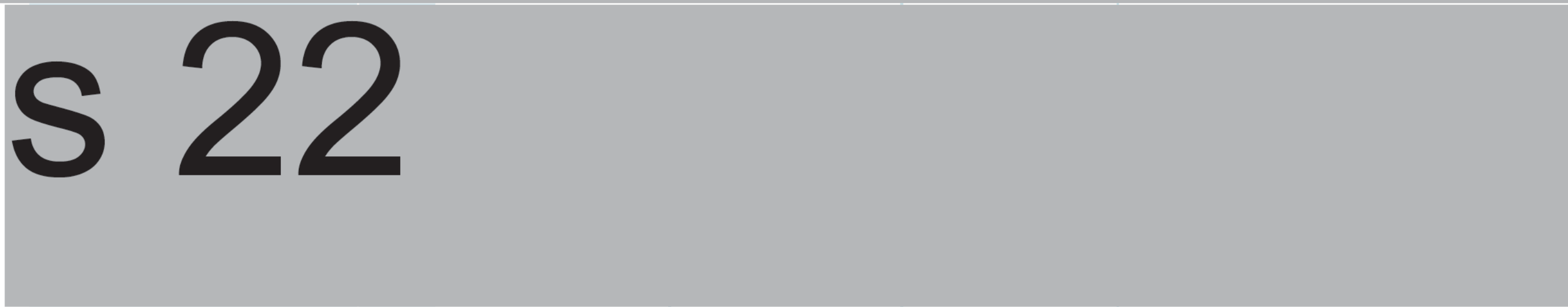
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| Contact Officer: | § 22 | Contact Number: | § 22 |
| Division responsible | Financial System Division | | |
| Office Responsible | Treasurer | | |

SME access to finance

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| <p>SME information gaps</p> <ul style="list-style-type: none"> • SME s are unaware of the different options, have low levels of financial capability and find it difficult to compare and find a suitable product | <p>Limited access to unsecured debt</p> <ul style="list-style-type: none"> • In the absence of physical collateral, access to unsecured debt is expensive • Higher risks for lenders with information gaps | <p>Funding costs are high</p> <ul style="list-style-type: none"> • Smaller lenders have high funding costs • SME lending is higher risk | <p>Alternative options are underdeveloped</p> <ul style="list-style-type: none"> • SME lending is dominated by the major banks (80% of total lending) • Supply of venture capital and equity financing is very low in Australia compared to other countries • Innovative non bank lenders are growing rapidly but still very small compared to the banks |
|---|---|--|--|



Options for further development



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|---|-----------------------|----------|----------|----------|----------|
| <p>Kickstart asset backed securitisation of business loans - Govt actions determined following targeted and timely review</p> | <p>Private Sector</p> | <p>-</p> | <p>-</p> | <p>☑</p> | <p>-</p> |
|---|-----------------------|----------|----------|----------|----------|



s 22

s 22

From: Tease, Warren
Sent: Friday, 2 November 2018 11:42 AM
To: s 22
Subject: s 22 34(3) and s 22

Importance: High

Hi s 22

We appear to be playing phone tag.

There are a couple of things that I would like to discuss with you:

- s 34(3) We have a draft MS prepared for the Treasurer outlining the preferred model that we discussed the other day and asking him to agree to its implementation. I understand that you do not think a letter to the PM is necessary as part of that. We have discussed with PM&C and their view is that a letter is required s 34(3) We are OK with that as it will expedite the process. PM&C will discuss with PMO. We plan to send the MS up today and we are also drafting a letter from the Treasurer to the PM. If you would like to exclude the letter I think that it would require an agreement between your office and the PMO;

s 22

Regards

Warren

s 22

From: Media Liaison
Sent: Monday, 12 November 2018 10:44 AM
To: s 22
Cc: s 22 Media Liaison, s 22
Subject: RE: Media release request [SEC=PROTECTED, DLM=Sensitive:Cabinet]

Hi s 22

There is no separate media release on the Securitisation Fund. All of the relevant information is covered in a fact sheet, which was provided to s 22 last week.

s 22

Kindest regards,

s 22

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www.treasury.gov.au

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From: s 22
Sent: Monday, 12 November 2018 10:38 AM
To: Media Liaison
Cc: Treasurer Media
Subject: RE: Media release request [SEC=PROTECTED, DLM=Sensitive:Cabinet]

Thanks again, s 22

Is there a media release that focuses just on the Securitisation Fund?

s 22

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