The cost of credit extended by a private individual is usually somewhat lower than the average cost from commercial lenders; vendor financed loans sometimes carry lower or no interest charges, particularly in transfers among family members. This method of financing enables farmers to dispose of their real estate and gain some liquidity at minimum risk.

A vendor financing scheme allows for flexibility between the vendor and the purchaser who can work out a solution particular to the situations of the two parties. It could accommodate intergenerational and other family transfers of real estate. The vendor might be a retiring farmer, who would carry the purchaser either by an agreement for sale or by taking back a mortgage.

Guarantees would encourage individual vendors to extend affordable long-term credit to farmers with the knowledge that in the case of default, the lender would not be out of pocket: "Farmers today face low net returns, high net interest rates and deteriorating asset values. This causes lenders to restrict credit moving capital out of agriculture into other sectors" (Issue 16:10, 26-3-87).

Guarantees to the vendor could be provided by the government in much the same way as it provides guarantees through the *Farm Improvement Loans Act*. Default would occur if the purchaser failed to pay the principal or the interest on the due date, or otherwise breached the terms and conditions of his agreement with the vendor. Options open to the vendor in the event of default could include:

(1) re-amortization of the loan for a longer period;

(2) foreclosure and the regaining of title to the property; and

(3) a request for the guarantor to make payment.

Although the Committee agreed on the principle of government guaranteed vendor financing, it was divided on the extent to which the government should become involved in a scheme which is essentially an unstructured arrangement between two individuals. Unresolved concerns included: how mortgage rates would be determined, who would qualify, and what would be the procedure in the case of default.

4. FCC Lease-Purchase Agreements

Leasing has long been used by Canadian farmers to obtain the use of farmland without the debt financing needed to obtain greater degrees of ownership. It reduces cash flow requirements since lease payments are normally less than mortgage requirements. For the first time in history, over 35% of all farmland is leased land according to the 1986 farm census figures.

Leasing allows the beginning farmer to build equity gradually rather than purchasing a complete farm outright and would facilitate restructuring by farmers currently encumbered with excessive debt. Leasing is also suitable for existing farmers to enable them to meet any temporary or permanent increase in their demand for land.

Proposals put forward by witnesses on leasing were either presented in the context of the FCC's equity financing proposal or focused on the current leasing practices of the Farm Credit Corporation. On the subject of FCC leasing, the Committee has already recommended that the federal government instruct the Farm Credit Corporation to move to longer-term leases of farmland (Issue 14:3, 24-3-87).

Under the terms of its Act, the FCC is normally not able to own land for more than five years. It is therefore unable to lease land for longer than three to four years. Current practice is for the FCC to allow the farmer to purchase the land when the lease matures. The Corporation presently holds land totaling some 200,000 acres across Canada.