



**EVALUATION OF THE FARM IMPROVEMENT  
AND MARKETING CO-OPERATIVES  
LOANS ACT (FIMCLA) PROGRAM**

**Final Report**

October 4, 2004

Prepared for:  
Agriculture and Agri-Food Canada

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## **Executive Summary**

### **General findings**

The Farm Improvement and Marketing Cooperatives Loans Act (FIMCLA) program has served the farm community well. However, as the economic context for agriculture and the lending environment have changed, program use has waned sharply to a fraction of its previous level and continues to decline. A reversal of trends is not foreseen, unless the external lending environment changes suddenly.

FIMCLA's recent decline in program use (and thus decreased revenues from registration fees) occurs simultaneously with an apparent increase in claims and a decrease in its recovery of losses. These facts suggest that FIMCLA is not currently operating on a full cost-recovery basis. Since the program has not implemented a formal performance measurement strategy, it is difficult to determine exactly why FIMCLA program use has declined and why the program is not able to recover its costs.

Much of the evaluation deals with changes to program processes, essentially because these questions dominate the framework. The fact remains that the need for the program appears to have eroded, and that is the core finding of this study.

### **Introduction**

FIMCLA, enacted in 1987, is designed to increase the availability of loans for the improvement and development of farms and the processing, distribution, or marketing of farm products by cooperative associations. Under the Act, the government guarantees 80% of the value of the asset purchased. The Minister is liable to pay the lender 95% of a loss sustained as a result of a loan made, provided that the requirements of the Act and the Regulations have been met. The financial institution undertakes its own due diligence to determine borrower eligibility; it has access to FIMCLA staff for eligibility rulings for loans under the Act.

Replacing the Farm Improvement Loans Act (FILA) of 1944, FIMCLA increases access to credit for both farmers and their cooperative associations. FIMCLA-guaranteed loans are intended to help borrowers improve farm assets, strengthen production, and/or improve financial viability. Borrowers also benefit from interest rates that are capped at 1% above prime, lower equity requirements, and flexible repayment terms.

## **Purpose of evaluation**

This program has not been evaluated since its inception, and this review:

- ▶ addresses issues related to FIMCLA's design and relevance to the needs of the agricultural community
- ▶ assesses the program's accessibility and appropriateness within the Canadian farm loan business environment
- ▶ makes conclusions about program management effectiveness, results achievement, and linkages to the Agricultural Policy Framework
- ▶ addresses issues raised by the lending community (e.g., perceived need for amendments to the program).

## **Methodology**

The evaluation framework that guides this study identifies questions under six evaluation themes: relevance, design and delivery, appropriateness, acceptance, results achievement, and cost-effectiveness. The evaluation used ten data collection methodologies to answer the evaluation questions: document review; administrative data analysis; interviews (six preliminary interviews, 37 key informant interviews, 28 lender interviews, and 25 lender follow-up interviews); benchmarking (seven comparison programs); client survey (383 respondents); FIMCLA awareness survey (117 respondents); and case studies (five joint case studies with clients and lenders).

An advisory committee reviewed and commented on the evaluation methodology and preliminary findings. The committee comprised representatives of: Agriculture and Agri-Food Canada (AAFC); Canadian financial institutions including the Canadian Bankers Association and Farm Credit Canada; the University of Manitoba; the Canadian Federation of Agriculture; and the Nova Scotia Department of Agriculture and Fisheries.

## **Conclusions**

### **Relevance**

Due to changing economic and agricultural conditions, FIMCLA has become less relevant to the needs of farmers. The number of loans has declined sharply and steadily in the last six years (from 16,250 in 1996-1997 to 4,722 in 2002-2003), and few FIMCLA clients reported concern about their ability to access credit. Some clients believed that they could negotiate financing with the same (or more favourable) terms outside of FIMCLA. Additionally, FIMCLA is not available to the sectors of the agricultural community that might benefit from improved access to credit such as beginning farmers and

marketing cooperatives with non-farmer investors. Lenders reported using FIMCLA for: loans where the available down payment is 20% (instead of a typically higher rate); young producers; non-traditional sectors of agriculture; assets that are difficult to seize in the event of a default; and assets that do not hold their value. Lenders indicated that increasing numbers of farmers are able to negotiate very favourable terms (e.g., interest rates at less than prime). The average loan under FIMCLA is \$34,000, and only eight loans in 2002 were made at the ceiling level of \$250,000, down sharply from the program's peak activity in 1997.

When asked how to make the program more relevant, lenders and program management suggested that FIMCLA could expand its lists of eligible uses. While lender and program management interest exists for such amendments (although not all key informants supported all of the suggested amendments), clients (i.e., those who successfully obtained a FIMCLA loan) expressed less interest in change.

Although change can be accomplished within the regulations of the Act, before expanding the program parameters, several initial steps are in order:

- ▶ FIMCLA needs to clarify its objective. Is it a program to assist farmers to access credit with favourable terms and conditions, or is it a program to provide access to credit to those who would not otherwise be able to obtain financing?
- ▶ A thorough agricultural credit needs assessment, including a review of other available departmental programs, should be completed.
- ▶ A separate risk analysis should be completed for each potential change in eligibility for loan use.
- ▶ Outcome measures need to be defined.
- ▶ The program must identify what is driving current losses and define a risk management strategy.

### **Design and delivery**

FIMCLA uses written material (including its web site) and a 1-800 information line to communicate with lenders. The fact that lenders are well informed about FIMCLA and its operation suggests that these processes are generally effective. Since lenders are sufficiently aware of FIMCLA, improving their awareness is unnecessary. Nevertheless, if FIMCLA is maintained, regular updates could help keep lenders informed of program processes and alert them to policy changes. This may improve lenders' ability to correctly and efficiently execute defaults and claims processes. It may also increase lender uptake of FIMCLA.

Although the agricultural community is not widely aware of FIMCLA, it is arguable whether steps are needed to improve awareness of the program. This is because FIMCLA relies on lenders to determine whether the program is an appropriate product for their clients. Additionally, given the current lending environment, the primary benefit of increasing producers' and marketing cooperatives' awareness of FIMCLA is the public relations that results from the wider knowledge that AAFC is supporting the agricultural community.

An important delivery issue revolves around claims procedures, which some lenders argued are cumbersome and costly. The current processes are an important concern and may be a factor in declining lender interest in using the program.

FIMCLA predates the APF and, therefore, was not designed to directly respond to the priorities included in the APF. The terms and conditions of FIMCLA neither impede nor require consistency with the APF, which means that FIMCLA has the potential to address most areas of the APF. For example, FIMCLA could be used (and in fact has been used by a few producers) to purchase manure storage facilities or other equipment in support of the environment priority. However, formal linking of FIMCLA to the APF could reduce program use if lenders see further conditions on loan uses. As well, performance monitoring for the program would need to show that loan uses supported the goals of the APF, and this could be a difficult exercise.

### **Appropriateness**

The overall design of FIMCLA, namely a loan guarantee, is a proven and appropriate approach to increasing the flow of credit to a target borrower. As such, FIMCLA's lending activities are consistent with its mandate.

There was some discussion about whether another entity could administer FIMCLA. While it is entirely feasible for another entity such as Farm Credit Canada (FCC) or Canada Small Business Financing Program (CSBF) to administer FIMCLA, most respondents did not believe that this would be desirable because FCC is viewed as being in direct competition with financial institutions, and CSBF does not specialize in agricultural loans.

While there is some overlap (and therefore competition) between FIMCLA and other programs, there is little duplication since programs differ in terms of their eligibility criteria and eligible uses. In provinces where programs similar to FIMCLA are available (e.g., Alberta and Québec), lenders tend to use the provincial programs. This may be because provincial programs tend to be available to a wider range of applicants for a wider variety of uses.

### **Acceptance**

Program managers support FIMCLA; however, they recognize that the program needs updating. Lenders are generally not satisfied with FIMCLA because, in their view, it is not relevant to the needs of the agricultural community and its administrative processes (especially, default procedures and claims settlement) are too burdensome. Clients are generally satisfied with FIMCLA.

FIMCLA does not have formal mechanisms in place to provide feedback on the program. If lenders have questions or concerns regarding a registration or claim, they contact FIMCLA verbally or in writing.

### **Results achievement**

Through its administration of FIMCLA, the program has delivered the activities as identified in the program logic model.

FIMCLA has not implemented formal processes to monitor performance, and it has not finalized a Results-based Management and Accountability Framework (RMAF) or a Risk-Based Audit Framework (RBAF) for the program. Although FIMCLA has established several service delivery standards, it does not monitor whether it is meeting these standards. Given that FIMCLA's performance monitoring processes are limited, it is not possible to measure and/or comment definitively on the intermediate and long-term outcomes of the program. That being said, it is clear from reviewing the database that FIMCLA has extended agricultural credit in favourable terms to many farmers, particularly in Saskatchewan. However, relatively few marketing cooperatives have used FIMCLA, which suggests that the program has not been as effective in reaching this target population.

Regarding intermediate outcomes (with respect to producers), FIMCLA has probably had an impact in terms of increasing the productivity of farming operations, increasing the efficiency of farming operations, and making farming operations more sustainable. Once again, given marketing cooperatives' limited involvement in FIMCLA, it is not possible to comment on intermediate outcomes for this aspect of the program.

With respect to longer-term outcomes, it would be logical to expect that FIMCLA has contributed to a variety of expansion and modernization/innovation initiatives across its portfolio of loans. The case studies offer some evidence in support of this conclusion, but it is not possible to draw a clear line from the loans to the long-term goals of the program. This would require a detailed follow-up on the uses to which loans have been put, which would require an elaborate database and borrower follow-up.

### **Cost-effectiveness**

The volume of new FIMCLA loans has been steadily decreasing from 16,250 in 1996-1997 to 4,722 in 2002-2003. Since 1999-2000, the value of claims paid has been rising, while revenue from registration fees has been falling. Recoveries of claims paid have been inconsistent. As such, FIMCLA's cumulative net gain (registration fees plus recoveries from loan defaults, less claims paid and administration costs) has been trending negative. At the same time, FIMCLA management argues that on an accrual basis, the program does not appear to be in a risky position. However, research commissioned by the program confirms that the level of current new registrations is well below the breakeven point for the program. Given these two perspectives on the financial risk faced by the program, a strong case exists for a financial review.

### **Program strengths and weaknesses**

FIMCLA has a long history that speaks to its core strengths. Viewing it over the past decade, the main advantages involve its rationale/relevance, lender/borrower acceptance, and efficient administration. Recently, weaknesses and limitations have emerged, primarily as a result of changing economic and agricultural conditions, which have reduced the level of registrations. In simple terms, farmers and lenders have alternative sources of credit, which have reduced the relative advantage of FIMCLA.

### **Options and recommendations**

#### ***Recommendation 1***

***Suspend the program but continue to support the remaining portfolio of loans.***

With program suspension, the Department would need to execute the following actions:

- ▶ Compare the costs (administrative and net expected recoveries less expected claims) of maintaining the declining balance of the portfolio with the costs associated with maintaining the program to demonstrate the net savings from suspending the program.
- ▶ Communicate with all lenders that, while new loans would not be registered, all existing obligations would be maintained.
- ▶ Communicate the rationale for program suspension noting that unit costs are rising and registrations have plummeted. The program no longer meets the breakeven requirement. It is also important to note that this is not related in any way to ongoing efforts to assist the farm community to deal with crises such as BSE, since FIMCLA has little bearing on managing these issues.
- ▶ Calculate the administration needed to maintain the existing portfolio of loans and adjust staffing appropriately.



## ***Recommendation 2***

***AAFC should undertake a credit needs assessment for agricultural producers.***

This needs assessment should also:

- ▶ identify gaps in support for target groups such as beginning farmers and marketing/production cooperatives.
- ▶ review all existing credit sources for agricultural producers (private and public, federal and provincial).

## ***Recommendation 3***

***Undertake an immediate analysis of the financial risks associated with FIMCLA.***

There is considerable uncertainty about the risk associated with FIMCLA, even if it were suspended. Currently, program activity is well below the breakeven point, and with registrations continuing to decline, the program is far from the cost recovery levels established four years ago. Independently of what is done with FIMCLA, a general needs assessment for credit support in the agricultural sector would guide future public policy.

## ***Observation***

If program suspension is not an option, the program must urgently address some of its procedural issues and broaden the eligibility in an effort to at least stabilize demand. A return to previous program activity levels is unlikely in the absence of changed economic and industry fundamentals.

To limited extent, the decline in program use may reflect several issues that lenders have in terms of how the program is managed (i.e., default and claims processes) and limitations on eligibility (such as the low maximum loan amount - in the view of lenders - and restrictions on loan uses, including the exclusion of beginning farmers). Addressing these issues may raise demand for the program somewhat, but it is unlikely to reverse the steep decline in registrations experienced over the last six years.

If AAFC wishes to maintain FIMCLA, some adjustments to the program are required:

- ▶ Program objectives require clarification.
- ▶ Loan ceiling could be increased, with the caveat that there appears to be little inherent demand for an increase. Additionally, the program must have an understanding of the level of risk associated with the inevitable increase in claims.

- ▶ Review and analyse the risk associated with the expansion of eligible loan uses into areas such as: purchase of land previously leased or rented; purchase of supply-managed commodity quotas; purchase of feeder livestock; loans to beginning farmers; and processing-related ventures.
- ▶ Claims processes need to be streamlined.
- ▶ Complete a financial review to increase information on the factors driving claims and recovery processes.
- ▶ Improve the program' outcomes measures.
- ▶ Develop an augmented database to support better program monitoring.

## **1.0 Introduction**

The Farm Improvement and Marketing Cooperatives Loan Act (FIMCLA) is a federal government program designed to increase the availability of loans for the improvement and development of farms and the processing, distribution, or marketing of farm products by cooperative associations.<sup>1</sup> Under the Act, the government guarantees 80% of the value of the asset purchased. The Minister is liable to pay the lender 95% of a loss sustained as a result of a loan made, provided that the requirements of the Act and the Regulations have been met. The financial institution undertakes its own due diligence to determine borrower eligibility; however, it does have access to FIMCLA staff for eligibility rulings.

Replacing the Farm Improvement Loans Act (FILA) of 1944, FIMCLA increases access to credit for both farmers and their cooperative associations. FIMCLA-guaranteed loans are intended to help borrowers improve farm assets, strengthen production, and/or improve financial viability. Borrowers also benefit from advantageous interest rates, lower equity requirements, and flexible repayment terms. FIMCLA was designed to rectify limitations of FILA.

### **1.1 Purpose of evaluation**

Agriculture and Agri-Food Canada (AAFC) has hired, through a competitive process, Prairie Research Associates (PRA) Inc. to conduct an evaluation of FIMCLA. This program has not been evaluated since it was enacted in 1987. The objectives of this evaluation are to:<sup>2</sup>

- ▶ address issues related to the design and relevance of FIMCLA to the needs of the agricultural community
- ▶ assess the program's accessibility and appropriateness within the Canadian farm loan business environment
- ▶ make conclusions about program management effectiveness, results achievement, and linkages to the Agricultural Policy Framework (APF)
- ▶ address issues raised by the lending community.<sup>3</sup>

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<sup>1</sup>Retrieved on October 14, 2003 from [http://www.agr.gc.ca/misb/nmp/fimcla/overview\\_e.html](http://www.agr.gc.ca/misb/nmp/fimcla/overview_e.html)

<sup>2</sup>FIMCLA Request for Proposal, Annex B1. Page 5.

