



**REFORMING THE FARM IMPROVEMENT AND  
MARKETING COOPERATIVES LOANS ACT AND LOAN  
GUARANTEE PROGRAM**

**SUBMISSION TO AGRICULTURE AND AGRI-FOOD CANADA**

**CREDIT UNION CENTRAL OF CANADA  
OTTAWA, ONTARIO  
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## **INTRODUCTION**

Credit Union Central of Canada (Canadian Central) welcomes the opportunity to present the views of the credit union system in regard to the reform of the Farm Improvement and Marketing Cooperatives Loans Act (FIMCLA) loan guarantee program. The credit union system is a significant lender to agriculture and to the agri-food sectors in Canada. Our presence as lenders to the rural economy is becoming more pronounced as many chartered banks leave rural communities and focus their business activities on urban centers and internationally<sup>1</sup>. The credit union system's focus on the rural economy ensures that credit unions are very interested in Federal Government policy as it relates to agriculture.

Part I of this submission will set out the credit union system's general views on the reform and possible future of the FIMCLA program. Part II will outline the credit union system's views on the four questions set out in Agriculture and Agri-food Canada's (AAFC) FIMCLA consultation document.

## **PART I – THE FUTURE OF FIMCLA**

The brief consultation document issued by the AAFC FIMCLA working group seeks input on a number of significant issues facing the agricultural community in Canada including assistance to beginning farmers, managing the inter-generational transfers of farms and the financing of agricultural co-operatives that do not qualify for FIMCLA financing.

Canadian Central acknowledges that it is important for the Federal Government and provincial governments to develop and co-ordinate policies to deal with these issues. However, Canadian Central is concerned that the focus of the consultation document signals a fundamental policy shift away from the original intent of the FIMCLA program. This is a concern because many credit unions and other financial institutions believe there is still a role for the existing FIMCLA program to play in financing innovative business ventures in the agricultural sector, as well as financing purchases that have few other options at debt serviceable rates. For example, FIMCLA currently assists in financing items that have indeterminable collateral value such as water wells, dugouts, fences, and breeding stock. If credit unions were to use conventional financing products to finance such items it would necessitate encumbering security that is needed for operating capital.

A number of credit unions have indicated a program like the existing FIMCLA program could be improved by increasing the current \$250,000 lending limit, increasing the

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<sup>1</sup> Between 2000 and 2004 Canadian Central affiliated credit unions increased their loans to agriculture by 8.1% whereas the banks increased loans to agriculture by only 4.1%. Source: Credit Union Central of Canada Research Department.

maximum allowable interest rate, reducing administrative burden such as the level of reporting required for amended loans and easing down payment requirements.

Credit unions have also commented that agricultural producers also need flexible programs to help them manage financial difficulties during times of decreased cash flow due to industry conditions. In fact, a suggestion was made that a program for agricultural producers similar to the Canadian Mortgage and Housing Corporation's program for homeowners or the Canadian Small Business Financing Program for small business owners would be of assistance to both agricultural borrowers and credit unions. Of course, any such additional programming should be easy to administer, have a rate of return competitive with other loans and be available to all financial institutions rather than just Farm Credit Canada.

## **PART II – RESPONSES TO FIMCLA WORKING GROUP CONSULTATION DOCUMENT QUESTIONS**

**Q.1:** What type(s) of financial lending products are available from your organization for beginning farmers, inter-generational transfers and cooperatives? Do you have any products especially designed for any of these groups?

**A.1:** Some Saskatchewan credit unions have indicated they have farm transfer loan programs which have been developed to facilitate the transfer of farmland or other farm assets where the vendor wants to receive their equity within 5 to 10 years. These programs are similar to Farm Credit Canada's program where the vendor is paid over time.

Canadian Central did not receive any feedback indicating that financial products were available that had been specifically designed for beginning farmers or agricultural cooperatives. In most instances, credit unions adapt their existing products for these purposes.

