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## Lenders close to the limit

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**THE Rudd Government's new \$4 billion property finance joint venture with the major banks was needed because some Australian banks were close to their lending limits to the property industry.**

*BusinessDaily* learned yesterday that at least two Australian banks -- NAB and Westpac -- were nearing their internal lending caps to the construction and commercial property sectors.

Local banks are under pressure to keep their corporate lending to industry sectors such as construction within specified limits as the credit crunch continues. .

Prime Minister Kevin Rudd on Saturday announced the establishment of the fund which is expected to be headed by senior National Australia Bank executive, Ahmed Fahour.

The formation of the new lending agency is a precautionary move to cover any funding shortfalls caused by the possible exit of foreign banks from the Australian market.

The government will pump \$2 billion into the fund while the major banks will inject \$500 million each.

Troubled offshore banks such as Germany's HypoVereinsBank and Britain's Royal Bank of Scotland may try to withdraw from local banking syndicates this year as big construction groups seek to refinance billion-dollar loan facilities.

"We needed to set up this contingency fund to cover for situations where foreign banks refuse to roll over loans to construction firms," a senior Australian bank executive said.

"Lending by the major banks to the construction sector is already too high and there is only limited capacity for Australian lenders to step in to cover for a foreign bank pull-out.

"The important thing to stress here is that the big Australian banks are well placed to fill any lending

gaps that may emerge in other industry sectors."

But industry leaders and consultants are worried that the banks will progressively rein in lending as economic conditions deteriorate.

And that may put more of the onus on the taxpayer to cough up more dollars for the new fund.

While the fund is designed to guarantee refinancing of loans for existing projects and those under construction, it is not intended to extend fresh loans to new projects.

Property industry consultant Geoff Underwood said that if money goes to continuing projects already "coming out of the ground, then it's sound. Otherwise you do risk having job losses and empty bombsites".

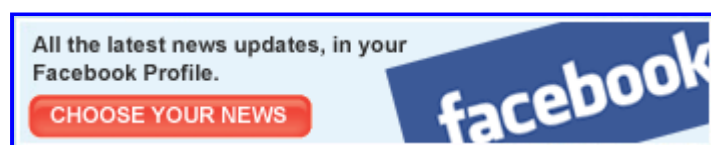
Tony De Domenico, the Victorian chief of the Urban Development Institute said: "Every little bit helps. We are delighted."

But he said the banks' criteria for issuing new loans had become become too tight.

"Banks are reluctant to lend money and the ones that are lending have a different criteria. It's more difficult to obtain finance," he said.

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