



March 10, 2021

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Dear Heather and Marc,

Re: Additional Information - Five-Year Review of the Ontario Feeder Cattle Loan Guarantee Program

On behalf of Beef Farmers of Ontario (BFO), we thank you for the opportunity to discuss our recommendations, which were jointly developed by the BFO Board of Directors and the Feeder Finance Executive Committee, on how to make the Ontario Feeder Cattle Loan Guarantee Program (OFCLGP) more effective and efficient. Following our meeting on February 25th, we would like to provide you with additional information to further support some of the recommendations that were discussed.

Additional information for the following items and proposals include:

- **Beneficial Ownership:** with respect to the legal, beneficial and/or equitable ownership of cattle, it's important that the financial interests of all members and Co-ops be protected. Based on the current ownership wording, there is concern that Canada Revenue Agency may interpret that a Co-op should claim the purchases and sales of cattle as income and expense. The current wording for the ownership of cattle states that "[t]he Co-Operative shall own the Cattle purchased under a Purchase Order. For greater certainty, this ownership includes the legal, beneficial and/or equitable ownership of the Cattle". BFO recommends that OMAFRA seek a legal opinion on the tax implications for the beneficial ownership of cattle to confirm if a member should be considered the beneficial owner of purchased cattle.

Concern was raised with the above wording for the ownership of cattle in 2011. BFO staff and representatives from the Co-op worked with OMAFRA to revise this section, and revisions were put in place in March 2012. In 2016, Program Guidelines and forms reverted back to the wording prior to 2012. Below is the wording for the ownership of cattle between 2012-2016:

Subject to the Producer's contingent interest in the net balance between the proceeds of the sale of the Cattle and the amount the Producer is required to pay under the Purchase Order because the Producer raised the Cattle under a Feeder Agreement with



the Co-Operative (provided the Loan is not in default, all ownership, property, right, title and interest in the Cattle shall remain with the Co-Operative or the sale proceeds thereof.

The Producer has a contingent interest in the Cattle because the Producer raised the Cattle under a Feeder Agreement with the Co-Operative that provides:

- (a) The Producer with the discretionary authority to select the Cattle that will be purchased under the Purchase Order; and
- (b) The Producer with the discretionary authority to raise and manage the Cattle as the Producer sees fit, provided the Producer complies with the terms and conditions of the Program.

BFO would strongly support the use of the 2012 program guideline and terms and conditions wording. Doing so would provide much needed clarity and would help address the underlying uncertainty in interpretation with respect to the CRA. However, we still believe that a legal tax assessment is warranted.

- **Loan Limit:** the current loan limit of \$500,000 for both individuals and corporations has proven to be restrictive for many members given the current market prices for cattle, and the size of farm operations. To address this issue, BFO recommends that the loan limit per member be increased to \$1,000,000 and \$1,500,000 for individuals and corporations, respectively.

With current cattle market prices, increasing the loan limit would provide members the ability to finance more or all cattle through the Co-op. For example, typical new operations purchase 300 to 400 cattle. Based on current cattle prices, a producer would not be able to finance all 300 to 400 cattle through the Co-op with the loan limit of \$500,000. Given the financing restrictions, members that may otherwise utilize additional lending capacity through the OFCLGP may seek alternative means of financing. In many cases these members may not be represented by the group of members that are maxing out loan limits under OFCLGP. The fact that this issue has been raised repeatedly over the last 3-5 years at the OFCLGP AGM demonstrates the need and desire by members for increased loan limits.

As of December 2020, 26% of Co-op members were borrowing over \$250,000 and 14% of those members were borrowing over \$350,000. Some Corporations are also restricted by having the same loan limit as individual members. If an operation has two members who are both borrowing and if both have loans totaling over \$500,000, there is no ability to reposition in the Corporation's name.

- **Number of Loans:** the number of loans a member is eligible to obtain has also proven to be restrictive for some members. Members are currently allowed to maintain up to four loans at one time. To provide additional flexibility BFO recommends that the number of loans per member be increased from four to 10.

Prior to 2015, the program allowed a member to have four loans at one time and based on the loan limit, a member could have loans averaging \$62,500 each. After 2015, with a loan limit of \$500,000, a member's average loan could be \$125,000. No equity can be given back to member until he sells \$125,000 worth of cattle compared to \$62,500. If member loan limits were to



increase to \$1,000,000, average loans would likely be \$100,000. The increase in the number of loans, in conjunction with the loan limit increase, would act as a mechanism to provide members with improved cash flow through out the year.

- **Administration of Feeder and Breeder Co-ops:** As a means of leveraging the Co-ops expertise with producers and to improve the efficiency and effectiveness of Co-ops, BFO recommends Feeder Co-ops be allowed to operate a Breeder program as a separate entity within their present Co-op structure. Feeder and Breeder Co-ops share many of the same producers and all Breeder Co-ops are located in the same jurisdiction as their respective Feeder Co-ops. 62% of Co-ops use the same administrator for both the Feeder and Breeder programs and many use the same accountant, lender and insurance agent. In some jurisdictions, Feeder and Breeder Co-ops share the same Board of Directors.

Allowing a Feeder Co-op to also operate a Breeder Co-op program as a separate entity would enhance the Breeder program by reducing overhead costs associated with the Breeder Co-ops, require only one audit and one Board of Directors. Currently, liability insurance/directors and officers insurance costs each Co-op approximately \$2,000 annually.

Thank you for your consideration of our recommendations and for your continued support of the Ontario Feeder Cattle Loan Guarantee Program. We would be pleased to further discuss the above recommendations or the other recommendations discussed at our last meeting with you or your staff at your convenience.

Sincerely,



Rob Lipsett
President

cc. Cheryl Russwurm, Program Supervisor
Don Badour, BFO Board of Director
Steve Eby, Feeder Finance Executive Committee
Milica Velemir, OMAFRA