**Q.2:** How do credit unions determine the risk associated with providing financial assistance to differentiated clients? Do you have any analysis on the risk of these three particular groups?

**A.2:** Credit unions have some involvement with agricultural cooperatives and this engagement may be growing as a few credit unions have recently been approached by cooperative farm operations or cattle cooperatives for credit consideration. However,



lending to such agricultural cooperatives can prove difficult because they often lack security.

In terms of lending to differentiated groups (e.g. new farmers, agricultural cooperatives and farm transfers) credit unions will adapt their existing risk analysis and risk rating procedures. Key components of this risk assessment will include analysis of cash flow, credit history, character of the family, management ability, financial ratios, security/equity, and industry status.

**Q.3:** How do credit unions mitigate risk when lending to these groups? (i.e. maximum lending limit, interest rate, fees, security requirements)

**A.3:** Saskatchewan credit unions have indicated that they work to mitigate risk on agricultural loans by obtaining additional security and guarantors, having increased interest rates at higher levels of risk, and placing lending limits on higher-risk ventures. Having a vendor carry a portion of the financing under an agreement for sale can also mitigate risk. However, this approach does not address the issue of retiring farmers needing to get their capital out of the farm in order to have something to live on.

**Q.4:** Do you think that there is a need for the Federal Government to do more to assist in ensuring that these three groups have access to sufficient debt financing? What would be your suggestions as to how the Canadian government could assist in ensuring that these three groups have access to sufficient debt financing? What approaches would you consider not necessary or competition to what you offer?

**A.4:** In responding to this question a number of Saskatchewan credit unions active in agricultural lending have indicated that both beginning farmers and those involved in the inter-generational farm transfers face significant obstacles. Saskatchewan credit unions responding to this question agreed that the Federal Government does indeed have a role to play to assist the next generation of producers in establishing viable agricultural operations. The ongoing pressures in the industry have reduced cash flow and eroded farm equity, leaving newer farmers with an inability to build equity and the retiring generation with little means to assist the succeeding generation.

Credit unions noted that any programs designed to increase accessibility of debt financing for beginning farmers and inter-generational transfers must take into account beginning farmers' lack of equity to pledge as security. A program that included a government guarantee would allow credit unions to mitigate their risk while providing affordable

financing to these higher risk groups. In this context, the credit unions indicated that the CMHC housing program could be looked to as a model.

The credit unions that have utilized the FIMCLA program have not considered it to be in competition with their product offerings, but offer it to their agricultural producers as another type of financing vehicle. The credit unions that use the program do see an ongoing need for the program in farm expansion and improvement financing, albeit with modifications such as a reduction in down payment requirements, an increase in the \$250,000 cap and modifications in maximum amortization periods to better match the asset being financed (the suggestion was to increase the amortization period for land and decrease the amortization period for equipment). Credit unions have also clearly indicated that whether the FIMCLA is reformed or replaced with an alternative program particular attention must be paid to minimizing the administrative and reporting burden lenders face if they choose to participate in the program.

Another suggestion was that the definition of agricultural cooperative could be expanded to include cooperatives that support the agriculture industry. An example could be an employment cooperative offering workers to producer operations, which may assist producers in retaining capable help and employees to gain year-round employment by rotating through the busy seasons in various agricultural sub-sectors.

Finally, a new loan support program for beginning farmers could be tied to an education and/or mentoring program. There could be past experience and formal training requirements (e.g. a university vocational agriculture diploma) for applicants to qualify for a loan, and an ongoing mentoring program after the loan has been granted. The Saskatchewan Entrepreneurial Foundation and Fund could be looked to as a model.

To conclude, Canadian Central thanks Agriculture and Agri-food Canada for the opportunity to respond to the FIMCLA Working Group's consultation paper. If you have any questions in regard to our submission please contact Rob Martin, Senior Policy Advisor in our Government Relations office at 613-238-6747 ext. 327.