Committee feels that when the Bankruptcy Act comes up for revision, the practices and procedures of "receivers" should be reviewed as they pertain to the sale of assets at less than fair market value.

Small businesses in Canada tend to deal with small bank branches in the expectation of better access to and familiarity with bank officers. However this tendency does produce a number of potential difficulties. In the first place, managers of small branches tend to be allowed low discretionary credit limits. This increases the role of divisional bank officers who are unfamiliar with the business clients operations and needs. Moreover it simply adds another bureaucratic layer to the process by which smaller firms obtain financing and may increase the chance of loan rejection. Second, managers of small branches are often more likely to attempt to cushion the risk exposure of their loans by demanding larger amounts of collateral. We know that smaller firms are required to pledge more collateral for loans than larger firms and this, in itself, restricts the amount of financing available to smaller firms. Third, managers of small bank branches tend to be frequently transferred. This turnover further reduces the familiarity of lending officers with their small business clients and may adversely affect the ability of small business to receive adequate financing.

As a general rule, banks do not take on high risk loans even if this risk could be compensated for through high interest rates. Commercial loans are charged rates between prime and prime plus 3. For term loans granted to new businesses, only 6 per cent exceeded a rate of prime plus 3. For operating loans, about 1 per cent of the smaller firms were charged such high rates.[24] Thus very risky loans are rationed, not by price, but by amount. This may be one reason why some small businessmen complain of inadequate financing by banks.

In 10 per cent of cases, banks lend less than what they were asked for; and, in addition, about 5 per cent of all loan applications are declined, these being usually the riskier ones.

The small business-bank relationship should be considered in both the longer-term perspective as well as in the very recent context. Over the past decade, the evidence indicates that the banks tended to treat their smaller clients no differently than large clients with respect to pricing and availabitity of funds. This is a direct result of competition in the market. Nevertheless, the nature of the small business sector in Canada and the type of financial institutions they deal with, namely the banks, could pose problems for the future financing of smaller firms.

Recent economic conditions highlight and exacerbate these problems, as was indicated earlier in this Report. During periods of high interest rates, small firms cannot compete for funds as effectively as large businesses, due largely to differential tax rates. As large firms move into the traditional sources of small business financing, as they did in 1981, smaller firms may be shut out. The current liquidity crisis has affected the small business sector more heavily than larger business. Thus the risk exposure of the banks relative to small borrowers has increased more than the risk exposure relative to larger borrowers. The traditional risk aversion of banks, as witnessed by their high collateral requirements, has prompted them to become extremely cautious in their lending practices. The Committee recognizes that these factors can lead to potentially serious problems for small firms, and we strongly urge that the senior management of the banks act to ensure that branch managers and loan officers are more sensitive to the plight of their smaller business customers. In