<sup>3</sup>The lending community has requested consideration of specific changes to the program including: coverage of beginning farmers, purchase of land previously leased or rented, loan limit increases, processing-related ventures, 100% financing of new manure storage facilities, ad valorem taxes and duties, and supply- managed commodity quotas.

## **1.2 Overview of report**

Section 2 describes the methodology employed for the evaluation. Section 3 provides a profile of FIMCLA, and Section 4 presents the research findings organized by evaluation issues. Section 5 offers options and recommendations for the program.

## **2.0 Methodology**

This section presents the approach and methodologies used to conduct the evaluation.

### **2.1 Evaluation issues**

An evaluation framework guides this evaluation. The contractor revised the evaluation framework included in the Request for Proposals (RFP) in consultation with the Advisory Committee and AAFC Audit and Evaluation Team. The bulk of the changes were made to link the evaluation questions to indicators and data sources. The evaluation framework appears in Appendix A.

### **2.2 Data collection methodology**

This evaluation utilized the following 10 data collection methodologies:

- ▶ preliminary interviews
- ▶ document review
- ▶ administrative data analysis
- ▶ benchmarking (program comparison)
- ▶ client<sup>4</sup> survey
- ▶ awareness survey
- ▶ lender interviews
- ▶ lender follow-up interviews
- ▶ key informant interviews
- ▶ case studies.

Table 1 describes each methodology employed in the evaluation.<sup>5</sup>

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<sup>4</sup>Note that throughout this report, the term “client” refers to agricultural producers and marketing cooperatives that have successfully obtained a FIMCLA-guaranteed loan. That said, due to the nature of FIMCLA, lenders are FIMCLA’s primary “client,” but the program is designed to primarily benefit “borrowers” (i.e., agricultural producers and marketing cooperatives).

<sup>5</sup>Note that a separate methodology report is available.

<b>Table 1: Data collection methods</b>	
<b>Method</b>	<b>Description</b>
Preliminary interviews	<p>The study team conducted preliminary interviews with six key informants to orient the evaluation and to provide background for the key informant interviews. Based on suggestions from AAFC, representatives of the following organizations participated in these informal interviews:</p> <ul style="list-style-type: none"> <li>▶ FIMCLA</li> <li>▶ Canadian Federation of Agriculture (CFA)</li> <li>▶ Farm Credit Canada (FCC)</li> <li>▶ Credit Union Central of Saskatchewan (CUCS)</li> <li>▶ caisses populaires Desjardins</li> <li>▶ Canadian Young Farmer Forum (CYFF).</li> </ul> <p>To guide the interviews, the study team drafted two preliminary interview guides (consisting of approximately 10 general questions each), one for government representatives and the other for lenders. The AAFC Audit and Evaluation Team reviewed and approved each guide.</p> <p>The interviews, conducted by teleconference, lasted from 30 minutes to an hour. In attendance were members of the study team and representatives of the AAFC Audit and Evaluation Team. To increase reliability and validity, interviews were audio-taped (with respondents' permission), and each interviewee received a copy of the interview notes for review and comment.</p> <p>Finally, the study team, along with representatives of the AAFC Audit and Evaluation Team, met with representatives of the Canadian Bankers Association (since they were unable to attend the Advisory Committee meeting) and selected members who specialized in agricultural lending on October 16, 2003 to review the rationale for the project and the logistics of collecting information from lenders. This meeting also identified issues ranging from basic principles of the evaluation to operating practices that the banking community wished to see addressed in the evaluation. An important contribution of this meeting was to identify the value in replacing the originally proposed mailed/faxed lender questionnaire with a key informant interview approach to collect information from lenders.</p>
Document review	<p>A review of documents resulted in the development of a program profile for FIMCLA. This program profile sets the context for the evaluation and supports key questions in the evaluation framework relating to relevance, design and delivery, and appropriateness.</p> <p>In consultation with AAFC the following list of documents were identified as relevant:</p> <ul style="list-style-type: none"> <li>▶ FIMCLA lenders guidelines</li> <li>▶ Canadian Agricultural Co-ops Capitalization, Issues and Challenges: Strategies for the Future (Ernst &amp; Young)</li> <li>▶ Change Challenge Opportunity (Report of the Task Force)</li> <li>▶ AAFC DPRs, sections on FIMCLA</li> <li>▶ September 1999 Report of the Auditor General, Chapter 11 User Fees</li> <li>▶ AAFC response to the Auditor General's report</li> <li>▶ FIMCLA (web site)</li> <li>▶ Agricultural Policy Framework (APF) (web site)</li> <li>▶ Canada Gazette</li> <li>▶ Risk Analysis Framework for the FIMCLA (Charles Grant)</li> <li>▶ Measuring FIMCLA Performance on an Accrual Basis (Charles Grant)</li> <li>▶ Study of Public Financial Guarantee Programs</li> <li>▶ Canada Small Business Financing Program</li> <li>▶ AMPA Evaluation</li> <li>▶ Treasury Board submission and any cabinet documents on the program</li> <li>▶ On-line business case document.</li> </ul>

<b>Table 1: Data collection methods</b>	
<b>Method</b>	<b>Description</b>
Administrative data analysis	<p>The objective of the administrative data analysis was to obtain summary statistics for the FIMCLA program and to identify trends/relationships that support the evaluation framework. To facilitate the completion of this task, FIMCLA management provided a copy of the database, stripped of personal identifiers (i.e., name and address). As well, FIMCLA management provided a preliminary set of summary statistics including:</p> <ul style="list-style-type: none"> <li>▶ number of unique applicants by year, province, and organizational structure</li> <li>▶ number of loans by province and organizational structure</li> <li>▶ number of unique lenders by year and province</li> <li>▶ number of claims by year and province</li> <li>▶ number of defaults by year and province.</li> </ul>
Benchmarking	<p>Benchmarking allows the comparison of different programs on common dimensions to provide an alternate perspective on relative program performance. The benchmarking analysis compares the products, services, and practices of FIMCLA with those of other farm financial programs, especially guarantee-type programs available to agricultural producers at the federal and provincial levels.</p> <p>To facilitate the selection of programs for inclusion in the program comparison study, the contractor developed two lists of potential programs based on the results of an Internet search. One list included guarantee programs and the other included direct lending programs. Using these tables, and in consultation with AAFC, the following seven programs were selected for inclusion in the program comparison study:</p> <ol style="list-style-type: none"> <li>1.Canada Small Business Financing Program (Industry Canada)</li> <li>2.Alberta Farm Development Loans (Agricultural Financial Services Corporation)</li> <li>3.Alberta Beginning Farmer Program Loan (Agricultural Financial Services Corporation)</li> <li>4.Agricultural Value-Added Loan Program (Western Economic Diversification and Farm Credit Canada)</li> <li>5.Financière Agricole du Québec (FADQ)</li> <li>6.Loans for Beginning Farmers and Ranchers (United States Department of Agriculture - USDA)</li> <li>7.Feeder Cattle Loan Guarantees             <ol style="list-style-type: none"> <li>a. British Columbia</li> <li>b. Alberta</li> <li>c. Saskatchewan</li> <li>d. Ontario</li> <li>e. Québec.</li> </ol> </li> </ol> <p>The benchmarking analysis compared FIMCLA to the selected programs on characteristics such as:</p> <ul style="list-style-type: none"> <li>▶ program objective</li> <li>▶ eligibility criteria</li> <li>▶ eligible uses</li> <li>▶ guarantee amount</li> <li>▶ fees (i.e., application, registration, renewal, etc.)</li> <li>▶ repayment period</li> <li>▶ interest rates</li> <li>▶ administration procedures</li> <li>▶ claims procedures</li> <li>▶ cost recovery procedures.</li> </ul> <p>The information used in the program comparison was collected using a document review (program data) and key informant interviews with managers active in delivering the program. Prior to</p>

<b>Table 1: Data collection methods</b>	
<b>Method</b>	<b>Description</b>
	beginning data collection, AAFC sent potential respondents an introductory letter that described the research, introduced the contractors, and invited them to participate in the study. Prior to the interview, respondents received a copy of the questions to help them prepare their responses. Following the interview, respondents received the interview notes and/or a draft copy of their program's profile for review and comment.
Client survey	<p><b>Privacy</b>            Prior to selecting the sample for the client survey, the AAFC Audit and Evaluation Team asked Information Management Services to review and approve the proposed protocol for the client survey. This review determined that, to protect the identity of clients, the contractor could not have full access to the FIMCLA database; thus, before sending the database to the contractor, FIMCLA management removed all personal identifiers. This review also determined that, to further protect the identity of clients, the AAFC Audit and Evaluation Team would be responsible for mailing introductory letters to potential respondents while FIMCLA management would be responsible for managing the informed consent process.</p> <p><b>Sampling</b>            The client survey included 383 FIMCLA clients, selected from the FIMCLA database.<sup>1</sup> The sampling used the following steps:</p> <ul style="list-style-type: none"> <li>▶ Only loan dates of January 1, 2000, to November 15, 2003, and fiscal years 2000 to 2003 were included to focus the analysis on the current structure and operation of the program. This time frame matches the reference periods used in all the data gathering, except the database analysis, which used all loans as the reference population.</li> <li>▶ Five thousand program participants<sup>2</sup> were randomly selected.</li> <li>▶ These participants were then matched to the registration number, which was:               <ul style="list-style-type: none"> <li>- the most recent loan date</li> <li>- the highest registration number, in cases where multiple loans were issued on the same date.</li> </ul> </li> </ul> <p>The contractor then verified that the distribution of the sampled participants closely reflected the distribution of applicants overall. As such, many of the clients interviewed were grain farmers in Saskatchewan, which reflects the overall distribution of FIMCLA clients.</p> <p>The selected registration IDs were sent to FIMCLA management. Since the database does not contain client telephone numbers, FIMCLA management used web-based telephone directories to obtain telephone numbers for the selected clients.</p> <p><b>Informed consent</b>            After FIMCLA management obtained the telephone numbers of respondents, the AAFC Audit and Evaluation Team mailed introductory letters to participants selected through the sampling process. The letter informed respondents that AAFC was undertaking an evaluation of FIMCLA and that it hired PRA to complete the research. The letter briefly described the research and the benefit of participating in a client survey. As well, the letter informed clients that the telephone interviewer who called them to complete the questionnaire would have basic information on their loan (i.e., year of loan, financial institution that issued loan, amount of loan, purpose of loan, default status). The letter also outlined the fact that basic information was made available to interviewers to help participants respond to the questions. The letter explained that personal information and survey responses would be kept confidential. Finally, this letter included an informed consent procedure in the form of a toll-free telephone number that potential respondents could use to remove themselves from the</p>

<b>Table 1: Data collection methods</b>	
<b>Method</b>	<b>Description</b>
	<p>contact list if they did not wish to participate. It also included toll-free numbers that respondents could call if they had questions about the evaluation or research process. About 70 individuals called FIMCLA management to remove themselves from the contact list or to ask questions about the evaluation.</p> <p>Approximately one week after mailing the introductory letters (sufficient time for potential respondents to opt out of the survey), FIMCLA management forwarded the contact information for the sample to the contractor. The contact information was linked to key loan information so that interviewers could prompt respondents to encourage memory; thereby improving the quality of the data captured.</p>

<b>Table 1: Data collection methods</b>	
<b>Method</b>	<b>Description</b>
Client survey continued	<p><b>Informed consent continued</b>                      The evaluation team anticipated that, after receiving the introductory letter, some clients may contact their lender to ask about the evaluation. Thus, it was important to ensure that lenders were aware of the evaluation. To inform them of the evaluation, FIMCLA management sent them a letter describing the research and the implications it had for them. In addition, FIMCLA management posted a brief description of the evaluation on its web site.</p> <p><b>Questionnaire</b>                      After review by AAFC the survey instrument was pre-tested with 70 English-speaking respondents. A representative of the AAFC Audit and Evaluation Team listened to tapes of some of the pre-test interviews. Following the pre-test, revisions to the questionnaire were made in consultation with the AAFC Audit and Evaluation Team and FIMCLA management.</p> <p>The contractor managed field operations through its call centre in Winnipeg, using computer-aided telephone interviewing (CATI). Interviewers initiated all calls to Québec participants in French. They attempted at least five call-backs before replacing a selected respondent. Interviewers recorded open-ended responses verbatim. These responses were then coded into specific response categories for analysis. The data was then migrated from CATI to SPSS, cleaned,<sup>3</sup> and analysed to support the relevant questions in the evaluation framework.</p> <p><b>Non-response analysis</b>                      Non-response analysis involves comparing the characteristics of respondents to the selected sample. Based on this assessment, if the sample categories diverge by more than 5%, the data would be weighted.<sup>4</sup> The sample categories selected for analysis include province and size of loan. In this case, the data does not need to be weighted since responses do not diverge by more than 5%.</p>
Awareness survey	<p>Because of the need to ensure informed consent on the part of program participants, obtaining unaided awareness of FIMCLA among potential clients was not possible within the regular client survey. As a supplement to the methodology, to assess whether the general agricultural community is aware of FIMCLA, the contractor conducted a short survey with agricultural producers to test their unaided awareness of FIMCLA.<sup>5</sup> Using its internal database of producers, the contractor completed surveys with 117 farmers across Canada. Note that the awareness survey excludes Québec since the contractor's database does not include producers in this province.</p>
Lender interviews	<p>AAFC and the consultant met with the Canadian Bankers Association (CBA) and various banking representatives active in lending to agricultural producers. The objective of this consultation was to determine the optimal method to collect information from lenders on FIMCLA. Based on feedback from the CBA, it was determined that the best way to collect the required information was to use a structured interview process starting with senior managers in lending institutions. At this level, issues of broad policy could be discussed. These respondents could then refer the research team to key contacts at operational levels. The contractor completed 28 lender interviews.</p> <p>The development of the key informant list began with lenders who were members of the Advisory Committee. AAFC sent a letter to these individuals to inform them about the evaluation and request their participation in an interview. Once they agreed to participate, the contractor contacted them to schedule a telephone interview. The intent of these interviews was to gain a general understanding of the structure of the financial institutions and to gain insight into how policy decisions regarding agricultural lending are made. At the end of the interview, the interviewer asked the interviewee to identify someone in an operational position who could be interviewed. This process continued until the contractor gained a complete understanding of the steps a loan goes through at a particular financial institution.</p>

