



**Ontario
Cattlemen's
Association**

Committed to Cattlemen

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**Submission to
Ontario Ministry of Agriculture and Food
July 22, 2013**

**Request to Amend
Order in Council 1314/2011**



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Rationale Behind Request

The Ontario Cattlemen's Association is requesting two primary changes to the Order in Council 1314/2011:

- 1) Include the Ontario Breeder Finance Co-operatives under the Ontario government guarantee; and
- 2) Increase the maximum loan limits per member for the Feeder Finance Co-operatives.

There are several similarities between the Ontario Feeder Finance Co-operatives and the Ontario Breeder Finance Co-operatives. Both follow identical co-operative governance structures, Board oversight of membership and loan approval, and assurance accounts. There are obvious synergies between the two programs. Of the 8 Breeder Finance Co-operatives, 7 utilize the same administrator and supervisor as the local Feeder Finance Co-operatives. The primary difference revolves around the lending structures. The Breeder Finance Co-operatives require a 15 per cent assurance account deposit, pay a higher interest rate, and have loans over five years (6 years for open heifers) while the Feeder Finance Co-operatives receive a better interest rate and only require a 5 per cent assurance account deposit. By including the Breeder Finance Co-operatives under the same Government guarantee, Ontario cow-calf producers will be offered a more competitive program that would facilitate long-term farm viability, provide an opportunity for structured supervision and mentorship for younger producers, and would help create a better business structure that embraces the synergies between both cattle financing co-operative programs. Growth and stability in beef farming are vital to expanding the cow herd in Ontario and ensuring a sustainable and profitable beef industry in this province.

The request to increase the maximum loan limits for the Feeder Finance Co-operatives is long overdue. At the inception of the program in 1991, the program was designed to allow new entrants the ability to purchase close to 100 head of cattle. With price inflation over the past 23 years, the program now only allows new entrants to purchase roughly 50 head of cattle. The request to increase the maximum loan limits would once again allow beef farmers to purchase up to 100 head for new members, and 500 for experienced farmers.

As well, to make this program more responsive to changing cost structures, and to reduce unnecessary regulatory burdens, we strongly recommend and request that the maximum loan limits be removed from the Order In Council and placed in the program Guidelines to allow for periodic increases in maximum loan amounts to account for inflation. The Government guarantee program capacity of \$130 million would remain unchanged and controlled by the OIC.

While reviewing the OIC, there are minor changes that the Feeder Finance Co-operative committee requests that staff at the Ontario Ministry of Agriculture and Food consider. Among them, there should be clarification of the term 'beneficial ownership' and mitigation strategies if the co-operative needs to seize cattle. The current wording is vague and unhelpful.



Proposed Changes

The Ontario Cattlemen's Association formally requests that the Breeder Finance Co-operatives be included in the Order In Council so that they can also benefit from the \$130 million government guarantee that allows the Feeder Finance Co-operatives to offer more competitive interest rates and lower assurance account deposits.

The Ontario Breeder Finance Co-operative Program provides co-operatives with loans to purchase beef breeding females. These loans last 5-6 years for open heifers and require a 15 per cent assurance account. The Ontario Breeder Finance Co-operatives use the same governance structure and Board supervision as the Ontario Feeder Finance Co-operatives. OCA proposes that Ontario consider adopting the same format as Saskatchewan to offer the government guarantee to both programs. There are 8 co-operatives that operate identically to the feeder finance loan program. Between the 8 co-operatives there are approximately 250 members with 6,600 head on inventory, averaging 30 cows financed per member. The loans have varied between \$4 and \$5.6million since June 2006 and the program had \$5.2 million in loans as of December 31, 2012.

The costs for developing and modelling the proposed changes will be paid for by OMAF and OCA. Most of this work will be completed by OCA and OMAF staff.

