



Ontario Feeder Cattle Loan Guarantee Program Proposal to Increase the Provincial Government Guarantee

REQUEST

Increase the Ontario government guarantee under the Feeder Cattle Loan Guarantee Program (OFCLGP) from \$32.5MM to \$65MM to allow total program lending to grow to up to \$260MM. This will allow the program to effectively respond to the increase in demand brought on by the significant escalation in cattle prices and growing interest from producers.

RATIONALE

I. Linkage with Current Government Priorities

Doubling the existing government guarantee will provide an additional \$130MM in reliable competitive financing for Ontario producers. This is a no-cost ask of the province and one that is well-aligned with the Premier’s Agri-Food Growth Challenge to double agricultural production and create 120,000 new jobs by 2020. BFO’s request also underscores a component of Minister Leal’s mandate to “strengthen Ontario’s agri-food sector and support young farmers” while exercising “fiscal prudence.”

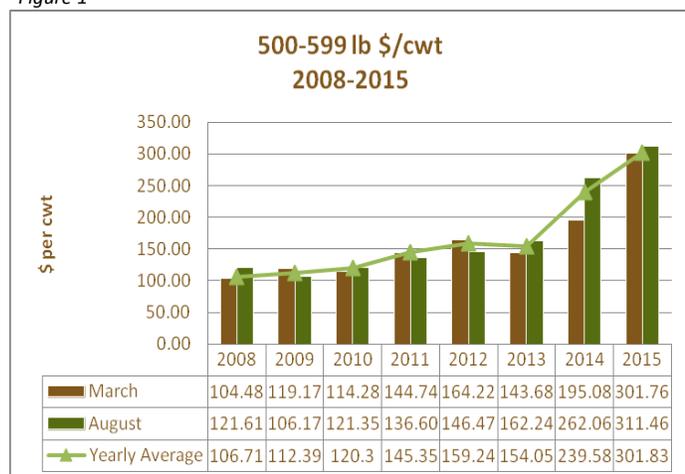
Since its inception, the FCLGP has worked to support young, beginning and expanding farmers by providing a reliable source of credit at affordable rates with favourable repayment terms. Currently, 41% of members are under the age of 40, many of whom would be challenged to secure equally competitive loan rates privately.

The FCLGP is also very attractive to young farmers because it only requires a 5% assurance account deposit on the total loan. This means that more of the producer’s money can be used to purchase animals and build herd equity.

II. Declining Purchasing Power

The significant escalation in cattle prices shown in *Figures 1 & 2* illustrates the rise in feeder cattle purchasing costs over the previous eight¹ years. As you can see, stocker prices have nearly doubled since 2013 and have been steadily increasing over time which has severely hampered the purchasing power of members. *Table 3* highlights the change in purchasing power by comparing cattle prices to the total number of head a member can purchase assuming the member has maximized borrowing to the individual loan limit of \$500,000. This assumption is slightly

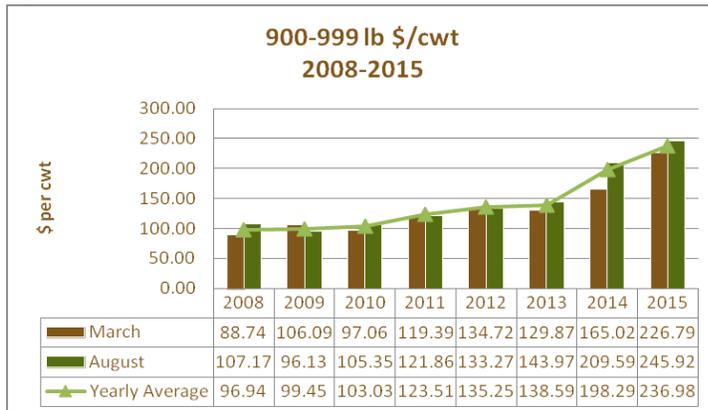
Figure 1



¹ 2015 prices are current to the end of October

misleading given no member has been able to access individual loans of more than \$325,000 due to the lending space constraints within the co-ops. The benefit of the increase in the maximum individual loan amounts implemented in 2015 has yet to be realized as a result.

Figure 2



Due to the escalation of cattle prices, many background and feedlot operations dependent on their cattle enterprise as their main source of income can no longer purchase enough calves to fill their pens under the current program. Thus, many farmers face difficult decisions about whether to leave barns partially or completely empty for periods of time or seek alternative financing to supplement the shortfalls created by the lack of available