<b>Table 1: Data collection methods</b>	
<b>Method</b>	<b>Description</b>
Lender follow-up interviews	Based on the findings of the draft evaluation report, the AAFC Audit and Evaluation Team and FIMCLA management determined that a second round of lender interviews was needed to clarify several issues raised throughout the evaluation. The AAFC Audit and Evaluation Team sent an e-mail to all lenders who participated in an initial interview to let them know that the contractor would be conducting a second round of interviews. The contractor then contacted the lenders to see if they were willing to participate in another interview, and if so, to schedule an interview time. The interviews were conducted over the phone, lasted about 25 minutes, and covered a number of topics including: loan limits, client profile, risk management, marketing cooperatives, and the APF. Twenty-five of 37 lenders participated in a follow-up interview.
Key informant interviews	<p>The contractor interviewed 37 key informants, representing one of the following groups:</p> <ul style="list-style-type: none"> <li>▶ program staff (n=7)</li> <li>▶ lenders (n=9)<sup>6</sup></li> <li>▶ non-participating marketing cooperatives (n=4)<sup>7</sup></li> <li>▶ provincial and territorial ministries of agriculture (n=4)</li> <li>▶ officials for similar loans programs (n=4)</li> <li>▶ representatives of the CFA (n=5)</li> <li>▶ producer associations (n=2)</li> <li>▶ other federal government representatives (n=2).</li> </ul> <p>The contractor conducted the interviews by telephone, in the respondent's preferred official language. The interviews were approximately 45 minutes in length. A representative of the AAFC Audit and Evaluation Team monitored several of the interviews.</p> <p>The contractor contacted all key informants to invite them to participate in a telephone interview. Following the initial contact, the contractor sent the key informant a letter from AAFC, which described the evaluation and invited them to participate in an interview. After agreeing to participate in an interview, respondents received a copy of the interview guide to help them prepare their responses. With permission, interviews were audio-recorded to ensure accuracy. Additionally, interviewees were provided the opportunity to review and comment on the notes taken during their interview.</p>
Case studies	<p>The contractor completed five joint case studies with clients and lenders. Using the results of the client survey and key informant suggestions, the contractor selected four loans issued to producers and one loan issued to a marketing cooperative for inclusion in the case studies. The case studies were selected to provide a variety of loan amounts and uses as well as provincial representation. The case studies included one loan issued in Saskatchewan, one in Manitoba, two in Ontario, and one in Québec.</p> <p>Once the cases were selected, the contractor contacted both the client and lender to solicit their participation in the study. The contractor provided both parties with an introductory letter that described the research and explained the case study protocol. Since the case studies required extra time from agricultural producers as well as more detailed personal and farm financial information, the contractor offered clients an incentive of \$100 for their participation.</p> <p>The case studies involved separate telephone interviews with clients and lenders. As well, clients completed a short, written questionnaire. A representative of AAFC Audit and Evaluation Team monitored some of the interviews.</p>
Notes:	
<p><sup>1</sup> To maintain confidentiality until informed consent had been provided by program participants, FIMCLA management provided the consultant with a copy of the database that had been stripped of personal identifiers.</p>	

<b>Table 1: Data collection methods</b>	
<b>Method</b>	<b>Description</b>
<sup>2</sup>	The terms “participant” and “client” are used interchangeably. The term respondent refers to a participant/client/lender in the context of a specific survey. The context will make the reference clear.
<sup>3</sup>	The CATI system is programmed to guide appropriate responses and to manage skip logic. Errors can still occur (often caused by a respondent changing his/her response at a later point in the questionnaire). These errors are tracked and eliminated in the preliminary analysis using SPSS to check for out of range values and ineligible responses.
<sup>4</sup>	Weighting is an algebraic adjustment to the data to ensure that the sample matches the population on selected characteristics.
<sup>5</sup>	For the past year, PRA has been building a sample of agricultural producers located in all provinces but Québec.
<sup>6</sup>	Note that these interviews are included in the interviews that are replacing the survey of lenders.
<sup>7</sup>	Note that this evaluation used several methodologies to collect data regarding marketing cooperatives: lender interviews, interviews with non-participating marketing cooperatives, and case studies. Despite this, it was difficult to obtain insight into marketing cooperatives’ experience with FIMCLA. This may be because few marketing cooperatives exist, and therefore, few have registered loans with FIMCLA.

### **3.0 Overview of FIMCLA**

This section describes the FIMCLA program, including program amendments, terms and conditions, default procedures, and program activity.

#### **3.1 Amendments to FIMCLA**

This section identifies the amendments that have been made to FIMCLA.

##### **3.1.1 Changes from FILA**

When FIMCLA was enacted in 1987, several substantive changes from the previous FILA had been made. These changes included:

- ▶ introducing a loan registration fee of 0.50% of the guaranteed loan amount (to partially offset administration costs)
- ▶ increasing the maximum outstanding loans per borrower from \$100,000 to \$250,000
- ▶ allowing for fixed-rate loans, loan consolidation, and re-financing
- ▶ guaranteeing up to \$3 million for farmer-owned marketing cooperatives for value-added marketing, processing, or distribution projects.<sup>6</sup>

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<sup>6</sup>Treasury Board Submission. March 30, 1998. Page 5.

### **3.1.2 1995 amendments**

In June 1995, FIMCLA was amended to reflect concerns raised by agricultural producers, lenders, the Standing Joint Committee for the Scrutiny of Regulations, and past audits. The new regulations for FIMCLA came into force on May 31, 1999, and the substantive changes from the previous regulations include (refer to Appendix C for further detail):<sup>7</sup>

- ▶ increasing the five-year aggregate principal amount of loans
- ▶ increasing the registration fee
- ▶ changing the formula for determining the maximum fixed interest rate
- ▶ defining the nature of security to be taken for guaranteed loans
- ▶ expanding the definition of eligible activities
- ▶ increasing the time frame within which loans must be registered.

### **3.2 Terms and conditions<sup>8</sup>**

This section outlines the terms and conditions associated with a FIMCLA-guaranteed loan.

#### **3.2.1 Current eligibility criteria**

FIMCLA-guaranteed loans are available to:

- ▶ farmers<sup>9</sup> who are actively engaged in farming<sup>10</sup> for the purpose of earning a profit in Canada at the time the loan is requested and own or have a leasehold interest in the farmland where he/she/it is currently performing a farming activity
- ▶ farmer-owned marketing cooperatives.<sup>11</sup>

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<sup>7</sup> AAFC. Extract Canada Gazette, Part II. March 31, 1999, pp. 850-852.

<sup>8</sup> Much of the information in this section was obtained from the FIMCLA Lender's Guidelines.

<sup>9</sup> FIMCLA defines a farmer as "an individual, partnership, corporation, or cooperative association that is engaged in farming in Canada."

<sup>10</sup> FIMCLA defines farming as "the production of field-grown crops, cultivated, uncultivated, and horticultural crops; the raising of livestock, poultry and fur-bearing animals; the production of eggs, milk, honey, maple syrup, tobacco, fibre and wood from wood lots."

<sup>11</sup> FIMCLA defines a marketing cooperative as a "co-operative association incorporated under the laws of Canada or a province for the purpose of processing, distributing or marketing on a co-operative basis the products of farming, of which, each member or shareholder is a farmer."

Beginning farmers,<sup>12</sup> holding companies, companies engaged in financing, and applicants who intend to farm are not eligible for FIMCLA loans.

### **3.2.2 Loan limits**

The maximum value of FIMCLA loans that a farmer can hold at one time is \$250,000. Farmer-owned cooperatives may carry a maximum of \$3 million in FIMCLA loans. Loans may be granted for the lesser of 80% of the appraised value of the property or the purchase price. However, consolidation loans may include 100% of the outstanding principal balance.

### **3.2.3 Loan uses**

Under FIMCLA, eligible loan uses include:

- ▶ equipment
- ▶ building/construction
- ▶ additional land (i.e., land in addition to the land the applicant current owns or has a leasehold interest in)
- ▶ breeding livestock
- ▶ consolidation/refinancing of FIMCLA loans
- ▶ cooperative loans.<sup>13</sup>

Examples of ineligible loan uses include:

- ▶ borrower's labour
- ▶ refundable taxes (i.e., GST, PST, or Custom Duties)
- ▶ recreational vehicles
- ▶ quota purchases of all kinds
- ▶ operating loans
- ▶ loans for the purchase of short-term feeder livestock
- ▶ working capital.<sup>14</sup>

Please see Appendix D for a complete list of eligible and ineligible loan uses.

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<sup>12</sup>An applicant is no longer considered to be a start-up farmer when the lender and the borrower can demonstrate that the farm operation is established. One way of demonstrating that one is established is to show farming income earned in Canada on either an income tax return or an interim financial statement at the time the loan is being requested.

<sup>13</sup>FIMCLA Lender's Guidelines.

<sup>14</sup>Ibid.

### **3.2.4 Interest rates**

The rate of interest on FIMCLA loans can be either floating or fixed. The lender and the borrower may agree to change from a floating interest rate to a fixed interest rate (and vice versa) at any point throughout the loan. As defined in the Act, the maximum rate of interest is:<sup>15</sup>

- ▶ Floating interest rate: equal to the calculated prime rate of the lender plus a maximum of 1% (as that rate is fixed daily during the term of the loan)
- ▶ Fixed interest rate: equal to the published residential mortgage rate of the lender for a comparable term plus a maximum of 1% (as that rate is fixed on the date the funds are disbursed or on an earlier date agreed to by the lender and the borrower).

### **3.2.5 Repayment terms**

The maximum repayment period for all purposes, including all loans extended for consolidation/refinance, is 10 years. However, loans to finance the purchase of additional land may be repaid over a period not exceeding 15 years. For cooperative loans, the maximum term is 20 years for the purchase of land or the construction of any building or structure and 10 years for all other purposes.

Repayments to the loan principal must be made at least annually, with the first principal payment occurring no later than 12 months from the date of the first disbursement. Note that principal payments do not have to be equal and that equal, blended payments of principal and interest are permitted.

### **3.2.6 Security**

At the time a loan is made, FIMCLA requires the lender to take a security interest that is reflective of its normal lending practice. A lender may take secured or unsecured corporate guarantees for the full amount of the FIMCLA loan.

### **3.2.7 Loan registration and charges**

Lenders must register FIMCLA loans within 60 days of the date on which the first disbursement is advanced for all purposes. However, lenders have up to 180 days from the first disbursement to register construction loans.

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<sup>15</sup>Note that lenders may charge rates lower than the maximum rate indicated.

When registering a loan, lenders must enclose a cheque or draft in the amount of 0.85% of the total loan amount with the completed registration form. The registration fee and lender's administration charges<sup>16</sup> may be added to the loan, provided that the total amount of the loan, including the 0.85% fee and the lender's charges, do not exceed \$250,000.

### **3.3 Loans in default**

Lenders have a maximum of 18 months from the date of default to submit a claim for loss. FIMCLA defines the default date as "*the day after the day on which a payment under a loan was scheduled to have been made, but was not made.*"<sup>17</sup>

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<sup>16</sup>A lender may charge a borrower an administration charge in respect of a loan up to a maximum of: the lesser of 0.25% of the loan principal, or \$250 if the loan is for less than \$250,000; or in the case of marketing cooperatives with loans of \$250,000 or more, 0.1% of the loan principal. If a lender charges fees outside of this range, a claim can be disqualified.

<sup>17</sup>FIMCLA Lender's Guidelines.

If a loan is in arrears and it appears that the situation cannot be rectified, the lender should:

- ▶ submit a Report of Default on the Loan within:
  - six months from the default date (but not before three months) for farm improvement loans
  - 15 days of the default date for cooperative loans.
- ▶ attempt to devise a suitable repayment program with the farmer or cooperative.
- ▶ if a repayment program cannot be agreed upon, demand the balance of the loan by registered mail and begin action to seize the security held in support of that loan in accordance with provincial laws and the *Farm Debt Mediation Act*.
- ▶ submit a claim for loss after taking all appropriate actions to collect from all possible sources to realize on security.

Note that, with FIMCLA's approval and dependent on the financial circumstances of the guarantors, lenders can negotiate compromise settlements.

The Minister's maximum liability in favour of an individual lender's total claim for losses sustained for all loans made during a fiscal year at time of claim and for four years preceding (regardless if loans were issued to producers or marketing cooperatives) is a maximum of:

- ▶ 90% of the first million registered during the five-year period
- ▶ 50% of the second million registered during the five-year period
- ▶ 10% of the remaining amount registered during the five-year period.

The Minister is subrogated in all the rights of the lender once a claim is paid. The loss sharing ratio for government to lender is 95% to 5%.

### **3.4 Program activity**

This section presents a high level scan of agricultural trends and an overview of FIMCLA program activity.

### **3.4.1 General agricultural trends**

To place FIMCLA in context, it is helpful to review the general agricultural community.

According to the 2001 Agricultural Census:

- ▶ The number of farms has decreased 12% from 280,043 in 1991 to 246,923 in 2001.<sup>18</sup>
- ▶ The average age of agricultural producers has increased from 47.5 years in 1991 to 49.9 years in 2001.<sup>19</sup> If this trend continues, succession will be an important issue for many farm owners.

The Farm Financial Survey provides useful insight into farm operators' financial situations:

- ▶ Average farm liabilities in 2002 were \$210,000, with net increase in borrowings of about \$27,000 (average amount of new loans).
- ▶ Saskatchewan (the largest user of FIMCLA), at \$128,200, has the lowest value of liabilities per farm.
- ▶ More than one-quarter of farms (28%) reported having no debt, while 7% of farms report high debt (debt/assets  $\geq$  50%).
- ▶ Small and medium-size farms (revenues < \$100,000) are more likely to have no debt (41%) than large farms (revenues  $\geq$  \$100,000 - 15%).

Overall, these trends point to increasing concentration of farm operations and conservative reliance on debt financing.

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<sup>18</sup>Statistics Canada, Census of Agriculture 2001. Farm operator data. Initial release. Table 1. Number of farms and selected averages by number of operators per farm, by province, Census Agricultural Region (CAR) and Census Division (CD) 2001.

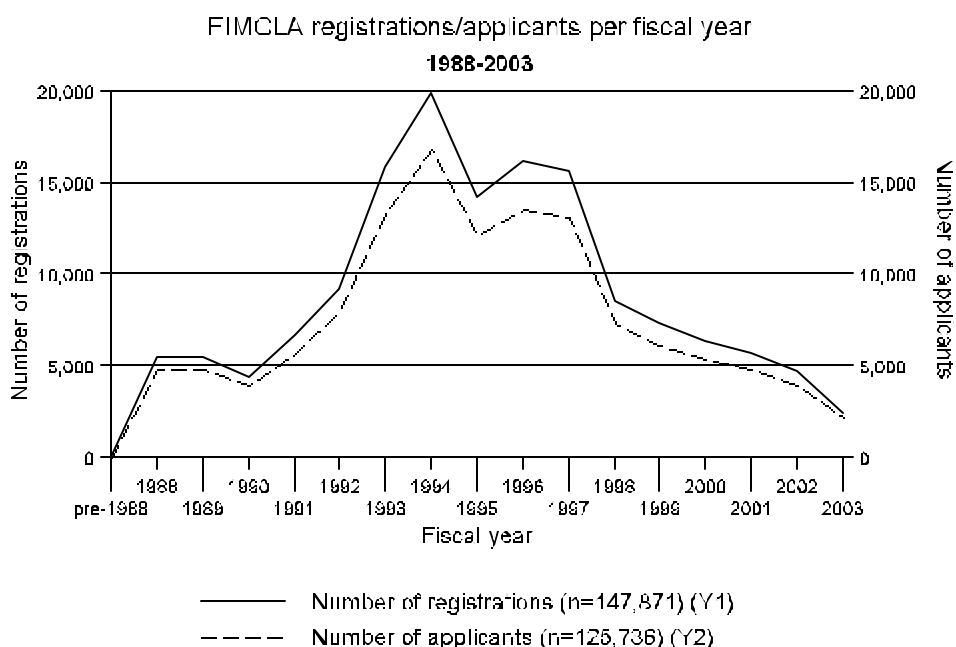
<sup>19</sup>Statistics Canada, Census of Agriculture 2001. Farm operator data. Initial release. Table 11. Farm operators by number per farm and selected variables, by province, Census Agricultural Region (CAR) and Census Division (CD) 1996 and 2001.

### 3.4.2 FIMCLA activity

Note that all figures for 2003 are current to November 15, 2003.

