

# Study on Young Farmers and the Future of Farming

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to

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and Agri-Food

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## Opening Remarks

On behalf of the Canadian Bankers Association, its 51 members and quarter million employees in Canada, I would like to thank you very much for the invitation to speak to the Committee on the subject of *Young Farmers and the Future of Farming*. My members are here to answer your specific questions so I will keep my comments brief. I will, however, take a moment at the outset to put the banking industry, and its association with young farmers and the wider agricultural and rural community, into some perspective.

## Supporting young farmers and the rural community

The banking industry believes young farmers are an important part of the agricultural and rural community success story. Indeed we are seeing a resurgence of interest in agriculture by the younger generation of farmers. While bright and determined, these younger farmers need more support and advice than do more experienced producers.

At the same time, both the new and older generations of producers need to recognize the new reality of agriculture where they might be part of global supply chains and need to hedge international risks. Through our roughly 2,100 rural and small town branches, we supply the tools, advice and support to help them, their families and their communities. These include one-on-one interaction around business plans as well as ongoing business seminars where banks provide access to expert business speakers.

On the business side, banks provide deposit and operating accounts, insurance, investments, financial advice, in addition to operating, term and mortgage loans. I will elaborate on a couple of these products in a moment. Banks also work with producers on succession planning to ensure a viable transition to future generations of farmers. Indeed, the industry is developing customized products for succession and transfer of ownership.

On the personal side, we help rural customers save for their children's education and their own retirement through GICs, stocks, bonds and mutual funds. Banks provide specialized advice, lines of credit, loans and mortgages; and everyday banking needs such as deposit and savings accounts. In short, customers in rural Canada have access to the same services and prices as do customers in Canada's largest cities.

Specifically for young farmers and those contemplating farming, we provide sponsorship and support through a number of local and national initiatives. Indeed, my members would be happy to discuss their support for Outstanding Young Farmer Programs, 4-H clubs and university programs to support agricultural youth and entrepreneurship, Farm Succession seminars, networking opportunities, scholarships and the Royal Agricultural Winter Fair.

## Lending to the agricultural sector

Our bankers understand the importance of access to credit for any farmer, particularly young farmers just starting out. Our lending decisions are based on an assessment of the borrower's ability to repay the loan, making decisions on an individual, case-by-case basis. But it should be realized that these decisions are balanced with more macro conditions such as the prospects for the business sector the borrower operates in, economic prospects in general, the cost to the bank of raising funds, etc. In light of these considerations, what have been the results?

- 18% of total funds lent to small and medium sized enterprises (SMEs) by banks across the country is dedicated to the agricultural sector – that's almost one dollar in five and reflects the longstanding commitment of banks to this sector.
- Throughout the period of global financial turmoil, Canadian banks continued to provide financing to their agricultural clients. From the first quarter of 2008 to the end of 2009, the amount of credit we made available to the agricultural sector went up every quarter and increased by a total of more than 7%.
- Over the longer-term and consistent with our focus on prudent and responsible lending, bank credit has expanded in line with the agricultural sector's growth. Between 2001 and 2008, the provision of bank credit has been consistent with, and appropriate for, growth in the sector and this largely reflects the fact that most of bank lending is for the purposes of working capital.

Canadian banks have utilized the same prudent lending practices and excellent risk management systems in agricultural lending as they do in every other line of business. These practices and systems have led to a banking system that is today internationally recognized for its safety and soundness. As the experiences in other jurisdictions show, poor risk management is not just bad for lenders it is bad for borrowers as well and its negative effects extend into rural communities generally and even the broader economy.

The agricultural community has access to a highly competitive financial marketplace. Banks, credit unions and caisses populaires, Farm Credit Canada (FCC), finance companies and provincial government agencies all compete to provide credit to the sector. About 70% of lending comes from private sector institutions and banks provided 38% of total farm credit in 2008.

Also important, is the nature of the financing banks provide. Two-thirds of bank lending to the sector is non-mortgage credit – working capital and operating lines of credit – making banks the largest providers of this type of credit with \$14.7 billion outstanding in 2008. This type of financing is more complex than lending against assets so it requires the bank to truly understand its customers and to work closely with them over time.

## **Working with government**

Governments play an important role in the agricultural sector and banks are important partners with government. Sometimes we are the conduit by which programs are delivered. Sometimes we provide expert advice with respect to some of the key features in the design of new programs. Recently, the industry has been consulted early in the process of program design, has provided financial and business expertise and has implemented agriculture-specific government programs. All of this has worked to the benefit of producers, lenders and the government. I will give you a couple of examples:

- Banks participated in the evaluation of the Farm Improvement and Marketing Cooperatives Act (FIMCLA) and were instrumental in successfully rolling out the Canadian Agricultural Loans Act (CALA) this past summer on very tight timelines. CALA is a program that assists young farmers. Since it was passed last June, banks have increased the volume of lending by 61% and number of CALA loans by 35%, when compared to FIMCLA.
- Banks provided expertise to government officials who were designing the Hog Industry Loan Loss Reserve Program (HILLRP) to assist struggling hog farmers. The CBA and member banks were in regular communication with government officials, stakeholders and our customers on this program- both during its creation and its implementation. We started speaking to our customers about government assistance to hog farmers even before completing program development. These actions resulted in banks accounting for almost half the volume of HILLRP loans made.

These agricultural initiatives are in addition to our work with the government on a more broad range of credit initiatives such as BCAP, the Business Credit Availability Program. We look forward to continuing this positive relationship with government.

## **Building strong relationships**

The one overarching theme related to our support for young farmers, their families, rural communities, and our work with the government and stakeholders, is the importance we place on building and maintaining relationships. Banking is about more than simply lending money. It is about relationships and nowhere is this more evident than the agricultural sector.

These relationships have helped us work with our customers through the inevitable peaks and troughs that come with working with this sector. This past decade has seen farmers confront BSE, avian influenza, drought, floods, the H1N1 virus and country of origin labelling (COOL). When these inevitable events occur, we work with farmers, taking into account their individual situations to find solutions that are sustainable and in their best interests. Sometimes banks need to have tough conversations with clients so that farmers can make decisions that preserve the capital of the farming operation. The banking industry's work during these

events is testament to the importance we give to the sector and our interest in contributing to its long-term viability.

On this point, I would like to refer to a survey of SMEs that the CBA conducted during the height of the financial crisis. 89% of SMEs who approached their bank about their credit needs said that their bank was willing to work with them. This does not happen without a strong bank client relationship.

The key to the strong relationships we have with farmers is understanding their circumstances. Banks hire individuals with a P. Ag designation and university graduates with an understanding of the agricultural sector. These individuals are account managers and specialists who advise farmers on matters such as farm loans, economic forecasting, farm business planning and general farm management. They serve their clients through non-traditional means and modern technology – they employ cars and laptops to meet with clients at their farm in order for them to spend more time on their business and with their family. And banks dedicate resources to educate them through programs such as the Olds College Bankers School. These account managers and specialists often move up to agriculture-specific credit and risk adjudication positions.

In short, bankers live and work in rural communities and have the skills that are needed to support their agricultural clients. They donate both their business resources and considerable personal time to supporting local agriculture associations, clubs and events. We have a stake in seeing farmers and rural communities thrive.

## **Conclusion**

Thank you for the opportunity to meet with you on your study. I have kept my opening remarks short to enable my members to elaborate on issues I have raised here and specific initiatives for the agricultural sector, particularly young farmers. We would be pleased to answer any questions you have.