

Ontario Ministry of Agriculture, Food, and Rural Affairs

Financing Solutions

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AGENDA

- Financing Options to Buy a Farm Business
 - Traditional Mortgages
 - Young Farmer Loans
 - Canadian Agricultural Loans Act
- Options to Finance your Farm Business Operations
 - Lines of Credit
 - Term Loans
 - Leases
 - Tile Drainage Program
 - Advanced Payment Program
 - Commodity Loan Program
 - Ginseng Storage Loan Guarantee Pilot Program
- Conclusion

Before we get started...

This presentation provides background information on the different financing options that maybe available to your business/applicable to your situation. It is important for you to work with the appropriate parties (e.g. lenders, investors, lawyers, accountants, etc.) before signing any contracts/deals.

Financing Options to Buy a Farm Business



Traditional Mortgages

- Most common option for farmers and new entrants to use to finance a new venture or expanding their farm business
- Mortgages can be offered by:
 - Chartered Banks (e.g. RBC, CIBC, etc.)
 - Credit Unions (e.g. Meridian, Libro, etc.)
 - Crown Corporations (e.g. FCC)
 - Family (e.g. Parents, Grandparents, etc.)
 - Private 3rd Party (e.g. Neighbours, Private Mortgage Lenders, etc.)

Traditional Mortgages – Chartered Banks, Credit Unions, Crown Corporations

- Normally mortgages offered by Chartered Banks, Credit Unions, and Crown Corporations would have:
 - 25-to-30-year mortgage amortization (Life of a mortgage)
 - Interest rates can be variable or fixed
 - Fixed rates can be for up to 5 years of the mortgage
 - Land is the most common collateral for mortgages
 - Most common, lenders will only lend up to 70-80% of the land/asset's value



Traditional Mortgages - Family

- Mortgages offered by family members can vary dramatically from one scenario to another
 - Life of a mortgage can be longer than 30 years
 - Interest rates may not be in line with the prime rate
 - Land/other major assets can be used for collateral
 - Family mortgages may lend up to 100% of the asset value
 - Mortgages may be demand mortgages (no payments made unless demanded by the mortgager)

Traditional Mortgages – Private 3rd Party

- Private 3rd party mortgages can include:
 - Neighbours
 - Farmland owners who are looking to sell
 - Mortgage lenders that are not affiliated with banks, credit unions, or crown corporations
- Mortgage amortization similar to bank, credit union, and crown corporation backed mortgages
- Interest rates maybe higher with private 3rd party mortgages compared to other lenders
- 3rd party private mortgage lenders maybe more flexible in assessing credit than other lenders

Young Farmer Loans

- Some of the chartered banks, credit unions, and crown corporations are offering “Young Farmer Loans”
 - The idea is to help young people to get their foot in the door as buying farmland is becoming harder to do
- Each institution have different rules, but in general:
 - These loans would have a 25-year amortization period
 - Interest rates would be cheaper than traditional mortgages

Young Farmer Loans - Continued

- Young Farmer Loans in general may:
 - Provide additional support to the young farmer (e.g. discounts on financial software, mentoring/coaching, etc.)
- Who can qualify for this type of program can vary from institution to institution
 - An applicant who is 37 maybe eligible at one institution but not the other

Young Farmer Loans - continued

- Ask your bank account manager or possible lender if their institution provides young farmer loans
- If so, what are the rules of the program.
- Once the age limit has been reached, any young farmer loans that are outstanding maybe converted to a traditional mortgage (e.g. higher interest rates)



Canadian Agricultural Loans Act (CALA)

- 95% of the loan value is backed by the Federal Government
- Interest rates can be variable or fixed
- Maximum administrative fee is 1.1% of the amount of the loan
- Maximum loan amount for land is \$500,000, all other purchases \$350,000
- To apply contact any chartered bank or credit union

Canadian Agricultural Loans Act (CALA) - Continued

- This program can be used to purchase farmland or other assets (e.g. equipment, drainage, etc.)
- Interest on the loan can be variable or fixed
 - Variable rate is based on prime
 - Fixed rate is based on the lending institution's residential rate
- Maximum length of a CALA loan is 15 years
 - Payments can be based on a 25 year term, but after year 15, you would need to refinance or pay the remaining balance



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Questions so far?