#### Registrations

Figure 1 shows that the number of FIMCLA registrations mirrors the number of FIMCLA applicants. The number of registrations per fiscal year ranges from a high of 19,867 in 1994 to a low of 4,721 in 2002. Similarly, the number of applicants per fiscal year ranges from a low of 3,899 in 2002 to a high of 16,763 in 1994. Since 1994, the number of registrations and applicants has been trending sharply downward.



**Figure 1**

FIMCLA is not the only federal loan guarantee program that has been experiencing this downward trend in loan registrations. The CSBF and Canada Mortgage and Housing Corporation (CMHC) mortgage loans have also seen a decline in registrations. For example, CSBF registrations have decreased from 16,635 in 1999-2000 to 11,142 in 2001-2002. Recently, CMHC announced that it was eliminating the down payment requirement on its loan guarantee for first-time home purchasers.

The rationale appears to be to meet the increasing competition from GE Capital, a global financial services company, which has increased its share of this market segment to over 25%.<sup>20</sup>

An important conclusion of this study, confirmed in lender interviews, is that interest rates are historically low, and, more importantly, that the financial services sector has innovated and become more competitive in the higher risk sector of borrowers traditionally served by loan guarantee programs.<sup>21</sup> Coupled with the decline in registrations, as shown below, this raises basic questions about the rationale for guarantee programs such as FIMCLA.

### **Value of registrations over time**

Figure 2 provides the total value of new FIMCLA registrations per year over the period of 1988 to 2003.

- ▶ As with the number of registrations, the total value of registrations has also been trending downward since 1997.
- ▶ The inflation adjusted value of registrations follows the current value but at a slightly lower level.
- ▶ Although the total value of registrations has been decreasing, the average value of loans has remained fairly constant.
- ▶ The total value of loans registered in 2002 is \$160 million (\$80 million as of November 2003), and the average value is \$34,000 (\$33,000 as of November 2003).
- ▶ In 2002, the average value of FIMCLA loans per applicant, \$41,000, was somewhat higher than the average value per registration, \$34,000. This reflects the fact that applicants may have more than one FIMCLA loan.<sup>22</sup> Nonetheless, the average value of registrations for those with multiple FIMCLA loans is below \$50,000, which is a modest level compared to the purchase price of new equipment.

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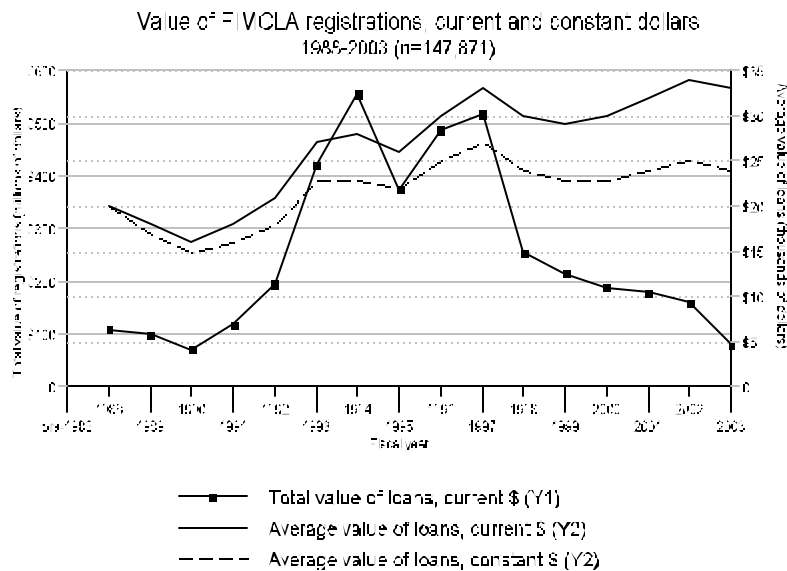
<sup>20</sup>A recent article in the *Economist* (August 14, 2003) confirms this trend in the US residential mortgage industry.

<sup>21</sup>An illustration of this trend is the entry of a Dutch bank (Rabobank) into agricultural finance in the United States. The head of the bank states that “with the farming industry consolidating globally, farmers will want a global financial institution.” *The Economist*, August 28, 2004, p. 68

<sup>22</sup>As discussed throughout the report, several factors may explain the low (in the view of FIMCLA management) average loan amount. For example:

- ▶ FIMCLA is used as part of a financing package.
- ▶ The entire cost of new equipment is not financed since old equipment is used as a down payment.
- ▶ Some loan uses have lower average values.
- ▶ Some lenders use FIMCLA to finance used equipment.
- ▶ The average value of liabilities for agricultural producers is \$210,000, which is below the FIMCLA maximum loan amount of \$250,000. Additionally, liabilities are likely spread across more than one financing source.

- ▶ The median value of loans in 2002 is \$21,617, which reinforces the modest contribution FIMCLA makes to farm finance.<sup>23</sup>



**Figure 2**

As shown in Figure 3, while Saskatchewan has the highest cumulative dollar value of registrations, the average value is lower than that of other regions, except Manitoba. This is likely because a high proportion of Saskatchewan producers are involved in grain production, which is not as capital-intensive as livestock production.

<sup>23</sup>The fact that the median is about \$10,000 less than the average underscores the fact that a few larger loans affect the mean value. Half the borrowers have loans less than the median.

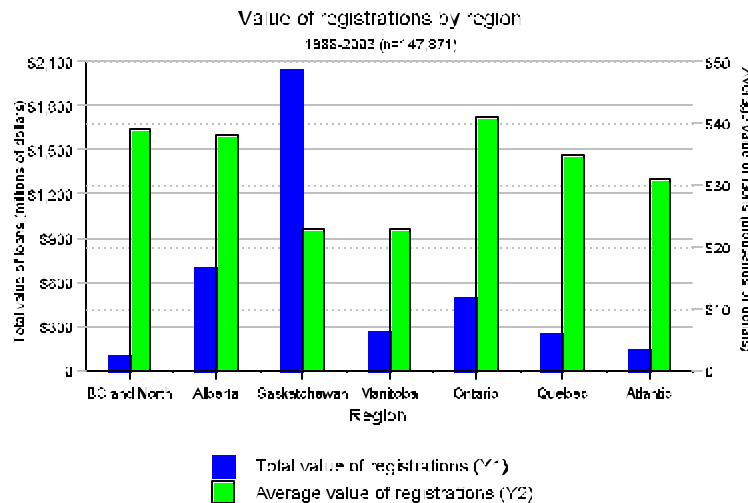


Figure 3

- ▶ Table 3 shows that the average value of loans varies by loan use.
  - On average, the highest valued loans are land, consolidation, and building loans.
  - Some loan uses have low average values (livestock, improvements, and repairs).
  - Over the last three years, the average value of loans for additional land, equipment, and implements has been trending upward.

Use	2000	2001	2002
Additional land	\$56,924	\$58,547	\$64,260
Consolidation	\$54,323	\$52,459	\$50,267
Buildings	\$40,417	\$38,482	\$40,538
Equipment	\$28,162	\$29,897	\$35,616
Implements	\$24,943	\$27,051	\$28,736
Livestock	\$25,931	\$25,981	\$24,327
Improvements	\$21,871	\$18,691	\$21,525
Repairs	\$11,287	\$7,418	\$8,091
Other	\$6,750	\$4,652	\$2,800

- ▶ About 4% of all registrations are valued at \$100,000 or more, and 14% of applicants<sup>24</sup> have received loans valued at \$100,000 or more.

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<sup>24</sup>Note that the figures for applicants consider all loans an applicant has registered with FIMCLA. Thus, an applicant may have paid off a loan and subsequently taken out another.

- ▶ Table 3 reveals a sharp decline in the number of registrations valued at \$100,000 and over.<sup>25</sup>
  - Over time, the number of registrations in each value category has decreased.
  - Few clients are registering loans of \$250,000.

<b>Table 3: Annual registrations by value class (excluding marketing cooperatives (n=139,396))</b>						
Year	< \$100,000	\$100,000 – \$149,999	\$150,000 – \$199,999	\$200,000 – \$249,999	\$250,000	Total (> \$100,000)
	Number of registrations					
1997	14,028	626	172	79	70	947
1998	7,975	244	83	44	46	417
1999	6,893	196	64	31	38	329
2000	5,917	176	47	26	26	275
2001	5,343	169	57	26	23	275
2002	4,387	169	63	24	24	280
2003	2,260	87	27	9	8	131
Total	46,803	1,667	513	239	235	2,654
Note: To demonstrate that few registrations are for loans of more than \$100,000, the last column (Total > \$100,000) sums the number of registrations with loan amounts greater than \$100,000.						

<sup>25</sup>These figures refer to single loan registrations and not multiple registrations for one client.

## Registrations by province

As shown in Table 4, the majority of FIMCLA loans registered are for producers and/or marketing cooperatives in Saskatchewan (61%). Just over 1 in 10 registrations is for producers located in Alberta (13%), and just under 1 in 10 is for producers in Ontario (8%) and Manitoba (8%). The remaining 11% of loans are spread throughout the other provinces.

<b>Table 4: FIMCLA registrations by province, all registrations, 1988-2003</b>		
<b>Province</b>	<b>Number* (n=147,871)</b>	<b>Percent</b>
Yukon	8	0%
Northwest Territories	11	0%
British Columbia	2,571	2%
Alberta	18,591	13%
Saskatchewan	90,410	61%
Manitoba	11,984	8%
Ontario	12,199	8%
Québec	7,302	5%
Newfoundland and Labrador	45	0%
Prince Edward Island	2,460	2%
New Brunswick	1,505	1%
Nova Scotia	781	1%
Unknown	4	0%
<b>Total</b>	<b>147,871</b>	<b>101%</b>
Note: Total may not sum to 100% due to rounding. *The database contains 147,947 registrations, including 76 registrations that were subsequently cancelled. Therefore, this document reports on 147,871 valid registrations.		

## Other characteristics

- ▶ The majority of FIMCLA users are sole proprietors (72%). Slightly fewer than one-fifth of the users are partnerships (18%). The remaining users are cooperatives<sup>26</sup> (6%) and corporations (5%).

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<sup>26</sup>Note that it is suspected that corporations may have been mislabeled as cooperatives when entered into the database, thus inflating the actual number of cooperatives.

- Cooperatives and corporations have a low total dollar value of registrations but a high average value of loans. This is not unexpected since these types of operations tend to be larger than sole proprietors and partnerships.
  
- ▶ Three-quarters of the FIMCLA registrations were made to grains and oilseeds (52%) or hog (24%) operations.<sup>27</sup> The remaining registrations were made to vegetable (10%), dairy (7%), beef (6%), and other (1%) operations.
  - Hogs have a high total dollar value of loans but a low average value compared to other commodities.
  - Relative to other commodities, few loan registrations are associated with fruits, poultry, and pulse crops; however, the loans associated with these commodities tend to have high values. The database does not provide any information to explain this phenomenon. That said, it is reasonable to believe that fruit, poultry, and pulse crop operations are accessing higher-value loans because their production operations are typically capital intensive and therefore may require specialized buildings and equipment for storage, ventilation, drying, etc.
  - Loans used by operations producing grains and oilseeds appear to have a lower proportionate default rate (percent of defaults as a proportion of percentage of total loans) compared to loans used by operations producing other commodities.
  
- ▶ Producers most commonly use FIMCLA loans to purchase farm implements (61%) such as combines, hay balers, tractors, or farm trucks. Another quarter use FIMCLA loans to purchase livestock (15%) or additional land (9%).
  - Implements have a high total value of registrations but a low average value.
  - Higher cost items such as land, buildings, and consolidations have higher average values but lower total values. The total values are lower because the number of registrations in these categories is lower.
  - Loans used to purchase implements appear to have a lower risk of default than loans used to purchase livestock.

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<sup>27</sup>Note that prior to 1999, the FIMCLA database used a combined commodity category for registrations related to beef and hog operations.

### 3.5 Profile of FIMCLA clients

The case studies completed as part of this evaluation provide insight into the types of clients who use FIMCLA. While producers were able to provide some information about their revenues and outstanding debt, they found it difficult to discuss the impact of FIMCLA on their farming operation. Table 5 outlines the case study findings.

- ▶ **Case study one** examines a 200-acre farm located in Québec. The producers have 60 head of cattle and use the land to grow wheat to feed their cattle. The farm is owned by a couple around 60 years of age who have been in the farming business for over 32 years. The couple inherited the farm from the husband's father, and they operate the farm in partnership with their son. They brought their son in as a partner last year with the idea that he would eventually take over and make a living out of the farm. The producers used a FIMCLA loan for about \$60,000 to purchase a new tractor. The equipment it replaces was described as old and inappropriate. The lender assessed the couple's financial situation as risky. Of relatively mature age, the couple has three other loans (no further information was provided when prompted), their salaries were reported by the lender as low, and they were not able to make a down payment on the loan. The lender noted that since the client did not provide a down payment, FIMCLA reduced the guarantee rate from 95% of losses to 76%. The tractor itself was used to secure the loan over a period of seven years.
  
- ▶ **Case study two** involves a mixed farm in Saskatchewan. The farm consists of 3,000+ acres; 50% is owned, and 50% is rented. The main crops grown on the farm are durum wheat, oats, peas, and spring wheat. Fifty head of cattle are raised on the farm. The producer is the sole proprietor of this farm, which was established in 1981. However, the producer initially ran the farm in partnership with his brother. In 1988, the farm experienced some financial difficulty resulting from a drop in commodity prices, drought, and a grasshopper infestation. Consequently, the producer engaged in a volunteer transfer of 13 quarters of land to its lender. At this time, the producer's brother decided to quit farming and the remaining partner decided to continue running the farm as a sole proprietor. The producer then rented this land from the financial institution for a period of about five years. This producer took out a FIMCLA guaranteed loan for \$120,000 to purchase five quarters of land located next to his farm. The lender reported that FIMCLA was the best option for this loan as it would have been difficult for the producer to make a 25% down payment on the loan. FIMCLA was more suitable because it only requires a 20% down payment. The lender noted that the producer used some of the other land he owned as added security for the loan and that the land purchased is of marginal quality and is likely only suitable for cattle.

- ▶ **Case study three** is a cash crop (soy and corn) operation in Ontario. The farm, in operation for 39 years, consists of 1,200+ owned acres and 300 rented acres. The producer runs the farm in partnership with his wife. The producer also runs a small elevator processing business. This producer holds several loans including two mortgages, a consolidation loan, and two term loans. This producer used FIMCLA to purchase a new combine for the farm. The producer used the trade-in of his old combine as a down payment on the loan. The trade-in covered approximately half of the cost of the combine, leaving \$130,000 to finance through FIMCLA. The producer reported that he has had FIMCLA loans in the past and likes the product. He indicated that he specifically asked for a FIMCLA loan when purchasing the combine. The lender described this particular operation as medium-low risk.
  
- ▶ **Case study four** looks at a small farm located in Manitoba. The farm consists of over 150 acres, 150 ewes, and 300 range-fed chickens. The farm also usually has 25 to 30 head of cattle; however, the operator did not purchase any cattle this year because of the BSE crisis. This farm is structured as a sole proprietorship, although the producer's wife owns the land. Along with operating the farm, the producer often engages in off-farm work such as grinding tree stumps and driving a potato truck. His wife works part-time as a hairdresser. This operation began about 30 years ago with 700 acres, a 160 sow farrow to weanling operation, and 300 head of cattle. However, 15 years ago, the hog barn burned in a fire and it was not feasible to rebuild. Seven years ago, the producer downsized his operation because of health concerns. This producer expects to continue farming as long as health allows him to. This producer took out a FIMCLA loan for \$10,000 to purchase 110 head of sheep. This producer does not have any other loans; however, in the past he has, at times, had difficulty making payments on loans. Therefore, the lender suggested the FIMCLA program since the producer's credit history indicated that he is higher risk.
  
