

not be ready for marketing, the value of the security varies over the length of the farm season. Farmers suffer severe hardship if an operating loan is called. Then there are a number of other non-price conditions attached to their loans. Farm organizations before the Committee questioned the value of advice received from bankers and bank agronomists. Some farmers who followed the advice of their bank managers have found themselves in serious financial difficulties.

The banks' practice of lending on the basis of asset value rather than estimated cash flow, has been called into question, especially as it relates to farm loans. Normally this lending practice would cause no problems. Asset values tend to reflect the future cash flow of the assets generating this income. However, as interest rates rise, a given future cash flow is translated into a lower current value of the asset. Moreover, if a loan were taken out at floating rates, say, future cash flow might be inadequate to cover unexpected rises in interest rates. If future cash flow is also reduced, this problem is further compounded.

This is precisely the situation many farmers now face. Loans taken out in times of expected income growth and continuously rising asset values may have been financially sound at the time. However, rising interest rates and falling incomes have produced a situation where some farmers are facing liquidity problems on loans for which insufficient collateral now exists. What this shows us is that farmers, and the bankers who advised them, were as much at a loss as anyone else in predicting the current economic climate.

Farm incomes are notoriously volatile. This volatility can generate liquidity problems for farmers in the future.

But there is a second, more important reason for questioning the practice of lending on asset value. Prices for farms, like house prices, were significantly bid-up in the early 1970s as a hedge against inflation, because of beneficial tax treatment, and for speculative reasons. This boom increased farmers' equity in their property and therefore the value of their potential collateral. Moreover, the nature of farm land as a stable form of collateral, encouraged banks to possibly over-extend farm loans. Eventually, when this boom in prices for farms subsided, farmers found themselves in a precarious financial position.

One of the reasons farmers find bank financing inadequate is that for a long time their financing has largely been handled through various federal and provincial agencies, at subsidized rates. The shift to bank lending at market rates, at a time when these rates increased to record levels, made financing their operations all the more difficult. Besides, farmers feel that farming's vulnerability to nature and climate should be reflected in flexible conditions and terms for bank loans. In this sector, some provision could be made by amending existing legislation to provide an additional period of time to allow the borrower to arrange alternative financing or to re-negotiate existing loans.

5.3 CUSTOMER COMPLAINTS

It has been argued here that competition in financial markets tends to reduce, if not eliminate, systematic biases in the treatment of customers by the banks. Nonetheless, it is expected that individual cases of discrimination, abuse, poor service, etc. will recur. During