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Banks pro-active and innovative in lending approach to SMI

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DESPITE the laments from the small business sector that banks are reluctant to lend to them during the economic slowdown, there are banks that are not afraid to reach out to small and medium-size industries (SMI).

Bumiputra Commerce Bhd (BCB), Malayan Banking Bhd (Maybank), Affin Bank and RHB Bank are among local banks that do not shun SMI during bad times and they have a consistent lending policy for loans to SMI.

BCB, for one, is not tightening its terms and conditions for loans to SMI during the current global slowdown.

BCB senior vice president for Business Banking, Abu Bakar Buyong, said the bank gives out loans to "a lot of small entrepreneurs".

"For us, it is a non-issue. For instance, under our Special Enterprise Guarantee Loan Scheme, we're the second after Maybank in giving out loans to small businesses," he told Business Times.

Abu Bakar was commenting on complaints by small businesses that banks are reluctant to give out loans to them.

Deputy Finance Minister Datuk Dr Shafie Salleh had raised the matter at Parliament early this month, saying that Bank Negara Malaysia had asked the banks not to be too strict with small borrowers.

Prime Minister Datuk Seri Dr Mahathir Mohamad also advised the banks to treat loan applications from small companies with more consideration. He chided them for being too prudent and not wanting to take the risk.

Economists, while acknowledging the needs for the banks to be prudent due to the threat of rising non-performing loans (NPL), believe that there are banks which are pro-active and innovative in their lending approach to SMI.

RAM Consultancy Sdn Bhd chief operating officer Dr Yeah Kim Leng said some banks now have their own risk management system to evaluate risk exposure and identify borrowers who can sustain the downward cycle of the economy.

Economists said companies in the export-oriented sector like manufacturing and electronics may find it rather hard to convince banks to extend loans to them because the export sector is badly affected by the global slowdown and the slump in the US economy.

However, economists concurred that banks should not neglect the SMI and bankers should instead identify borrowers which can ride through the economic downcycle.

Economist Tan Sri Ramon Navaratnam said the banks should also give priority to the small businesses as they are the backbone of the country's economy.

He said banks should not avoid the SMI, even during the bad times, as there are many good and genuine small businesses around.

BCB's Abu Bakar said the bank has given instructions to its officers to help companies facing problems, especially after the September 11 attacks in the US.

"We want to help them tide over the crisis," he said.

He said BCB also supports the Government's pump-priming efforts by financing many contractors in the construction industry.

Abu Bakar said BCB's loan growth for SMI has grown to more than 15 per cent this year.

"Our loans to the SMI like retail business, franchise and so on, has

grown more than 15 per cent this year compared with last year.

"It is our priority and the loan growth for the SMI is faster than other loans," he said. More than 50 per cent of BCB's SMI loan exposure are in the manufacturing sector.

He added that most of the loans given out to the SMI this year were for government projects.

This shows that the Government's stimulus measures to manage the impact of the global economic slowdown has begun to filter down to the domestic economy.

The Government has come out with two fiscal packages, totalling RM7.3 billion to stimulate the domestic economy.

An initial stimulus package of RM3 billion was announced by the Government in March this year, before it came up with the second package worth RM4.3 billion on September 25.

Both packages were aimed at stimulating the domestic economy, focusing on infrastructure projects (public spending) as well as consumer spending.

Abu Bakar, however, said that the bank has to be cautious during the current economic condition as the NPL are expected to rise.

"It depends on how we see business in the future and the resilience of the companies in the next two or three years," he said.

Meanwhile, the country's largest local bank, Maybank, is set to ride the economic slowdown with the SMI.

The bank, which already has an existing SMI loan portfolio of RM15.3 billion in outstanding loans, is confident that it will approve RM4 billion worth of loans for the SMI by end of its financial year (June 30 2002).

In an interview with Business Times last month, Maybank Enterprise Banking Division general manager Johar Che Mat said that in August and September this year, the bank has approved RM1 billion in SMI loans.

During the previous financial year, it had approved RM4.3 billion of such loans.

Maybank, which currently has an SMI client base of 50,000 enterprises, has been focusing on the SMI sector since 1992.

Loans for the SMI since that year have increased five-fold.

Maybank has also actively supported the Government's stimulus measures. According to Johar, the bank is now promoting the Government-aided loan schemes and development of specific infrastructure to its large SMI client base.

He said the loan schemes, which is part of the Government's RM4.3 billion stimulus package, will be managed by a specific unit of Maybank and promoted through its branch offices and new business centres.

Affin Bank is another bank which has taken pro-active steps in dealing with the SMI.

Affin Bank, which had launched its latest financial scheme called Affin Spiks (Skim Pinjaman Industri Kecil dan Sederhana) early this year, is set to go deeper into the SMI market.

Its president and chief executive officer Raja Datuk Aman Ahmad said the bank is already strong in this segment, capturing 22 per cent of the industry's market share.

About 35 per cent of Affin Bank's total loan portfolio goes into SMI financing.

The bank expects the RM100 million allocation loan portfolio for Affin Spiks to be fully taken up by end of this year.

The financial package, which was officially launched in April this year, is targeted at new SMI, especially those engaged in food-based production and manufacturing but with insufficient collateral to support their loan applications.

Under the scheme, successful applicants will be eligible for a loan amount of between RM50,000 and RM1 million.

RHB Bank, the third largest banking group in the country, is also prepared to stand by its clients and help them ride through the economic turbulence.

RHB managing director Yvonne Chia said last month that the bank is supportive towards the Government's call to provide better terms and access to financing for the SMI under the recently launched stimulus package.

RHB Bank's support for the middle market and SMI sector is clearly reflected in the bank's healthy and consistent loan growth in the past few years.

For the financial year ended June 2000, the bank registered a 12 per cent growth in loans for the middle market and SMI sector. The loan growth rose to 17 per cent in the the financial year ended June 2001.

In August, RHB Bank had launched the Business Growth Package, the latest in its series of initiatives, to help the middle market and SMI sector to grow.

Loans under this package are extended to companies which are involved in manufacturing, wholesale and retail trade and services.

Under the scheme, borrowers can apply for loans ranging from a minimum of RM500,000 to a maximum of RM10 million.

The loans can be used to purchase completed factories or shophouses for own occupation or to be used as working capital or to refinance borrowings that had earlier been taken from other banks or finance companies for purchasing assets.

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