- ▶ **Case study five** examines a marketing cooperative located in Ontario. A FIMCLA loan was part of the financing package to establish this cooperative. The cooperative, established in 1997, consists of about 40 Ontario chicken producers. The cooperative purchased a 4,000 square foot processing plant to add value to the poultry its members raise. The cooperative has since expanded the processing plant to 30,000 square feet. The cooperative currently processes about 30% of its members' product. Since it is not able to process all of its current members' products, it is not accepting new members. The financing package the cooperative negotiated to start this business includes a mortgage for the land and building, a loan for equipment, and operating capital. The cooperative's lender suggested using FIMCLA to finance some of the equipment the cooperative was purchasing. The lender noted that FIMCLA was an attractive option because the cooperative was risky since it was a new venture. The cooperative reports

that the FIMCLA loan was for about \$250,000. The account manager for this client (and not the account manager who originally issued the loan) speculated that the loan was limited to \$250,000 because the former account manager was not aware that the maximum loan amount for marketing cooperatives was \$3 million. Another possible explanation is that the FIMCLA loan was part of a financing package offered to the client and the \$250,000 represents the amount the financial institution was not able to lend to the client.

Table 5: Case study overview					
	Case study #1	Case study #2	Case study #3	Case study #4	Case study #5
Profile of operation	<ul style="list-style-type: none"> <li>▶ Quebec</li> <li>▶ 200 acres</li> <li>▶ Wheat (feed)</li> <li>▶ 60 head of cattle</li> <li>▶ Husband and wife partnership</li> <li>▶ Farm inherited from husband's father</li> <li>▶ Farming for 32 years</li> </ul>	<ul style="list-style-type: none"> <li>▶ Saskatchewan</li> <li>▶ 3,000+ acres</li> <li>▶ Durum wheat, oats, peas, spring wheat</li> <li>▶ Sole proprietor</li> <li>▶ Farming for 23 years</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ontario</li> <li>▶ 1,200+ acres</li> <li>▶ Soy, corn</li> <li>▶ Husband and wife partnership</li> <li>▶ Farming for 39 years</li> </ul>	<ul style="list-style-type: none"> <li>▶ Manitoba</li> <li>▶ 150 acres</li> <li>▶ 150 ewes</li> <li>▶ 300 range-fed chickens</li> <li>▶ Sole proprietor (wife owns land)</li> <li>▶ Farming for 30 years</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ontario</li> <li>▶ Marketing cooperative</li> <li>▶ 40 producer-members</li> <li>▶ Poultry processing</li> <li>▶ Established in 1997</li> </ul>
Profile of financial situation	<ul style="list-style-type: none"> <li>▶ Combined income \$70,000</li> </ul>	<ul style="list-style-type: none"> <li>▶ Revenue (2003): \$180,000</li> <li>▶ Debt outstanding (2003): \$320,000</li> <li>▶ Member of financial institution for 4 years</li> <li>▶ Holds two loans used to purchase land, total value of \$180,000, 12 year terms, interest rates of 7.25% and 6.25%</li> <li>▶ Small equipment loans with Farm Credit Canada, interest rate is 0.25% lower than "bank" rate, required down payment is 5% less</li> </ul>	<ul style="list-style-type: none"> <li>▶ Debt outstanding (2004): \$1.5 million</li> <li>▶ Two mortgages: 15 year term, interest rates of 8% and 8.5%</li> <li>▶ Two term loans: used to buy out another farm and purchase equipment, 10 and 15 year terms, interest rates of 7.5% and 6.75%</li> </ul>	<ul style="list-style-type: none"> <li>▶ Member of financial institution for 4 years</li> <li>▶ Operating loan</li> <li>▶ Term loan to pay down short-term debt</li> </ul>	<ul style="list-style-type: none"> <li>▶ Annual revenue \$12 million</li> <li>▶ Mortgage: 15 year term, floating interest rate</li> <li>▶ Operating loan: Floating interest rate</li> </ul>
Risk rating (lender)	<ul style="list-style-type: none"> <li>▶ Risky</li> </ul>	<ul style="list-style-type: none"> <li>▶ Good debt-serviceability but sometimes runs short of cash</li> </ul>	<p>Medium-low risk</p>	<ul style="list-style-type: none"> <li>▶ Original lender not available for comment.</li> </ul>	<p>Average risk, although higher risk at start-up (new business)</p>

<b>Table 5: Case study overview</b>					
	<b>Case study #1</b>	<b>Case study #2</b>	<b>Case study #3</b>	<b>Case study #4</b>	<b>Case study #5</b>
Profile of FIMCLA loan	<ul style="list-style-type: none"> <li>▶ \$60,000</li> <li>▶ Purchase tractor</li> <li>▶ No down payment (reduced guarantee from 95% to 76%)</li> <li>▶ 7 year term</li> </ul>	<ul style="list-style-type: none"> <li>▶ \$120,000</li> <li>▶ Purchase land</li> <li>▶ 20% down payment</li> <li>▶ Interest rate: prime+1%</li> <li>▶ 15 year term</li> </ul>	<ul style="list-style-type: none"> <li>▶ \$130,000</li> <li>▶ Purchase combine</li> <li>▶ Used trade-in for \$130,000 down payment</li> <li>▶ Interest rate: prime + 0.5%</li> <li>▶ 5 year term</li> </ul>	<ul style="list-style-type: none"> <li>▶ \$10,000</li> <li>▶ Purchase 110 ewes</li> <li>▶ Interest rate as per client: prime + 2.5 to 3%</li> <li>▶ Interest rate as per lender: prime + 1%</li> </ul>	<ul style="list-style-type: none"> <li>▶ \$250,000</li> <li>▶ Purchase equipment</li> <li>▶ Interest rate: prime +1%</li> </ul>
Experience with FIMCLA (payment history and/or difficulties)	<ul style="list-style-type: none"> <li>▶ Client missed one payment; made two payments the following month.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Client made required payments.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Lender had to cancel FIMCLA loan because of clerical errors.</li> <li>▶ Lender re-issued loan using one of its own products.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Client missed payments</li> <li>▶ Negotiated compromise settlement to sell ewes to pay off FIMCLA debt</li> </ul>	<ul style="list-style-type: none"> <li>▶ Client made required payments.</li> </ul>
Outcome of loan	<ul style="list-style-type: none"> <li>▶ Replace equipment that was old and inappropriate.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Loan helped producer expand land base and diversify into peas</li> </ul>	<ul style="list-style-type: none"> <li>▶ New combine made farm more efficient - can accept GPS equipment, uses less fuel, and works faster.</li> </ul>	<ul style="list-style-type: none"> <li>▶ None - loan defaulted</li> </ul>	<ul style="list-style-type: none"> <li>▶ Allowed cooperative to purchase equipment it needed to run business (cooperative did not indicate what type of equipment it purchased).</li> </ul>

## **4.0 Findings**

This section of the report draws on all the lines of evidence to respond to each question in the evaluation framework.

### **4.1 Relevance**

#### **4.1.1 Consistency with APF**

*Evaluation question: Are the objectives and mandate of FIMCLA consistent with the APF?*

**Summary response:**

The APF postdates FIMCLA; however, components of its five elements: business risk management, food safety and food quality, environment, renewal, and science/innovation broadly align with the general goals of FIMCLA. At the same time, FIMCLA goals are specific and its eligible uses support some APF elements more than others.

An important caution is that requiring lenders to show how any given loan application supports the APF as well as FIMCLA could discourage program use even further. For programs delivered by third parties, in this case the financial services sector, it is important to be explicit about the scope of eligible activities. The APF is a general agreement, designed to create a framework to guide federal and provincial governments in their efforts to “move agriculture into the 21st century.”

**Details:**

In June 2001, the federal, provincial, and territorial Ministers of Agriculture pledged to jointly develop “an agriculture policy that is comprehensive, integrated and ensures that farmers have the tools to address issues, be competitive and capture opportunities in the areas of science, food safety and environmental stewardship.”<sup>28</sup> The goal of this policy is “to foster an economic and social advantage for Canada to help ensure Canadian producers and agri-food companies not only meet these challenges, but capture the opportunities they present for continued prosperity.”<sup>29</sup>

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<sup>28</sup>Retrieved on October 17, 2003 from [http://www.agr.gc.ca/cb/apf/index\\_e.php?section=info&page=gen](http://www.agr.gc.ca/cb/apf/index_e.php?section=info&page=gen)

<sup>29</sup>Ibid.

Table 6 outlines the APF’s five priority areas and their associated goals. It also identifies the extent to which each priority area of the APF aligns with FIMCLA. (Refer to Section 3.2.3 for a list of FIMCLA’s eligible loan uses.)

<b>Table 6: APF priority areas and goals</b>		
<b>Priority area</b>	<b>Goals</b>	<b>Degree of alignment with FIMCLA</b>
Food safety and food quality	<ul style="list-style-type: none"> <li>▶ To adopt recognized food safety and quality systems throughout the food continuum.</li> <li>▶ To put in place comprehensive tracking and tracing systems throughout the food continuum in order to increase our capacity for targeted, effective responses to potential disease or contamination outbreaks, and to meet consumer preferences and commercial requirements.</li> <li>▶ To share critical food safety and surveillance information among governments.</li> </ul>	<p><b>Medium</b></p> <p><b>Comment:</b> It is conceivable that a FIMCLA loan for equipment would increase the farmer’s capacity to support increased food safety and food quality. The force of these goals is clearly on larger systems.</p>
Environment	<ul style="list-style-type: none"> <li>▶ To reduce water contamination from nutrients, pathogens, and pesticides.</li> <li>▶ To reduce agricultural risks to soil health and reduce soil erosion.</li> <li>▶ To reduce particulate emissions, odours, and greenhouse gases.</li> <li>▶ To ensure compatibility between biodiversity and agriculture.</li> </ul>	<p><b>Medium - High</b></p> <p><b>Comment:</b> Loans for new equipment clearly could be used to reduce contamination. One must recognize that most producers believe that environmental initiatives will cost them money but will not increase profits.</p>
Renewal	<ul style="list-style-type: none"> <li>▶ To enable beginning farmers to acquire the skills and expertise to manage their business and adapt to evolving consumer preferences and new scientific advances.</li> <li>▶ To engage farmers in the continuous upgrading of the skills needed to farm in an evolving sector.</li> <li>▶ To provide farmers with the strategic management skills they need to make their farms as profitable as possible.</li> <li>▶ To provide farmers with access to a wide range of choices to enhance their future quality of life.</li> </ul>	<p><b>Low - Medium</b></p> <p><b>Comment:</b> FIMCLA does not support beginning farmers or skills development. Investing in information technology (IT) systems (hardware and software) could be an eligible use.</p>
Science and innovation	<ul style="list-style-type: none"> <li>▶ To support and increase:               <ul style="list-style-type: none"> <li>- research and development in environment, food safety and food quality, renewal and risk management</li> <li>- the adoption of new economic opportunities generated from innovative agriculturally-based products</li> <li>- collaboration and coordination across market, policy and scientific disciplines, among research organizations, and throughout the agri-food production and processing chain.</li> </ul> </li> </ul>	<p><b>Medium - High</b></p> <p><b>Comment:</b> FIMCLA clearly supports the acquisition of equipment and new technology.</p>

Table 6: APF priority areas and goals		
Priority area	Goals	Degree of alignment with FIMCLA
Business risk management	<ul style="list-style-type: none"> <li>▶ To move from safety nets towards risk management.</li> <li>▶ Business risk management should promote:                             <ul style="list-style-type: none"> <li>- more rapid adoption of the food safety and environmental practices supported by the other elements of the framework</li> <li>- the expansion and diversification of the farm business through new applications of science</li> <li>- the enhancement of managerial and strategic planning skills made possible through renewal.</li> </ul> </li> </ul>	<p><b>Low - Medium</b></p> <p><b>Comment:</b> Once again new equipment (including IT) could be eligible under FIMCLA and could be aligned to the APF.</p>

Note: To ensure the accuracy of the goals, the descriptions have been taken directly from the APF.

In support of the APF’s Business Risk Management priority, AAFC established an "outcome project" for FIMCLA as part of its "planning architecture." The target client for this project is agricultural producers. The immediate outcome is producer participation in lending programs, and the end outcome is increased sector viability and profitability.

The eligible uses of FIMCLA guarantees clearly could be interpreted as supporting the priorities outlined in the APF. For example, FIMCLA guarantees may be used (and in fact have been used by a few producers) for the purchase of manure storage facilities or for building construction or renovation. Both of these uses support the APF’s environment priority.

One could reasonably expect that improved access to credit supports components of the business risk management priority area in that producers could use the guarantee to finance improved food safety and more environmentally-friendly practices. That said, there is no evidence to suggest that this is a priority for producers or that they would choose to use a FIMCLA guarantee loan for these purposes. Additionally, it is difficult to ascertain how FIMCLA could (or that it should) support new applications of science or the enhancement of managerial and strategic planning skills. Given the current structure of FIMCLA, these broader activities or objectives are not within the scope of the Act or program.

Key informants report that FIMCLA has the potential to address all areas of the APF. FIMCLA appears best suited to help producers obtain financing to purchase fixed, tangible assets that they require to carry out initiatives under the APF. Respondents provided several examples of how FIMCLA could be used to support the APF:

- ▶ Food Safety and Quality: investment in capacity to trace products from “*the gate to the plate*”
- ▶ Environment: to finance the purchase of manure storage facilities and establishment of shelter belts

- ▶ Renewal: to finance the purchase of equipment required for electricity generation, machinery upgrades, and improve profitability<sup>30</sup>
- ▶ Business Risk Management: access to credit, different ways of managing risk
- ▶ Science and Innovation: although respondents mentioned this priority area, they did not provide any specific examples of how FIMCLA could address this item.

During the follow-up interviews, lenders further described how APF priorities were or could be linked with FIMCLA loan use. Again, lenders speculated that all areas of FIMCLA could be linked with the APF. Areas most often mentioned include Business Risk Management, Environment, and Food Safety and Food Quality. Specifically, lenders suggested that:

- ▶ Business Risk Management mainly helps lenders manage the risk of the agricultural portfolio. Lenders said that they are able to lend to more producers (or to lend greater amounts) than they could have if FIMCLA did not exist.
- ▶ Under the Environment priority, producers could use FIMCLA to purchase manure storage facilities, fuel storage provisions, and renewable energy sources (i.e., wind energy). It could also be used to help protect water sources.
- ▶ FIMCLA links Food Safety and Food Quality in that producers could use FIMCLA to purchase equipment, update their operation to meet HACCP (Hazard Analysis and Critical Control Point) guidelines, purchase separate storage bins for genetically modified products, etc.
- ▶ Science and Innovation and Renewal links to farm efficiency and modernization, which are goals of FIMCLA.<sup>31</sup>
- ▶ International issues relate to the export of products and include the BSE issue.<sup>32</sup>

FIMCLA is not formally linked to the APF in the sense that its goals can be mapped to the goals of the APF. In fact, to specify a formal linkage may require forcing consistency by specifying and monitoring how assets financed by FIMCLA are used by producers and marketing cooperatives, which would be a complex and costly task.

