Treasury Trends

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Corporate borrowers in the driving seat

Corporate borrowing appetite slow to return

Trawling through the latest bank lending data confirmed what we have known for some time — that low interest rates are a useful carrot for stimulating lending growth but will only work if borrowers have the confidence and certainty to invest. It should not be surprising given the events of the last twelve months that businesses have shown a healthy dose of caution and have preferred to deleverage balance sheets as opposed to taking on more debt.

Despite the record low interest rates, recent data across both Australia and New Zealand confirm a sizable contraction in bank business lending over the last twelve months. While the immediate COVID-19 response by many businesses was to seek additional credit limits from their banks, the feared liquidity needs failed to materialise in many instances and funding headroom is now being reduced. The other immediate response from corporates was to stop all, or turn down capex plans, a tap that is only now starting to be cautiously turned back on.

The other clear trend that the banking data illustrates is the dominance and continued expansion of lending into the housing market, the sector clearly propelled by the low borrowing rates, to the point where it is now squarely in the political headlights. Monetary policy is a relatively blunt instrument and does not discriminate across industries.

Key Points

- **Recent bank lending data confirms that corporate borrowing appetite has been cautious**
- **Reserve Bank policies have created an opportune refinancing window**
- **The competitive lending environment means banks are becoming more creative in their offerings**
- **Pricing matters but should not be the only consideration**
- **Look beyond your imminent borrowing needs and put a strategic lens on development of a long term funding plan.**

Policy tools at play

By providing cheap three year borrowing directly to the banking sector, the RBA's Term Funding Facility (TFF) and the RBNZ's Funding for Lending Programme (FLP) have been instrumental in reducing bank funding costs and encouraging bank lending throughout the crisis. The New Zealand scheme has another 12 months to run, with

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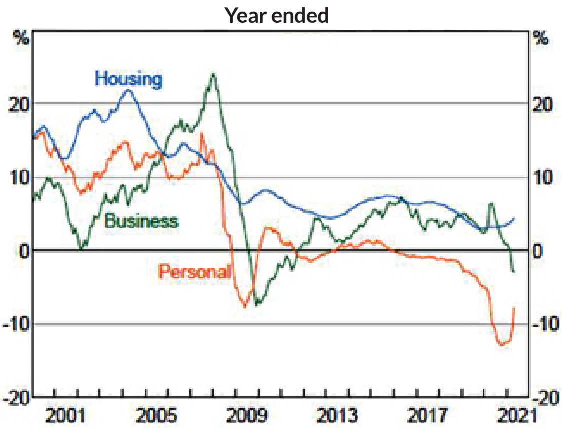
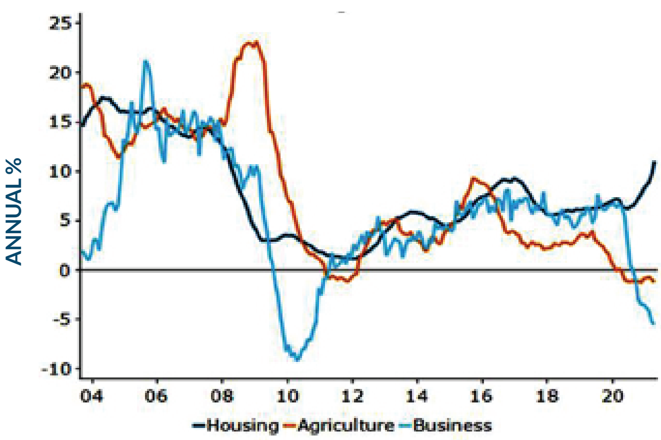
AUSTRALIAN CREDIT GROWTH BY SECTOR



Source: ABS; APRA; RBA

NEW ZEALAND CREDIT GROWTH BY SECTOR



the modest bank usage to date suggesting utilisation will likely be heavily concentrated in 2022. However, Australian banks have only until 30 June 2021 to draw down their remaining allowances, meaning around $80 billion of the approximately $200 billion scheme will likely be drawn down in the final days of June 2021.

Australian banks will be keen to put this huge pool of ultra cheap three year funding to work, adding to what has been an increasingly competitive lending environment and creating an opportune window over the next few months for corporates to add to or extend bank funding lines.

A competitive lending landscape

The uncertainty of 2020 saw many corporates extend maturing bank funding lines for a limited 6 or 12 months, effectively a holding pattern until a more settled environment was available and longer term business and funding dynamics were better understood. Banks were generally pragmatic and looked after their existing clients through these turbulent times but had little appetite or capacity for 'new-to-bank' lending opportunities. Step forward six months: lending appetite has returned and there are a large number of corporates looking to (or needing to) refinance in 2021. There are, however, no foregone conclusions, and we continue to see wide variations in bank pricing and instances where bank appetite has been constrained.

For those with multi-bank relationships, or who are able to run a tender process, competitive tension can deliver significant pricing benefits. We are also seeing more non-standard structures from banks as they look to differentiate their offerings and take advantage of the various policy initiatives put in place by the government and regulators. Recent examples include longer tenor, such as seven year bank funding, pricing discounts if able to commit to minimum utilisation levels, as well as the ever popular ESG opportunities.

With a bit more flexibility from banks (at least for those corporates with the right story to tell), refinancing provides an opportunity to test 'outside the box' solutions. Having the right funding structure is often more beneficial than seeking the lowest possible pricing, which unfortunately remains the sole focus of many.

The following points should be considered to help define a good corporate refinancing process:

1. **Establish a funding plan.** This should look beyond immediate funding needs and conceptualise potential longer term funding arrangements, tying together growth plans, optimal capital structure, etc. Putting a strategic lens on the funding path will then help with more immediate funding decision making around optimal structure, funding tenor, most suitable banking counterparties and practical timeline planning — thus avoiding the pitfalls of a last minute rush or having to access funding markets at an unfavourable time.
2. **Give yourself plenty of time.** Start the refinancing process at least 6-12 months in advance of requirements (or longer if wanting to avoid facilities being classified as 'current' in accounting terms). This will signal to non-incumbent banks that there is a genuine opportunity (as opposed to simply a pricing check) and provide scope for T&C's to be properly negotiated and documented. It will also allow for a 'plan B' to be put in place should lending appetite not initially be forthcoming. With a heavy corporate refinancing pipeline through the balance of 2021, documentation is taking longer than usual.
3. **Maintain good bank relationships.** Keep abreast of market lending trends and appetite and how existing funders view you. Banking preferences and trends are always changing but understanding current funding market drivers and industry (and individual bank) trends can help throughout the refinancing process, whether it be in the type of funding structure or which T&C's are negotiable/non-negotiable. External advisors and those regularly in the market can be a great source of industry knowledge and expertise.
4. **Best foot forward.** Optimising your organisation's financial image is crucial (particularly if dealing with a lender for the first time). From drafting a professional Information Memorandum to presenting the financials and corporate strategy, you need to have good information and a clear story to give to the bank.

Our debt advisory team has significant experience and up to date market knowledge, as evidenced by the ~$4.0 billion of funding offers received by the team in the first half of 2021. If you would like to discuss a refinancing plan for your business, please speak with your advisor.

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