The Financial Services Royal Commission has exposed the fraught relationship between farmers and financiers. We have heard about loan terms being changed without notice or consultation, loans revalued to suit the agendas of financiers, and heartless and harsh treatment of farmers once the loans are revoked.

A number of factors have contributed to this, including instability in the market value of farms, policy changes that make farms more reliant on financial instruments, and shifts in the global positioning of farm land relative to other forms of property.

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The commission has heard that local lending brokers were not qualified to value farm properties, and that farm valuations have become fluid and unpredictable.

Sometimes farms and farmland were deliberately overvalued. Higher values enable farmers to borrow more money for farm improvements, and the local lending branch manager to earn higher commissions.

Not only do the central administrators in banks lack the information and expertise to question these assessments, their business models have encouraged overvaluation and overborrowing as a means to grow their businesses.

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Across the Murray Darling Basin banks have taken the separation of water from land – a precursor to the marketisation of water – as a cue to devalue land .

This has provided a reason to void existing loan agreements and to offer refinancing under more arduous conditions. Farmers have no option to refuse, and so borrow with the expectation that a couple of good years will put them back on track.

And if the good years don't materialise, farms fall into financial stress.

This confronts a third issue, which is that in the bad years farms are harder to sell so their market value plummets . This compounds the problem.

Farmers are more reliant on banks

Policy changes have made farms more reliant on banks.

Since Australia adopted open-market policies in the 1980s and agricultural markets have become global, farmers have been exposed to global price changes.

The removal of single-desk marketing boards like the Australian Wheat Board , which protected farms from price fluctuations, increases the impact of price changes. Farmers are now expected to purchase financial products to reduce the risk of this volatility.

Drought assistance has also been reoriented to rely on market-based instruments, such as loans from banks rather than grants from governments. In the wake of the deregulation of the financial system, and the post-financial crisis consolidation of the farm lending sector, many farm-specific loan products have disappeared. So banks tend to treat farms as businesses like any other.

The open-market policies also create an imperative to expand landholdings ("get big or get out") and to invest in the latest equipment and technologies. Since this requires borrowing, it thrusts farmers onto a credit treadmill.

Of course, low interest rates have also stimulated borrowing for farm expansion.

Read more: ***Why we can't just throw more regulation at the ethical issues raised by the banking royal commission***

Increasing corporate control of farm inputs (seeds, fertiliser etc.) and outputs is squeezing farmers' capacity to earn enough to service their loans.

To make matters worse, the declining terms of trade impel farmers to increase productivity just to stand still.

The farmers before the royal commission have mostly managed to stay on the treadmill, but only until the banks' rule changes cranked up the speed to throw them off.

It's clear that despite their crucial role, many banks still don't really "get" the vagaries of farming. They don't understand how different farm lending is – or should be – to commercial and housing lending. Neither do they seem to appreciate the broader social and economic dimensions of the role they have in managing farm risks.

Dramatic revisions to land valuations, as discussed in numerous cases described in the commission, can undermine an entire farming region's equity.

The accelerated thinning out of the farming population impacts on local economies and sporting teams, among others. In the lead-up to and during the whole process of deregulation, farmers were continually reassured – in reports by the Productivity Commission, for example – that the credit market would evolve to meet their needs.

The evidence that the commission has heard in many respects represents a case of market – and regulatory – failure.

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Since the global financial crisis, farm land has become an attractive investment for wealthy families and institutional investors, and for governments worried about food security.

As this pushes up land values, banks can be more aggressive towards failing farms. Foreclosures free up land for deep-pocketed investors.

It would be a mistake, then, to conclude that the stories coming out of the commission are an isolated issue relating to the one bank's heavy-handed mopping up after the failure of a specialised rural lender – as was the case with ANZ and Landmark .

On the contrary, there are many stories of different banks imposing financial risk frameworks on farmers that are ill-equipped to accommodate the vagaries of farming production and pricing.

When farmers jest about being owned by the banks, they aren’t joking.

We should ask why the government took so long to acknowledge the problems of rural finance and the effects on farming communities.

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After the commission concludes, it is likely that banks and regulators will tighten the risk parameters on farm lending and make it harder for smaller family farmers to access finance.

Vulnerable farms will not be able to borrow as much money as in the past. This might be prudent from a financial risk perspective.

However, if city bankers don’t understand farming and don’t make allowances for the volatile and uncertain economies of farming, there’s still no guarantee that tighter rules will translate into better decisions and more positive outcomes.

Rather, tighter rules are likely to have uneven consequences, further disadvantaging smaller family farms relative to deep-pocketed agribusinesses. So, in effect, restricting credit is likely to accelerate the transfer of farmland from family farms to more corporate entities including transnational corporations.

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Authors: Sally Weller, Reader, Australian Catholic University

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