

Opinion

Money in the banks

By TERRY O'SHAUGHNESSY

Bankers say they have a winning formula when it comes to lending money to potential businesses. This formula relies on a three-point criterion that each potential borrower must meet in order to land a loan or a line of credit—the infamous cash flow, character, and collateral. But when economic times get tough, it seems that bank managers fall back on the preferred, and unspoken, code of collateral, collateral, collateral.

Now, bankers are not known for their maverick approach to business. It is surely no great surprise that the philosophy of big banking in this country seems geared more to punishing those that struggle rather than rewarding risk-takers that pay off. Regrettably, small business owners are veterans of this kind of battle knowing as they do that when times get tough, they can rely on their banker to get even tougher. And, as the ailing Canadian economy lurches into the recessionary times ahead, the banks can be counted on to put the credit squeeze on its small business customers.

According to Catherine Swift, Vice President of Research and Chief Economist for the Canadian Federation of Independent Business, reports of just such a squeeze have begun to surface.

"We're starting to see the beginning of a trend," says Swift. "Bankers obviously fear that an economic slowdown will lead to more loan defaults and, as a result, they are quite unfairly but not surprisingly tightening the screws."

Past CFIB studies have shown that if a business owner wanted to borrow \$100,000, for example, he or she would be required to come up with roughly three times as much collateral, or \$300,000, to back it up. Swift concurs that nothing much has changed.

"We're hearing more and more frequently that the banks want businesses to put up increased collateral against a line of credit. But this kind of treatment is just not in their best interests given the fact that corporate profits are declining and potential borrowers, like small business owners, are becoming more important to the banks than ever before."

Some bank spokespersons are quick to defend these changes claiming that nothing in recent lending practices has changed, while others suggest that small businesses should be looking at obtaining equity through other investors.

Given the recent downturn in corporate profitability, perhaps it is the banks who should be looking to invest in their own future by cultivating the vast number of small businesses which operate in this country.

But then we would be accusing the banks of being in tune with the times—and that is one charge they certainly wouldn't be guilty of.

-CFIB Feature Service

Few Canadians live outside the reach of today's electronic communication links. According to the Canada Year Book 1990, 999 per cent of Canadian homes in 1987 had television sets, radios, and telephones. And 45 per cent had video recorders.

The income of the very rich and the very poor has changed remarkably little in recent years, according to figures in the Canada Year Book 1990, published by Stats Canada. Dividing the population into five equal groups, from the highest income down to the lowest, show the top income group garnered 42.6 per cent of all income in 1975 and 43.0 per cent in 1986. The lowest income group had 4 per cent of income in 1975 and 44.7 per cent in 1986. The three groups in between also showed virtually no change: the second lowest stayed close to 10 per cent, the middle group at 17 per cent and the second highest at 25 per cent.



TKS

"...ENOUGH ABOUT STAFFING PROBLEMS - LETS TALK GOLF...!"

School's replacement cost dwarfs education budget hike

Dear editor,
There may be a thin silver lining on the otherwise very dark cloud that surrounds the Halton Board of Education's 14.6 per cent school tax increase for 1990, namely that the board only approved the increase by the narrow margin of 10-8.

This represents some slow but steady progress since last October, when the board last demonstrated its fiscal extravagance to the ratepayers of Halton by approving, 11-7, the replacement of Oakville-Trafalgar High School with a completely new and larger school in southeast Oakville, an area in which declining enrollment is projected.

This flashy new school, even if it is within the board's own modest estimated costs, will set Halton taxpayers back an additional \$12 million, a figure that dwarfs the \$2 million and \$3 million figures bandied about as explaining the board's recent 14.6 per cent hike.

Now, of course, the board will say it has applied to the Ministry of Education for this additional money and, therefore, it is false to claim Halton taxpayers will have to foot the additional bill themselves.

But all the indications now are the Ministry cannot afford to approve any additional funds beyond the money it already allocated to the renovation of Oakville-Trafalgar.

So what happens then? Will the board simply

press ahead with its plans to replace rather than renovate and pass the costs on to taxpayers?

The recent tax hike suggests it will, unless we, as taxpayers, can convince one more trustee to show some fiscal responsibility so that a vote on yet another tax grab can be converted from a 10-8 approval rating to a 9-9 failure to approve.

The burden is on us as ratepayers to make our fiscal concerns known to our trustees, and each trustee has to be made to know that his or her vote could well be decisive; there will be no hiding behind a veil of collective responsibility in this case where the voting is so close.

Finally, we should also try to anticipate what the board will say at this point. It will say, no doubt, that its October decision mandates it to proceed with the school replacement even without Ministry funding. Thus, it will suggest that no additional approval is required to debenture the additional \$12 million expense against local taxes.

That is, quite simply, a logical mistake, and the taxpayers of Halton should not be fooled by it.

The truth is that there are some thoughtful trustees who will want the opportunity to consider, for the first time, whether they should still proceed with the school's replacement if and when the Ministry refuses to provide the required funding.

Yours sincerely,
Bruce Chapman, Oakville

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Week End

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