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Media Release

Major banks reduce lending fees for corporates as competition increases

(6 April 2005 – Australia) After a sustained period of upwards risk re-pricing, banks are now re-pricing their lending credit spreads and loan fees downwards in the corporate, commercial and SME segments as competition increases, the latest banking survey by JPMorgan and East & Partners reveals.

The joint JPMorgan and East & Partners report, titled Australian Corporate, Commercial and SME Banking Survey (Volume 7: March 2005), surveyed Australia's Top 500 corporations, the commercial sector (A$20 to $340 million annual turnover) and SMEs (A$5 to $20 million) on their forward intentions to borrow and repay debt, credit re-pricing and banking relationships.

"Despite the fact that the majority of corporates borrow at fixed interest rates, 43.5 percent stated that loan interest rates had gone down compared to 10.5 percent for which rates had increased," said Brian Johnson, Banking Analyst at JPMorgan.

"In addition to this downwards re-pricing of the loan portfolio, upward credit spread re-pricing has ceased with 22.5 percent of corporate respondents citing reduced loan spreads relative to the published reference rate, compared to 9.2 percent where the spread had increased.

"Similarly, lending credit spreads within the commercial and SME segments are also being re-priced downwards with a net 15.1 percent of commercial respondents and 5.8 percent of SME respondents citing reduced spreads. This is a major change from previous surveys where spreads were being increased across all three segments." said Mr Johnson.

"Evidence of downward re-pricing for risk is in line with many other indicators suggesting a sharp increase in competition as banks are adopting either predatory or defensive pricing strategies in response to the weakened NAB franchise," said Mr Johnson.

"Further to this, banks have started to re-price loan fees downwards in all segments, as opposed to transaction fees, which are currently stable," said Mr Johnson.

The survey continues to see the gap between corporate pessimism and commercial/ SME optimism widening.

"The corporate segments 12 month intention to borrow continues to slump from a high of 34 percent in November 2002 to a new low of 9.5 percent in February 2005,"said Mr Johnson.

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“We believe this weakness is due to strong operating cash flows among the Top 500 reducing the need for increased debt, the adverse impact of a strengthening Australian dollar and continuing concerns regarding the over-reliance of the Australian economy on the strength of the domestic housing market.

“Of particular note is the sharp decrease in the “unsure” response by corporates in relation to their borrowing intentions, suggesting the Top 500 have been cancelling debt-funded projects as opposed to deferring borrowing intentions,” said Mr Johnson.

In contrast, the survey continues to witness extremely high borrowing intentions among the commercial and SME segments.

“Given a strong domestic economy, the perceived increased spending power afforded by the stronger Australian dollar and the cumulative impact of many years of lagging capital expenditure, the commercial and SME segments forward borrowing intentions remain high at 73.6 percent and 73.5 percent, respectively,” said Mr Johnson.

Based on this intention to borrow response, the survey shows that Westpac remains the dominant bank amongst the Top 500, while CBA leads the commercial segment and NAB the SME space.

“The efforts of St George and BankWest to target this middle market appears to be paying off with both banks improving their share of lending over the past 12 months. The Big Four, on the other hand, are clearly feeling the pinch from the increased competition in this commercial market with all of them losing share as customers respond to pitches from rival banks,” said Paul Dowling, Principal Analyst at East & Partners.

“After a turbulent period, NAB leads the SME market with its share of forward borrowing intentions recovering since the previous survey. However, the bank clearly has work to do in the corporate and commercial segments where its borrowing intention indicator has declined in both cases.”

“ANZ is the only one of the Big Four to have improved its position in forward lending to corporates, which bodes well for the bank given the investment it has made in its Institutional business over recent months,” said Mr Dowling.

“The other big improver is St George, which has consistently increased its share of forward lending across all market segments over the past 12 months and has plenty of bandwidth to grow its corporate and business banking performance overall,” said Mr Dowling.

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