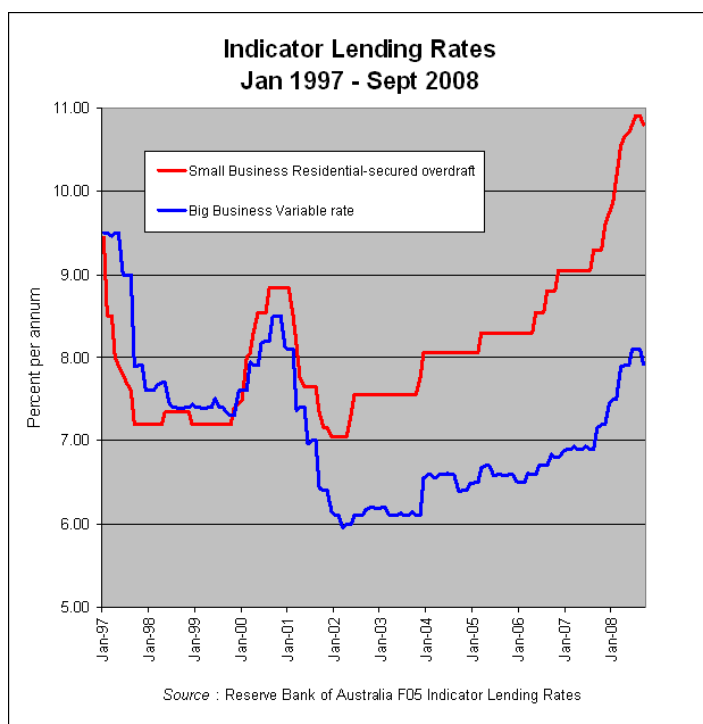


Between 1997 and 2000 the differences between Lending rates to small business on a residential- secured overdraft and unsecured variable rate to big business were as would be expected in a normal functioning market.

The loan to the small business is 100% secured by the small business owners family home while the loan to big business has no such security, and as we have seen the banks can lose millions on loans to the likes ABC Childcare etc, etc, etc.

Therefore as a loan that is 100% secured has less risk, in a normal functioning market, such a loan would attract a lower interest rate and this is what happened prior to the year 2000. But since then, something very strange has happened, that defies the normal market fundamentals.



The Indicator Lending rates for small business have become substantial more expensive, and the differential continues to grow and grow, placing small business at an ever increasing competitive disadvantage against their larger competitors, without any economic justification.

How is one business meant to effectively compete in the market if they are paying 3% higher interest rates (despite the loan being residentially secured) than what their competitor is paying?

Additionally, there is no statistics available to compare differentials on fees and charges paid by small and large business.

This discrimination against small business, without any economic justification, can only result in a mis-allocation of resources within the Australian economy, and undermine the economic prosperity of the nation.

The only conclusion that can be reached is that the normal forces of competition are not functioning in the Australian banking sector, and although in the short term this results in continued record profits for the banks, this distortion is damaging the engine room of the economy; small business, and is creating significant long term damage to the Australian economy.