If the co-operatives choose to replicate Saskatchewan's structure by merging beef cattle finance co-operatives that can offer either breeder or feeder finance options, OMAF could allocate \$2,500 per Feeder Finance Co-operative that offers a Breeder option to assist Breeder Co-operatives in dissolving (FSCO fees/legal fees/administration time). We think that at least 5 co-ops would go this route, although 7 have displayed interest in further consideration. Additionally, the Feeder Finance Co-operative programs include \$10,000 for start up of a new co-operative. If both feeder and breeder options were available there will most likely be at least 1 new co-operative formed in an area that previously could not support 2 separate clubs. It would be anticipated that once the two options are established there would be efficiencies in supervising the co-operatives, however more time would have to be dedicated to the supervision of the Co-operative because the government guarantee would require more reporting, etc.

The anticipated transition costs of including the Breeder Finance Co-operatives under the government guarantee are as follows: the administrative costs would primarily be \$3,000 for new forms, and \$6,000 for increased travel to co-operatives during transition; implementation costs would total \$21,500 plus staff time.



As well, for OCA to continue to provide supervision under a transfer agreement of both programs, keep up with inflation, etc., the new amount of the transfer agreement should be \$65,000. This would allow for \$15,000 for the annual seminar to accommodate discussions on both Feeder and Breeder options. OCA currently budgets support to the Breeder program up to \$6,000 per year.

OCA formally requests that the OIC be opened to increase the maximum loan limits for Feeder Finance Co-operatives as follows:

- i) Existing members from \$250,000 to \$500,000**
- ii) New members from \$50,000 to \$100,000**

At its inception in 1991, the program was designed to allow new entrants to purchase close to 100 head. With price inflation over the past 23 years, the program now only allows new entrants to purchase about 50 head. The rationale for this request is to once again allow for the purchase of up to 100 head for new entrants. The average number of head per member has increased by 35 percent from 2002 to 2012.

The Feeder Finance Co-operative Program is helping young farmers expand their business into long term viable farming operations. In 2012, 32 percent of Feeder Finance Co-operative members were under the age of 40. This public-private partnership provides capacity building for farmers with Board oversight and Supervisor visits.

Feeder Finance Co-operative administrators indicate that about 20 percent (roughly 120 members) of our membership are at the maximum loan limit. We estimate about half would increase their loan to \$500,000, utilizing another \$14 million. If all Co-operatives had their 'peak' month at once in 2012, they would have used \$69 million, which equals 65% of the \$107 million that is currently allocated. With the anticipated increase, the program would utilize \$83 million, or 78% of current allocation.

We are asking to restructure the existing program within the current guarantee commitment. This model of self-governing co-operatives works. There has never been a draw on the government guarantee.

Loan limits from OIC to Guidelines

The Ontario Cattlemen's Association is also requesting that loan limits be removed from the Order In Council and included in the Guidelines, which can be reviewed annually with OMAF staff. Since no formal protocol is necessary to review and amend the Guidelines, unlike seeking amendments to the OIC, this change would allow the program to be more adaptive and flexible, with the ultimate outcome of being more business friendly.



Wording changes for clarity

- **The term 'Beneficial Ownership' is problematic and should be clarified**
- Page 9 – says employing.... current issue with CRA re employees versus contract staff
- Page 10 – operating details are repetitive and unnecessary given the eligibility requirements
- Page 11 – (h) and (i) – says lender(s) but under the current OIC, we can only have 1 lender
- Page 12 – reporting details should be switched to Guidelines because it isn't feasible to have audited financial statements done within 60 days of yearend. Also, credit checks should be removed from page 17 of the OIC and specified in the Guidelines
- Page 19 34 (l) – do banks allow Principal to be paid first or do they expect interest? (**CLARIFY**)
- Page 21 (2) –it may not be known within 5 business days if payment will not be made because under the BCFPP buyers are allowed 6 to 9 days to make the payment for cattle
- Protocol in the event that the co-operative seize the cattle if there is a default (**CLARIFY**)