Options to Finance your Farm Business Operation



Options to Finance your Farm Business Operation

- The farm is purchased, but now it is time to figure out how to finance the day-to-day activities, major purchases.
- There are three financing options that you can use to operate your farm:
 - Lines of Credits
 - Term Loans
 - Leases

Options to Finance your Farm Business Operation – Lines of Credit

- A Line of credit is a financing product where the lender will provide you a maximum credit limit that you can use at any time
- Lines of credit would be considered as revolving credit
 - Where you can withdraw or make deposits to the line of credit at any time, as long as you are below your credit limit
- Interest on the outstanding balance is calculated daily and in most cases variable

Options to Finance your Farm Business Operation – Lines of Credit

- There are monthly fees associated with lines of credit whether or not you have an outstanding balance
- You should use your line of credit when:
 - Temporary cash flow shortfalls
 - Paying for yearly expenses
 - Items that you expect to sell within 12 months



Options to Finance your Farm Business Operation – Term Loans

- Purpose of term loans are to purchase assets that have a medium life span (5-10 years)
- Term loans can have a variable interest rate or a fixed rate depending on your needs
- Payments are made regularly with term loans



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Options to Finance your Farm Business Operation – Term Loans

- Fees for term loans are determined at the beginning of the contract
 - Normally there are no fees calculated throughout the term of the loan
- Term loans are best for:
 - Purchasing equipment
 - Purchasing/establishing of vines

Options to Finance your Farm Business Operation – Leases

- Leases are similar to term loans, except that you as the farmer do not own the piece of equipment when the lease is in force (you are making payments)
- The normal lifespan of a lease is between 3-7 years based on the equipment
- Equipment that is more than 20 years old may not be eligible to be leased
- Interest is fixed, but can be more expensive than a term loan

Options to Finance your Farm Business Operation – Leases

Start of Lease

Downpayment

Security Deposit



Life of the Lease

Bi-weekly to Semi Annual Payment

Payments Tax Deductible



End of the Lease

Asset Return

Buy Out Option

Options to Finance your Farm Business Operation – Tile Drainage Loan Program

- Provides funding to farmers to tile their land
- Terms of the Loan are:
 - 10 year term
 - Payments made annually
 - Competitive interest rates (set by OMAFRA)
- 75% of all eligible costs can be financed
- Loan applications can be obtained at your municipal office

Options to Finance your Farm Business Operation – Advanced Payment Program

- Administered through Agricultural Credit Corporation (ACC)
- Maximum loan amount \$1,000,000
- First \$100,000 interest free, remaining \$900,000 at prime interest rate
- 2022 and 2023 crop years, interest free portion increased to \$250,000 from \$100,000
- Loan rates are predetermined by ACC
- Repayment deadline is determined based on whether or not your crop is storable
- To apply call 1-888-278-8807

Options to Finance your Farm Business Operation – Commodity Loan Program

- Administered through ACC
- Interest rate is at prime
- Loan rates are predetermined by ACC
- Up to \$750,000 can be loaned
- Up to 22 months to repay the loan
 - Deadline to repay the loan is September 30
- To apply call 1-888-278-8807

Options to Finance your Farm Business Operation - Ginseng Storage Loan Guarantee Pilot Program (GSLGPP)

- Program announced on April 1, 2022
- Administered through Agricultural Credit Corporation (ACC)
- Maximum loan amount \$1,000,000
- Interest at prime rate
- Financed amount is equal to the amount of ginseng in storage multiplied by \$39.07/kg
- Financing for up to 36 months
- To apply call 1-888-278-8807

Conclusion

- There are different financing options for you to start your farming career
- Make sure you give yourself enough time to go through the process of obtaining financing
- Having a business plan prepared will help you assess which financing options could apply to your situation
- Each financing option that we discussed today may or may not be applicable to your situation
 - A good idea is to work with a mentor/coach or farm business advisor to help you sift through which option is best for you and how you can prepare

Conclusion

- Understanding your financing needs once your farm business is in operation is important
 - Make sure the lifespan of your asset purchases is the same as the financing
- Gain a better understanding your farm operation by reviewing your farm's performance on a regular basis (annually at a minimum)
 - This will help you be prepared when meeting with lenders or investors for when they have questions

Questions?



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Thank you for your time!

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