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<sup>30</sup>Note that respondents' perceptions of how FIMCLA could relate to the "renewal" priority do not reflect the goals of the priority.

<sup>31</sup>See footnote 30.

<sup>32</sup>Note that international issues do not fall under the parameters of the APF. This demonstrates that some lenders do not fully understand the intent of the APF.

Forcing a closer alignment with the APF has implications for FIMCLA management, lenders, and clients:

- ▶ Administration costs may increase since demonstrating consistency with the APF may require a more detailed specification of eligible uses.
- ▶ More complex eligibility requirements may further discourage lenders and clients from using the program.
- ▶ FIMCLA would need to monitor usage of the assets to verify that they are being used in ways that promote the intended APF outcomes and impacts.
- ▶ Finally, if lenders were required to justify loans as supporting the APF, it is possible that “creative” justifications could become more common, leading to increased disputes over claims.

#### **4.1.2 Consistency with needs of agricultural community**

***Evaluation question:** Are the objectives and mandate of FIMCLA relevant to the needs of the agricultural community including marketing cooperatives (e.g., larger farming operations, climate change, ageing farm population)?*

##### **Summary response:**

Due to changing economic and agricultural conditions, FIMCLA has become less relevant to the needs of the agricultural community than it was when it was first established. Program use is declining, and few FIMCLA clients are concerned about their ability to access credit. Additionally, FIMCLA is not available to the sectors of the agricultural community that could benefit from improved access to credit (e.g., beginning farmers and marketing cooperatives with non-farmer investors).

##### **Details:**

As mentioned in Section 1.0, FIMCLA’s objective is to increase the availability of loans for the improvement and development of farms and the processing, distribution, or marketing of farm products by cooperative associations. Given this objective, FIMCLA’s target population is primary producers and marketing cooperatives of any size, in all areas of agriculture.<sup>33</sup>

The first step to assessing whether FIMCLA is relevant to the needs of the agricultural community is to determine the needs of the agricultural community. To do this, interviewers asked FIMCLA clients to identify the main challenges producers like themselves will face over the next five to ten years. Survey

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<sup>33</sup>As noted in Section 3.2.1, FIMCLA excludes beginning farmers, holding companies, companies engaged in financing, and applicants who intend to farm.

results reveal clients have concerns about commodity prices (70%), the cost of inputs such as fertilizer, herbicides, and fuel (53%), and Bovine Spongiform Encephalopathy (BSE) or Mad Cow Disease (23%).<sup>34</sup> Only 3% of respondents have concerns regarding the availability of credit, which suggests that producers are not finding it difficult to access financing. Table 7 lists the concerns respondents most often mentioned.

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<sup>34</sup>This reflects a case of Mad Cow Disease reported in Alberta in 2003, which prompted several countries to ban imports of Canadian cattle and beef. Note that telephone interviews occurred in November and December 2003. At that time, the second discovery of a BSE case in the US linked to Canada had not occurred.

**Table 7: Perceived challenges in next 5-10 years**  
**Q9. What are the main challenges producers like yourself will be facing over the next 5-10 years?**

Perceived challenge	% (n=383)
Commodity prices	70%
Input prices	53%
BSE	23%
Weather	19%
Financial concerns (i.e., cash flow, production costs, cost of equipment/land, etc.)	12%
Government: policy/regulations/exchange rates	7%
Marketing	4%
Pest/disease control	4%
Availability of credit (i.e., availability of loans, interest rates)	3%
Efficiency/yields	1%
Other challenges	6%
None	2%
Don't know/no response	2%

Note: Respondents could provide more than one answer. Total may sum to more than 100%.

The second step to assessing whether FIMCLA is relevant to the needs of the agricultural community is to obtain key informant opinion. Most respondents mentioned that FIMCLA increases the agricultural communities' access to credit through lower interest rates and more flexible repayment terms. That said, some respondents noted that demand for FIMCLA is decreasing, suggesting that FIMCLA may be of lessening relevance to the current needs of producers and marketing cooperatives. Respondents reported that FIMCLA is not relevant to the agricultural community in general, for two main reasons:

- ▶ The maximum available FIMCLA loan limits and the list of eligible uses are too restrictive.
- ▶ Some producers can obtain more favourable interest rates outside of FIMCLA and avoid the registration fees associated with the program.

Many of the respondents who indicated that FIMCLA, in its present form, is not relevant to the needs of the agricultural community agree that, with some revision, FIMCLA could have a continuing role to play in today's agricultural and lending sectors (see Section 4.1.4).

While most respondents believe that the needs of marketing cooperatives are similar to the needs of agricultural producers, some noted that marketing cooperatives tend to need a longer amortization

period (such as 15 years). One lender noted that it can take a marketing cooperative two to three years to generate a positive cash flow, and as such, a desirable financing program for marketing cooperatives would delay the first payment or require interest-only payments for the first couple of years. Several respondents believe that FIMCLA does not support the needs of marketing cooperatives since cooperatives with non-farmer investors are ineligible for the program.

Respondents offered different views on which sectors of the agricultural community need FIMCLA the most. Some believe that FIMCLA should target smaller operations while others suggested that if smaller operations cannot make it on their own, FIMCLA should not be there to “*string them along.*” Many respondents argued that clients who are well established and have a good financial track record do not need FIMCLA since they can obtain financing with lower interest rates outside of FIMCLA; in fact, some respondents noted that preferred clients can obtain interest rates that are below prime. Several respondents recognized that while FIMCLA may not be suitable for established producers, it can be quite important for some groups that are not currently eligible for FIMCLA such as start-up producers and marketing cooperatives with non-farmer investors.

The fact that some respondents, especially lenders, do not believe that FIMCLA is relevant to the agricultural community could partially explain the declining number of FIMCLA registrations. If lenders do not believe FIMCLA meets the needs of producers and marketing cooperatives, they will not suggest the program to their clients. This is problematic for the program because it relies on lenders to suggest the program to their clients. It is important for lenders to want to use FIMCLA because as discussed in Section 4.2.1, clients are largely unaware of FIMCLA independent of information provided from lenders.

External conditions have also affected the relevance and need for FIMCLA. Historic low interest rates prevailing in Canada, increased competition among financial institutions, and the consolidation of farms due to economic pressures have made access to capital easier.

### **4.1.3 Need for program**

*Evaluation question: Is there a continued need for the program?*

#### **Summary response:**

Clients’ need for FIMCLA is clearly much lower now than it was when the program was first established. The sharp decline in registrations, along with the fact that some clients believe that they could negotiate financing with the same (or more favourable) terms outside of FIMCLA, demonstrates less demand for the program. As well, lenders reported that there is greater competition among financial institutions and that increasing numbers of their clients (not necessarily FIMCLA) are able to negotiate very favourable loan terms without the need for a government guarantee.

Borrowers who appear to need financial assistance the most are: young/beginning farmers; those who can only manage a down payment of 20%; those involved in non-traditional (i.e., risky) sectors of agriculture; or those who are purchasing assets that are difficult to seize or do not hold their value. That being said, it is not clear the extent to which these needs are not being met (or would not be met outside of FIMCLA) or that a loan guarantee program such as FIMCLA is the best approach to meeting these needs.

### **Details:**

As noted in Section 3.4.2, the number of FIMCLA registrations is trending downward, which suggests that the need for FIMCLA is not as strong as it was in the past. To help determine whether there is continued need for FIMCLA, it is important to understand when and how lenders and clients use the program.

Lenders reported that they use the same assessment criteria (e.g., equity position of client, debt serviceability, etc.) for all loans. They typically use FIMCLA for:

- ▶ equipment loans because FIMCLA offers a repayment period of up to 10 years while traditional financing typically offers repayment periods of five to seven years. Some also mentioned that financial institutions will opt to use FIMCLA for older equipment.
- ▶ clients who are only able to make a down payment of 20% since traditional loans often require a down payment of 25-35% or, in some cases, up to 50%.
- ▶ young producers with less experience farming, security, and equity.
- ▶ non-traditional sectors of agriculture such as elk and white-tailed deer which are more risky.
- ▶ loans where it can be difficult to seize assets in the event of a default such as renovations, repairs, livestock, and fencing.
- ▶ loans where the value of the asset is lower than the value of the loan; for example, \$40,000 in renovations may only increase the value of an asset by \$20,000.<sup>35</sup>

Based on these considerations, lenders are most likely to use FIMCLA for clients that pose a higher risk than the financial institution is willing to accept. To assess risk, many lenders are using a technique

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<sup>35</sup>FIMCLA management notes that this loan use would be ineligible for the guarantee unless the borrower offered other security to compensate for the total value of the loan.

known as credit scoring.<sup>36</sup> This risk management technique enables lenders to identify the type of client requesting credit and therefore manage risk more successfully. As such, the terms and conditions a client receives on a loan are dictated by the credit score. Lenders indicated that they will suggest FIMCLA to clients whose credit score is lower than they are comfortable with or to clients who can receive more favourable terms and conditions through FIMCLA.

The majority of lenders report that clients could probably have qualified for financing without FIMCLA, but may not have received the same terms and conditions on the loan. Outside of FIMCLA, clients may have been charged a higher interest rate<sup>37</sup> or been required to provide a larger down payment or additional security.

An additional methodology used to test for continued need was to ask clients if they went to their financial institution today, would they be able to arrange for a \$100,000 loan with good terms including an interest rate of prime plus up to 1%. About half (54%) believe that they could negotiate a loan with these terms. Those 141 respondents who did not think that they could negotiate this loan thought that there would be a *requirement for more collateral* (55%), *the loan would be for less than the full amount* (40%) or they would be charged a *higher interest rate* (39%).

Clients also offered opinions as to whether their FIMCLA-guaranteed loan would have been approved if the program was not available. Over 8 in 10 (84%) believe that their loan would have been approved. Reasons for this belief include having a good credit rating (35%), having a good relationship with their lender (28%), and having sufficient capital, assets, or collateral (22%). The 23 respondents who did not believe their loan would have been approved said it was because they did not have enough collateral or down payment (24%), had a heavy debt load (12%), or had poor credit (12%).

Respondents then indicated whether they thought that their loan would have had the same terms and conditions if it had not been FIMCLA guaranteed. Slightly more than one-quarter of respondents (27%) believe that their loan would have had the same terms and conditions, suggesting that FIMCLA may not be relevant for these clients. The 6 respondents in 10 (58%) who did not think the loan would have had the same terms and conditions said that the loan may have had a higher interest rate (82%), required a larger down payment (17%), or had a shorter repayment period or required more frequent payments (16%). Note that 15% of respondents could not provide a response to this question.

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<sup>36</sup>Although the lender interviews concluded that some lenders are using credit scoring, it is not possible to determine how many lenders are using credit scoring and to what extent.

<sup>37</sup>When using FIMCLA, most lenders automatically apply the maximum allowable interest rate. According to lenders, the reasons for this are: prime + 1% is a competitive rate, the financial institution cannot make a profit if it offers a lower rate, and the risk associated with clients using FIMCLA does not warrant a lower rate. Those who do not automatically apply the maximum allowable interest rate said that they will occasionally offer a “good” client a lower rate or they try to give their client a better rate because FIMCLA is government guaranteed.



Telephone interviewers also asked respondents which of 11 expenditures they were planning in the next year, the next five years, or not in the next five years.

- ▶ The top anticipated expenditures in the next year include:
  - *land development* (37%)
  - *major repair or overhaul* (30%)
  - *building construction, renovation, or repair* (29%)
  - *purchase of breeding livestock or beestock* (25%).
  
- ▶ The main expected expenditures in the next five years are:
  - *building construction, renovation, or repair* (46%)
  - *purchase of new farm implements* (45%)
  - *purchase of land now rented or leased* (42%)
  - *purchase of other additional land* (41%).
  
- ▶ Many are not planning the following expenditures in the next five years:
  - *purchase of supply managed commodity quotas* (92%)<sup>38</sup>
  - *purchase or upgrading of manure storage facilities* (89%)<sup>39</sup>
  - *purchase or installation of electrical systems or fixed equipment* (80%).

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<sup>38</sup>Note that the fact that the majority of respondents are not planning to purchase supply managed commodity quotas or manure storage facilities in the next five years may reflect the fact that many of the survey respondents are grain farmers in Saskatchewan. However, it is also important to recognize that producers with these characteristics are the dominant users of FIMCLA.

<sup>39</sup>Ibid.

**Table 8: Future plans**  
**Q12. Please tell us if your farming operation is planning any of the following in the next year, the five years, or not within the next five years.**

Future plans	Within next year	Within next five years	Not within next five years	Don't know/ no response
a. Purchase of new farm implements	17%	45%	36%	1%
b. Purchase or installation of electrical systems or fixed equipment	6%	14%	80%	1%
c. Purchase of land you now rent or lease	9%	42%	46%	3%
d. Purchase of other additional land	4%	41%	49%	6%
e. Purchase of breeding livestock/beestock	25%	24%	50%	1%
f. Land development	37%	24%	39%	1%
g. Building construction, renovations or repair	29%	46%	24%	1%
h. Major repair or overhaul	30%	34%	35%	2%
i. Purchase or upgrading of manure storage facilities	2%	8%	89%*	1%
j. Purchase of supply managed commodity quotas	2%	4%	92%*	1%
k. Purchase of feeder livestock	17%	19%	62%	2%

\* Note: Few clients are planning the purchase of manure storage facilities or quota in the next five years because 72% of the clients surveyed are from Saskatchewan (where the predominant agricultural activity is grain production). However, the client survey sample closely represents the characteristics in FIMCLA's client base, and this table presents a good picture of clients' future plans.

Respondents then indicated if they were planning any other major expenditures in the next year. Over 8 in 10 (83%) said that they were not planning any other major expenditures. Those who were, most frequently said that they were planning to purchase inputs (5%) or fixed equipment (3%). Interviewers also asked respondents what other major expenditures they were planning in the next five years. About three-quarters (74%) said that they were not planning any other major expenditures. Most often, those who were expecting additional expenditures said it would be for implements (7%), buildings (4%), or fixed equipment (3%).

#### **4.1.4 Potential amendments**

**Evaluation question:** *Is there a need to amend FIMCLA to include provisions for (but not limited to): beginning farmers, purchase of land previously leased or rented, loan limit increases, processing-related ventures, 100% financing of new manure storage facilities, ad valorem taxes and duties, supply managed commodity quota?*

#### **Summary response:**

Under the assumption that FIMCLA would be retained, current FIMCLA regulations offer several opportunities for amendments. This section offers suggestions for revisions based on key informant

opinion. The options and recommendations section of this report (Section 5.0) further discusses these suggested improvements.

**Details:**

As mentioned in Section 4.1.2, some respondents said that there is a continued need for FIMCLA, provided that some amendments are made to the program. To help determine whether amendments should be made to FIMCLA, interviewers asked clients, lenders, and key informants what changes (reflective of the amendments suggested by the lending community) they would like to see made to the program. While key informants provided a number of suggestions, their responses indicate no clear course of action.

