



MASTER BUILDERS
A U S T R A L I A

19th August 2024

Department of Treasury,
Langton Crescent,
Parkes ACT 2600

creditreforms@treasury.gov.au

Re: Proposal to extend the RLO exemption for small business

Master Builders Australia welcomes the opportunity to comment on the proposed two-year extension to the small business exemption for Responsible Lending Obligations.

Master Builders Australia strongly supports the proposal to extend this small business exemption.

We understand that the exemption is due to expire on 3rd October 2024 and that the current proposal means that it would continue until 3rd October 2026.

Before the exemption was in place, any loans made to small businesses which were 'mixed purpose' in nature were subject to Responsible Lending Obligations (RLOs). A mixed-purpose loan is one which ends up being used for a mix of both business and personal reasons. The application of the RLOs meant that a bigger hurdle had to be jumped for the borrower to qualify for such loans. This made it more difficult – and more costly - for some small businesses to obtain enough of the financing they required.

Australia's building and construction industry comprises about 450,000 businesses – far more than any other sector of the economy. The most distinctive feature of our businesses is their overwhelmingly small size: 98.6 per cent of construction businesses are small in scale, having less than 20 employees. In fact, a clear majority (58.2 per cent) of construction businesses have no employees at all with many being structured as sole traders or partnerships.

The small scale of the businesses in our industry means that most are of modest means financially: over one half (55.0 per cent) of construction businesses turn over less than \$200,000 annually.

These features of our industry mean that changes to small business lending policies have significant impacts. The current environment is a challenging one for small businesses in nearly every sector, with business insolvencies across the Australian economy hitting all-time highs over recent months. That's why small business financing conditions must remain as favourable as possible for some time to come. From this perspective, the proposed extension to the RLO exemption is very welcome.

Over the next five years, a lot is being asked of Australia's building and construction industry. Record volumes of transport and utilities infrastructure need to be delivered alongside the National Housing Accord's target of 1.2 million new homes – a level of home building that has never been achieved before. Our chances of hitting the target will be maximised if the lending environment is as favourable as possible for our small businesses. Subjecting them to more stringent regulation is likely to impede the flow of credit to our industry's businesses. This would inhibit the scale of their operations, hamper innovation and make it more costly for them to perform work. Extending the RLO exemption for another two years will help prevent these unfavourable outcomes from coming about.

We thank you for the opportunity to provide input to this consultation. Should you have any questions or would like further information, please feel free to contact Shane Garrett, Chief Economist, at shane@masterbuilders.com.au or by phone on 0450 783 603.

Yours faithfully,

Shane Garrett
Chief Economist
Master Builders Australia