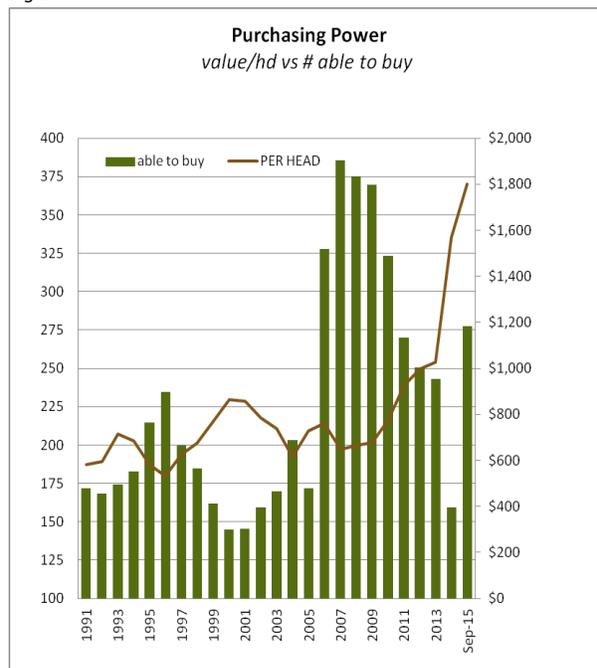
co-operative financing, often at under less favourable terms. This reality limits the growth potential for operations, particularly mid-size operations looking to expand without the farm equity needed to do it given current market prices.

An increase in the government guarantee will help to alleviate some of this pressure without creating significant additional risk for government.

III. Urgency

Beef production is declining in Ontario, and we are getting dangerously close to a tipping point as processing plants are having a difficult time sourcing cattle. The province needs to send a strong signal to our producers and processors that lets them know Ontario values the beef industry in this province. The proposed increase in the government guarantee will help stabilize businesses, encourage growth and assist young and beginning producers who may not otherwise qualify for conventional financing options build equity in the beef industry. It will also help ensure those who have made significant investments in their operations ongoing access to a reliable source of credit to secure the cattle needed to fill barns, providing security for their infrastructure investments.

Figure 3



The proposed increase is a critical component of reducing the financial barriers to expansion in our industry. The longer we wait to make this change the more this decline in production serves to threaten jobs and income, especially in the processing sector, for the province.

PROJECTED PROGRAM DEMAND

An increase to the government guarantee will provide lenders with the confidence needed to significantly increase lending commitments which will provide some much needed breathing room for the co-ops. It is expected that this will spur growth in program demand among new and established members and those who have been previously turned away due to a lack of available funds.

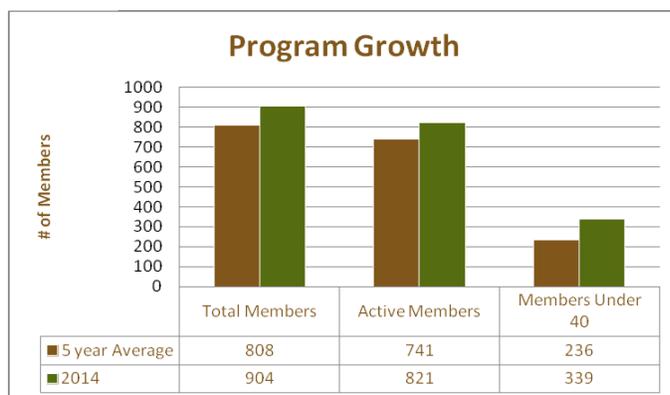
In 2014, 253 members had reached the maximum individual loan limit of \$250,000, roughly 31% of all active members. The vast majority of these members have indicated through the annual FCLGP survey that they would increase their borrowing if financing were made available to them. Allowing these members to maximize their borrowing potential would require an additional \$63.25MM in program financing.

Figure 4



The growth in membership will also place additional demands on program financing. In 2014, the program grew by 161 new members. Once these new individuals transition into established members eligible for individual loans up to \$500,000, and if adequate financing is made available, additional financing will be required. If we assume that 31% of all new members will seek the maximum individual loan limit of \$500,000, and if we further assume that the remaining 69% will seek the average loan amount of \$155,000, an additional \$36.2MM (24.5MM and 11.7MM respectively) would be required. Figures 4 & 5 illustrate the program membership trends since 2008.

Figure 5



Notwithstanding the projected increases in borrowing by existing members it is also reasonable to assume membership will grow at a rate of at least 2.5% per year for the next three years if significant additional financing is made available to local co-operatives. Using the existing membership base of 821 individuals as a starting point, this would add approximately 63 new members over the next three years and would create additional financing requirements of 14MM if we assume 31% of

new members secure the maximum individual loan limits of \$500,000 while the remained 69% of members secure the average of \$155,000.

CONCLUDING COMMENTS

BFO's highest priority is to expand and grow Ontario's beef industry and support Ontario's processing sector. An increase to the FCLGP government guarantee is a critically important piece of this strategy. If cattle prices continue to climb and if program demand continues to grow the FCLGP could easily double in size over the course of the next 3 years. Doubling the government guarantee from \$32.5MM to \$65MM to allow total program lending to grow to up to \$260MM will help us to meet this growing demand, at no-cost to government.