On the other hand, many lenders argued that FIMCLA requires several amendments. Most commonly, respondents suggested that the FIMCLA loan limit of \$250,000 for individual producers is too low. As part of the follow-up interviews, lenders explained why the maximum loan limit should be increased. They reported that farms are becoming larger and that, as a result, their financing needs are increasing. Lenders also noted that the cost of farming in general is increasing and that, as a consequence, farm debt is increasing. For example, they asserted that a combine alone can cost more than \$250,000 and that it is not uncommon for land purchases to exceed \$400,000. In addition, buildings and quota purchases can cost upwards of \$300,000. As such, a producer can reach the FIMCLA maximum amount with just one purchase. To further explore the issue of maximum loan limits, lenders participating in a follow-up interview were asked who their potential clients would be if the FIMCLA maximum was increased. Most lenders indicated that their client profile would not change. They would simply use FIMCLA to lend more money to the same clients. The loan uses also would not change; clients would continue to use FIMCLA loans to purchase equipment, land, buildings, livestock, etc. Despite these comments, statistics obtained from the FIMCLA database do not support the need to increase the maximum loan limits. According to the database, few clients are reaching the FIMCLA maximum of \$250,000. In fact, the average value of loans is below \$50,000.

To help determine whether producers are not accessing FIMCLA because the maximum loan limit is too restrictive, interviewers asked lenders participating in a follow-up interview how many requests from farmers for loans greater than \$250,000 their financial institution had rejected in the past five years. Several lenders did not have access to information on rejection rates, and those that did were only able to provide anecdotal evidence or “guesstimates.” Most producers who provided a response estimated that they rejected 10 loans or fewer per year, although a few said that they rejected between 30 and 50 loans per year. It is important to note that the estimates lenders provided in response to this question may represent their own personal client portfolio, the portfolio of one branch of the financial institution, or the financial institution as a whole. Regardless, it does not appear that applications are rejected because the maximum FIMCLA loan limit is too restrictive. Rather, applications, whether FIMCLA or not, are typically rejected because of debt serviceability or cash flow issues (i.e., the lender does not believe that the applicant will be able to make payments on the loan).

Lenders also argued that the list of eligible uses for FIMCLA is too restrictive and should be expanded to include the purchase of supply managed commodity quota, financing of operating capital, the purchase of feeder livestock, the purchase of any land (not just additional land), financing of manure storage facilities, and ad valorem taxes (as indicated in the CBA's letter to FIMCLA management). During the follow-up interviews, lenders pointed out that demand for these uses can vary across Canada. For example, demand for financing supply-managed commodity quota is more prominent in Ontario and Quebec than in Saskatchewan. They also suggested that demand for financing manure storage facilities could increase depending on the environment priority of the APF. As part of the follow-up interviews, lenders also estimated how many of their current clients (not just FIMCLA clients) have loans over \$250,000 for these purposes. Most did not have access to this information but said that at least some of their clients have loans for these purposes. However, it is not clear for how many of these clients the loan amount exceeds \$250,000.

Some also suggested revising the eligibility criteria to include beginning farmers and marketing cooperatives with non-farmer investors, and to increase the amount of purchase price that can be financed to 85% or 90%. Note that lenders did not mention the issue of ad valorem taxes (although one program manager mentioned this issue).

While many respondents suggested revisions to FIMCLA, some argued against specific amendments. For example:

- ▶ One respondent questioned the need to extend FIMCLA to beginning farmers since establishing a farm is no different than establishing any other type of business.<sup>40</sup>
- ▶ While many agreed that FIMCLA could be expanded to include new generation cooperatives,<sup>41</sup> a few respondents cautioned that new generation cooperatives are high risk due to their poor management.
- ▶ Several key informants do not believe that FIMCLA should include the purchase of quota as an eligible use because quota has no value and countries such as the United States and European Union are continually lobbying for the removal of supply management at World Trade Organization negotiations.

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<sup>40</sup>Key informants noted that the rationale for excluding beginning farmers from FIMCLA at the onset of the program was that they typically do not have equity and are inherently more risky than established agricultural producers.

<sup>41</sup>New generation co-ops (NGCs) are similar in structure to marketing cooperatives; however, one important difference is that NGCs may have non-farmer investors.

- ▶ Some financial institutions do not allow producers to finance ad valorem taxes since they often receive a rebate for these charges (i.e., GST rebate). Lenders suggested that producers who wish to finance these charges can use an operating loan for this purpose.

Some respondents noted that certain aspects of the FIMCLA process required amendment, although they did not suggest a strategy for revising the program. Areas that respondents said require revision include:

- ▶ changing the definition of a beginning farmer so that an existing farm operation that changes its operating structure is not considered a start-up operation. This may also include easing the requirement for land ownership.
- ▶ amending the program guidelines so that if a partnership is dissolved and the financial institution is following normal business practices, the remaining partner/client does not have to pay out the loan.
- ▶ expanding the time limit by which clients must make purchases.
- ▶ modifying the processes that a lender must follow for revision of loan terms if a loan defaults.

To assess which suggestions carry merit, interviewers asked clients if they had ever been in a situation where they needed a FIMCLA guarantee but the purpose was not eligible. About 1 respondent in 6 (17%) reported having been in a situation in which s/he needed a FIMCLA guarantee but the purpose of the loan was not eligible for the program. These 32 respondents reported that the following uses were not eligible for a FIMCLA loan: land purchases (n=6), purchase of vehicle/farm trucks (n=4)<sup>42</sup>, and operating costs (n=3). Other responses, each mentioned by only one or two respondents, include: line of credit, buildings, renovations/repair, equipment/machinery, consolidation/refinancing, and livestock. See Table 9.

<b>Table 9: Uses that are difficult to finance</b>	
<i>Q29. FIMCLA only guarantees loans for certain purposes. Have you ever needed a loan where a FIMCLA guarantee would have helped, but the purpose of the loan was not eligible for FIMCLA?</i>	
<i>Q30. [If yes] What purpose was not eligible?</i>	
	<b>% (n=188)</b>
<b>Purpose difficult to finance, but not eligible for FIMCLA</b>	
Yes	17%
No	75%
Don't know/no response	8%
<b>Purpose that was not eligible (n=32)</b>	
Land purchases	19% (n=6)
Vehicles/farm trucks	13% (n=4)
Operating costs	9% (n=3)
Other	41% (n=13)
Don't know/no response	19% (n=6)

<sup>42</sup>Note that the purchase of farm trucks is an eligible use under FIMCLA.

As Table 10 shows, interviewers then offered respondents five scenarios to evaluate whether a FIMCLA guarantee would be helpful.

- ▶ Over 9 in 10 respondents (95%) said that FIMCLA would be helpful for *purchasing equipment or financing improvements*.
- ▶ Almost 9 in 10 (88%) said that it would be helpful for *purchasing land previously leased or rented*.
- ▶ About 6 in 10 said that it would be helpful if they were:
  - *buying a new manure storage facility* (63%)
  - *a member of a marketing co-operative that needed financing* (60%)
  - *buying supply managed commodity quotas* (57%).

<b>Table 10: Demand for other uses</b>			
<b>Q31. I am going to provide you with a series of situations. For each situation, please tell me if you or your operation would benefit from a FIMCLA-guaranteed loan.</b>			
<b>Other uses</b>	<b>Yes</b>	<b>No</b>	<b>Don't know/no response</b>
a. Purchase equipment or finance improvements	95%	3%	1%
b. Buy supply managed commodity quotas	57%	24%	19%
c. Purchase land previously leased or rented	88%	7%	5%
d. Buying a new manure storage facility	63%	28%	9%
e. Member of a co-operative that needed financing	60%	18%	22%

Many clients indicated that they (or their operation) would benefit from a FIMCLA-guaranteed loan for the uses tested; however, this does not mean that they are planning any of these purchases or improvements within the next five years (see Table 8). Responses to this question simply imply that if a producer were to obtain a loan for one of these purposes, a FIMCLA-guaranteed loan may be beneficial. These responses do not imply that the respondents would require or use a FIMCLA guarantee to acquire the loan.

## **4.2 Design and delivery**

The questions in this part of the framework deal with operational and process features of FIMCLA.

### **4.2.1 Awareness of FIMCLA**

*Evaluation question: What is the level of awareness of FIMCLA among lenders?*

#### **Summary response:**

Lenders are well informed about FIMCLA and its operation, although there are some difficulties with the default and claims processes. It is not clear whether these difficulties are the result of a lack of awareness of the processes or whether they are simply a result of the processes being too onerous for lenders.

#### **Details:**

Lenders indicated that they are sufficiently aware of FIMCLA.<sup>43</sup> They noted that their financial institution provides them with in-house training on the program.<sup>44</sup> A couple of interviewees mentioned that about two years ago, representatives of FIMCLA came to their institution and gave them a seminar on the program. Respondents found this seminar very useful and would appreciate additional seminars in the near future. As will be discussed in Section 4.2.2, improvements could be made in terms of communication between lenders and FIMCLA as well as between financial institutions' head offices and branches. Additionally, some lenders have concerns regarding the default and claims processes (see Section 4.3.1). These difficulties may result from a lack of awareness of the processes or it could simply result from the fact that some lenders find the processes complex and time consuming.

*Evaluation question: What is the level of awareness of FIMCLA among clients?*

#### **Summary response:**

The agricultural community, both agricultural producers and marketing cooperatives, is not well aware of FIMCLA. However, lenders issuing FIMCLA loans make sure their clients are aware that they are receiving a FIMCLA guaranteed loan. This reflects the fact that FIMCLA relies on lenders to suggest

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<sup>43</sup>Note that this paragraph focuses on FIMCLA guarantees issued to producers since few respondents had experience lending to marketing cooperatives. While few lenders have experience lending to marketing cooperatives (many have not even received an application from a marketing cooperative), they appear to be aware of this aspect of the program.

<sup>44</sup>A few respondents noted that the need to train staff can deter financial institutions from using FIMCLA.

the guarantee to clients. Historically, the FIMCLA guarantee has not been a product that clients request.

**Details:**

Lenders agreed that, before obtaining a FIMCLA loan, clients/producers are not sufficiently aware of FIMCLA.<sup>45</sup> However, they also noted that when receiving a loan, producers are 100% aware that it is FIMCLA guaranteed because lenders tell clients that the loan they are receiving is FIMCLA guaranteed and explain to them why this is the best option. Additionally, clients are thought to be aware of the guarantee because they must sign an additional form and pay a registration fee. Lenders also reported that, two or three months after receiving the loan, many clients forget that they have a FIMCLA-guaranteed loan. Given FIMCLA's delivery mechanism, this is a product that lenders will suggest to their clients; it is not a product that clients will request. Lenders believe that this delivery mechanism has been effective. They indicated that if they believe FIMCLA will benefit their clients, they will suggest it as an option.

To test agricultural producers' unaided awareness (not necessarily FIMCLA clients), telephone interviewers asked 117 respondents if they had heard of FIMCLA. Few respondents (n=28) had heard of the program. Interviewers then provided those 89 respondents who had not heard of the program with a brief description of FIMCLA and, again, asked them if they had heard of the program. Following this description, a few additional respondents (n=14) recalled hearing of the program.

To test clients' awareness of FIMCLA directly, interviewers asked respondents whether they recalled having heard of FIMCLA before they were contacted about this evaluation. About half (49%) recalled having heard of FIMCLA before the evaluation. As shown in Table 11, most of the 188 respondents who had heard of FIMCLA before the evaluation (80%) said that they found out about it when they applied for a loan.

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<sup>45</sup>Some respondents said that clients in Saskatchewan are generally more aware of the program than elsewhere. This is reflected in the higher uptake rate in the province.

<b>Table 11: Awareness before evaluation</b>	
<b>Q4. Before you were contacted for this evaluation, were you aware of this program?</b>	
<b>Q5. Can you recall where you first heard about FIMCLA?</b>	
	<b>% (n=383)</b>
<b>Aware of FIMCLA before evaluation</b>	
Yes	49%
<b>Where first heard of FIMCLA (n=188)</b>	
When received loan	80%
Word of mouth	5%
Past experience	3%
Written material	3%
Cannot recall/don't know/no response	9%

Interviewers also tested respondents' recalled awareness of FIMCLA at the time of their loan application. Almost 7 respondents in 10 (69%) indicated that they were aware that they were applying for a FIMCLA-guaranteed loan. Virtually all (95%) of the 264 respondents who were aware that they were applying for a FIMCLA loan said that it was because the bank told them so.

Another aspect of client awareness that is important to explore, is their understanding of loan guarantees in general as well as FIMCLA specifically. Clients believe that loan guarantees reduce financial institutions' risk of lending (41%), reduce or guarantee<sup>46</sup> the interest rate charged on a loan (23%), or increase the availability of credit (15%). More than one-quarter (27%) did not know or could not provide a response. See Table 12 for a complete list of responses.

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<sup>46</sup>It is not clear that respondents who said FIMCLA "guarantees" the interest rate recognize that FIMCLA can reduce the interest rate on a loan. Therefore, both the terms "guarantee" and "reduce" are used to describe comments relating to interest rates.

<b>Table 12: Objective of loan guarantees</b>	
<b>Q16. Please describe, in your own words, what a loan guarantee does.</b>	
<b>Purpose of loan guarantee</b>	<b>% (n=383)</b>
Reduces risk for lender	41%
Reduces/guarantees interest rate	23%
Increases access to credit	15%
Helps producers make purchases	7%
Guarantees producer will get money	3%
Gives confidence	3%
Lowers down payment	3%
Lowers collateral requirement	2%
Does not help producers	1%
Other	8%
Don't know/no response	27%
Note: Respondents could provide more than one answer. Total may sum to more than 100%.	

Respondents also reported, from what they have been told or from what they understand, how FIMCLA is supposed to help producers like themselves.

- ▶ More than 6 respondents in 10 reported that FIMCLA is intended to increase producers' access to credit or provide better terms on loans (i.e., lower interest rates).
- ▶ Just under 1 in 10 (8%) simply said that it is a government guarantee.
- ▶ About 3 respondents in 10 did not know or could not respond.

Some of the “other” responses provided include providing benefits to the farming operation (4% - i.e., helping to expand/diversify farm or improve cash flow) and reducing risk to lenders (3%). See Table 13.

<b>Table 13: Perceived purpose of FIMCLA</b> <i>Q7. From what you have been told, or from what you yourself understand, how is the FIMCLA program supposed to help producers like yourself?</i>	
<b>Perceived purpose of FIMCLA</b>	<b>% (n=383)</b>
Provide access to credit/better terms on loans	62%
Government guarantee	8%
Provide benefits to farming operation	4%
Reduce risk to lenders/increase confidence	3%
Does not help producers	1%
Don't know/no response	29%
Note: Respondents could provide more than one answer. Total may sum to more than 100%.	

Although client awareness of FIMCLA is low, lenders appear to be informing them of the program.

**Evaluation question:** *Should steps be taken to improve clients' and/or lenders' awareness of FIMCLA?*

**Summary response:**

Lenders are sufficiently aware of FIMCLA, and therefore, improving lenders' awareness of FIMCLA is not necessary. However, continuous updates on FIMCLA could help keep lenders informed of program process and alert them to policy changes. This may improve lenders' ability to correctly and efficiently execute defaults and claims processes. It may also increase lender uptake of FIMCLA.

The agricultural community is not widely aware of FIMCLA. Nonetheless, it is arguable whether steps are needed to improve awareness because, even if the agricultural community is aware of FIMCLA, it is still up to the lender to determine if FIMCLA is a product it wants to use for a particular client. Even if a client requests a FIMCLA-guaranteed loan, it does not mean the lender will issue this type of loan. The lender may suggest or “talk” the client into another product that is, in the view of the lender, more appropriate for the client. Given this, “client” awareness of FIMCLA is not as important as lender awareness since the program relies on lenders to determine if FIMCLA is an appropriate product for their clients. Additionally, given the current lending environment, it seems that the primary benefit of increasing the producers' and marketing cooperatives' awareness of FIMCLA is the knowledge that

AAFC is supporting the agricultural community (although this was not the primary benefit or intent of the program when it was first established).

**Details:**

Many respondents reported that FIMCLA has undertaken a number of activities to inform the agricultural community – including lenders – of the program. Examples include meeting with lenders, the Canadian Bankers Association, producers groups, and cooperatives. As well, FIMCLA attends trade shows, distributes printed materials such as brochures and newsletters, and maintains a web site. Despite these promotional activities, some respondents believe that clients and lenders are not sufficiently aware of FIMCLA.

Some respondents mentioned that it is more important to focus on the lending community since they are the ones suggesting FIMCLA to clients. Interviewees also noted that there is an ongoing need for promotion to lenders because of the employee turnover that financial institutions experience.

Marketing cooperatives' use of FIMCLA has been low. One explanation is that marketing cooperatives have not made extensive use of FIMCLA simply because few marketing cooperatives exist. Another possible explanation is that, according to some key informants, FIMCLA did not extensively market the marketing cooperatives aspect of the program because claims for these types of organizations tend to be large. An alternative explanation is that some financial institutions are under the impression that lending to marketing cooperatives is riskier than lending to producers. During the follow-up interviews, a few lenders stated that marketing cooperatives are more risky than other forms of farm ownership because they perceive the individual producer member as investing as little as possible in the cooperative. This means that it is difficult for the financial institution to collect on a loan if the marketing cooperative defaults because individual members are not held financially liable for the loan. Another impediment to increased use by marketing cooperatives is the ineligibility of operations with non-farmer members.

In addition to widening the eligibility, other measures to increase participation of marketing cooperatives include continuing to inform and educate the agricultural community (both agricultural producers and marketing cooperatives) and lenders about FIMCLA. As one lender noted, account managers may not think to use FIMCLA for marketing cooperatives since they do not have a good understanding of this form of agricultural ownership.

In terms of the FIMCLA program as a whole, lenders may benefit from further explanation of the processes they are required to complete in the event of a default or claim. Additionally, client interest in FIMCLA may increase if they knew more about the program.

## **4.2.2 Administration processes**

*Evaluation question: What processes are in place to facilitate communication between FIMCLA and lenders? How effective are these processes?*

### **Summary response:**

FIMCLA uses written material (including its web site) and a 1-800 information line to communicate with lenders. While these processes are generally effective, key informants suggested a few improvements.

### **Details:**

The main sources of information on FIMCLA are the Lender's Guidelines booklet, a 1-800 information line, and a web site. Many respondents reported that FIMCLA also distributes information packages to lenders' head offices. However, they noted that this is not an effective process since lenders may distribute their own bulletins about FIMCLA policies and/or decisions to their branches instead of the FIMCLA-provided materials. These lender-produced bulletins are not official FIMCLA correspondence and therefore may or may not be accurate. Another problem is that the processes some lenders use to transfer information from head offices to individual branches may not be efficient.

Some lenders noted that few mechanisms are in place to communicate with and provide feedback to FIMCLA. Those that are in place are perceived as weak. For example, a few lenders mentioned that they receive varying opinions from FIMCLA staff when questions are asked. Additionally, some lenders reported the need to improve communication regarding recent changes or policy decisions related to FIMCLA. It is not clear whether the need for improved communication is on behalf of FIMCLA administration or lenders. It appears that FIMCLA administration provides new information on the program to financial institutions' head offices, which is then passed on to individual branches. A couple of respondents suggested that an interactive web site or designated contacts for lenders could help address these issues.

A few interviewees noted that although they have a copy of the Lender's Guidelines, they would like additional written information about the program. Most often, respondents said that they would like a checklist of things they need to do and obtain when issuing a FIMCLA guarantee.

For the most part, lenders appear to have access to the information they need to administer FIMCLA and do not have difficulty accessing assistance from FIMCLA. However, there have been instances when lenders have received conflicting information from FIMCLA.

**Evaluation question:** *What processes are in place to monitor performance? How effective are these processes?*

**Summary response:**

FIMCLA has not implemented formal processes to monitor performance, and it has not finalized a Results-based Management and Accountability Framework (RMAF) or a Risk-Based Audit Framework (RBAF) for the program. Although FIMCLA has established several service delivery standards, it does not monitor whether it is meeting these standards. Given this, FIMCLA's current performance monitoring processes are not effective.

**Details:**

Some key informants noted that FIMCLA is in the process of developing its RMAF/RBAF. Since these documents are not finalized, FIMCLA does not have formal processes in place to monitor performance. Once these documents are finalized, FIMCLA may have defined performance measurement standards and can then begin to monitor its performance.

At the time of this evaluation, FIMCLA's performance measurement strategy can be characterized as informal and tends to revolve around service delivery standards. According to key informants, current service delivery standards are:

- ▶ registration turnaround of 1-2 days
- ▶ preliminary review of claims processing in 1-2 weeks
- ▶ compromise settlements finalized in 5 days.

However, FIMCLA performance in relation to these service delivery standards is not monitored.

### **4.2.3 Performance outcomes**

**Evaluation question:** *What are the outcomes (performance measurement) for the key managerial activities in terms of: providing support to lenders, assessing and processing lender claims, recovering FIMCLA losses, and negotiating compromise settlements?*

**Summary response:**

FIMCLA has not implemented a formal performance measurement strategy. Thus, it is not possible to measure and/or comment on the outcomes of this strategy. That said, one area in which FIMCLA's performance appears to be declining is in terms of recovering FIMCLA losses.

**Details:**

This question was intended to identify and assess the outcomes associated with FIMCLA's key managerial activities. However, since FIMCLA has not implemented a formal performance measurement system for these activities, it is not possible to measure and/or discuss them. Thus, the response to this question discusses several of the less formal processes FIMCLA uses to support its key managerial activities.

*Providing support to lenders*

FIMCLA has attempted to provide lenders with the support they need to administer FIMCLA. Lender guidelines, information sessions, and other printed materials are available to financial institutions involved in the administration of FIMCLA. Lenders have little difficulty registering FIMCLA loans and completing the application forms; however, some lenders find the default and claims processes more complex and time consuming. A few lenders mentioned receiving conflicting information regarding program guidelines and procedures from FIMCLA. Lenders may benefit from additional information or training on the default and claims requirements and procedures.

*Assessing and processing lender claims/recovering FIMCLA losses*

It is important to note that FIMCLA program staff do not handle the claims recovery process; rather, it is handled by the AAFC's Corporate Management Team. It is not clear whether there are formal processes to recover losses. If they exist, these processes should be outlined in the program's RBAF. However, as of this report, FIMCLA had not developed an RMAF or RBAF.

According to recoveries staff, the process involves several steps. The recoveries team receives files requiring recoveries from FIMCLA. These files contain a summary report, including the original amount of the loan, amount outstanding, whether a compromise settlement was negotiated (and the details), and whether there was a bankruptcy. Staff aim to make initial contact with the individual responsible for loan within 30 days and complete the recovery within two years (although some files have been active for more than 12 years). Recoveries staff continue to try to collect on a loan as long as they are not statute barred (each province has its own guidelines, but the average is two to six years). To date, formal service delivery standards have not been established.

As will be discussed in Section 4.6, FIMCLA's recovery of claims paid out has been declining. Recoveries staff were unable to explain why the recovery rate of claims is declining. They speculate that it is because: 1) they are understaffed<sup>47</sup> or 2) producers are simply not able to pay given the current

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<sup>47</sup>The recoveries team includes about eight officers. Recoveries officers are responsible for 10 to 15 programs including FIMCLA.

economic environment. That said, staff could not provide any evidence to substantiate this. The recoveries team does not record any statistics, and it does not provide FIMCLA management with any written reports. Records of this sort may help determine why recoveries have been declining.

#### *Negotiating compromise settlements*

Lenders, FIMCLA administration, and the Department of Justice (DOJ) are involved in negotiating compromise settlements. Lenders submit proposed compromise settlements to FIMCLA. FIMCLA reviews the proposals and forwards the ones it agrees with to the DOJ for final approval. The DOJ must approve all compromise settlements, regardless of the amount outstanding. Respondents noted that this can be a lengthy process.

#### **4.2.4 Response to OAG recommendations**

*Evaluation question: To what extent have the recommendations presented in the 1999 Report of the Auditor General (OAG report), Chapter 11 - Agricultural Portfolio-User fees been addressed?*

##### **Summary response:**

Through its risk analysis study (2001-2002), FIMCLA responded to the first recommendation included in the OAG report; however, it has not fully addressed the second recommendation.

##### **Details:**

###### *Background*

In 1999, the Office of the Auditor General (OAG) conducted an audit on activities surrounding user charges over the past five years in AAFC, the Canadian Food Inspection Agency (CFIA), and the Canadian Grain Commission (CGC). AAFC's Market and Industry Services Branch has only one user charge — the charge to register FIMCLA-guaranteed loans. The government defines external user charges as “all non-tax revenues related to the provision of goods, regulatory and non-regulatory services, or rights and privileges, from all sources, whether generated in Canada or abroad, from persons or organizations external to the federal government.”<sup>48</sup>

###### *OAG recommendations and AAFC's response*

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<sup>48</sup>Report of the Auditor General. User Charges. September 1999, pp. 11-7.

The OAG report included 17 specific recommendations,<sup>49</sup> all of which are applicable to AAFC. Many of the recommendations surround issues of costing capabilities, service standards, fee structures and their impact, and cumulative impact studies.

AAFC has initiated processes to address each of the OAG's recommendations. The two recommendations that have a direct impact on FIMCLA are:

1. The organizations should take steps to improve their costing capability in order to improve their management of user charges and to enhance public confidence in the administration of user charges.
2. The organizations should improve public information on the likely impacts of proposed fees, including administrative and other costs and monetary and non-monetary benefits.

To address the first recommendation, FIMCLA undertook a risk analysis study. The objectives of the study were:

- ▶ “the measurement and forecast of FIMCLA expected losses as a means of assessing the financial exposure and contingent liability of the Minister and Government under FIMCLA
- ▶ assessment of the FIMCLA fee structure and its impact on the maintenance of full-cost recovery
- ▶ initiation of a flexible electronic data system capable of addressing the first two objectives on a demand basis and of offering timely insight into the performances of FIMCLA loan guarantees by region, business structure, commodity, purpose, and financial institution.”<sup>50</sup>

In its 2001-2002 and 2002-2003 annual reports, FIMCLA indicated that its risk analysis study concluded that current program fees were at an appropriate level to cover administration expenses and future losses under the loan guarantee.<sup>51</sup> However, no evidence of public information sources that discuss the impacts of the user fee was found.

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<sup>49</sup>See the Report of the Auditor General, September 1999, Chapter 11 for a complete listing of the recommendations. Pages 11-34 to 11-35.

<sup>50</sup>Grant, C., and Toichoa, G. Risk Analysis Framework for the Farm Improvement and Marketing Co-operatives Loans Act. July 2001. Page ii.

<sup>51</sup>Note that AAFC cannot confirm whether FIMCLA is operating at full cost recovery until a financial audit is completed. Refer to Section 4.6 on cost-effectiveness.

### **4.3 Appropriateness**

This section reports on the appropriateness of the FIMCLA service delivery model and compares FIMCLA to other products available to the agricultural community. It also examines whether FIMCLA's lending activities have been consistent with the program's mandate.

#### **4.3.1 Design appropriateness**

*Evaluation question: Is the FIMCLA service delivery model, including lender's roles and responsibilities, the most appropriate design?*

##### **Summary response:**

In general, the overall design of FIMCLA is appropriate for the delivery of the program. However, important improvements are indicated to revise and/or streamline processes surrounding defaults and claims.

##### **Details:**

###### *Lenders and administering FIMCLA*

At most financial institutions, typically, three to four departments participate in the FIMCLA process.<sup>52</sup> An account manager is responsible for meeting with the client and collecting information regarding the requested financing and the farming operation's financial situation. Information collected may include income tax returns, notice of assessment, inventory, and net-worth statements. The account manager forwards all of this information to an adjudicator who assesses the risk of the application. This is typically done using credit scoring. The adjudicator tells the account manager what financing options are available to the client. After finalizing the decision to use FIMCLA, the account manager forwards the loan information to a documentation department, which is responsible for completing the paperwork and registering the loan with FIMCLA. Special loans departments handle all defaults and claims processes. Because of this operating structure, many lenders would like to see FIMCLA streamline its own process and become electronically based.

The majority of lenders interviewed believe that the claims process is a major weakness of FIMCLA. Interviewees reported that the claims process is onerous. Some respondents mentioned that they have not sent in claims because of past experiences in which the government had rejected a similar claim. Several interviewees believe that FIMCLA rejects a high percentage of claims and looks for reasons to

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<sup>52</sup>At some credit unions, the account manager is responsible for all aspects of FIMCLA loans.

reject claims. It is important to note that if FIMCLA receives a questionable claim, it consults with the Department of Justice to determine whether the claim should be paid.

Since 1988, lenders have made 716 claims on the guarantee, with the percentage of claims to registrations per province ranging from <1% to 2%. Overall, FIMCLA has rejected 20% of claims, and 47% of claims requested are unpaid.<sup>53</sup> Figure 4 shows that the percentage of unpaid claims varies from year to year. Although the data does not support the view that the percentage of rejected claims is increasing, the fact that many lenders view this as a problem is cause for further investigation. Some key informants speculated that claim rejection rates may decrease if FIMCLA relaxed the conditions specified in its legislation (such as declaring a loan in default as soon as a payment is missed).

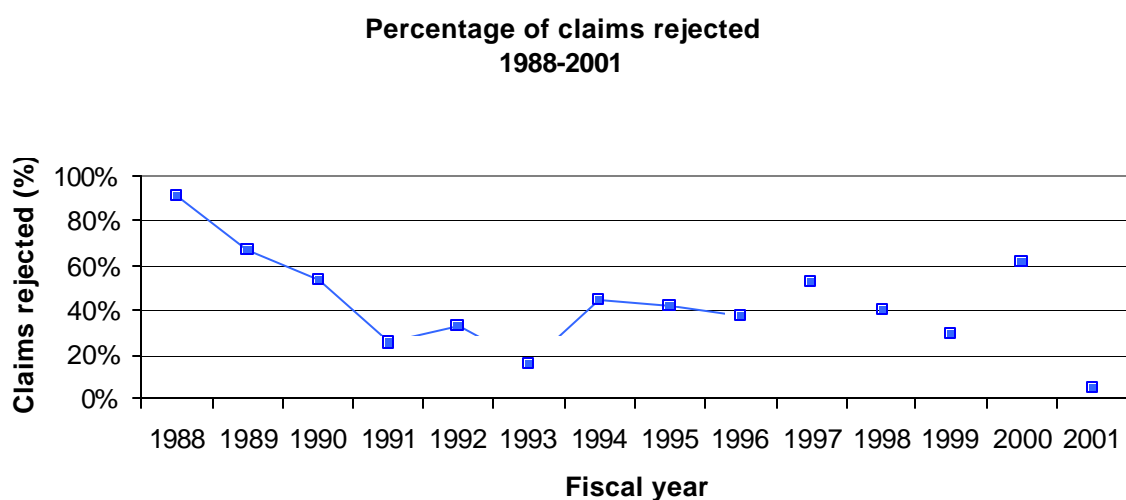


Figure 4

The claims experience varies by lender. Some noted that the default processes used by FIMCLA administration are too rigid. They mentioned difficulty around rescheduling payments indicating that FIMCLA had to be involved at every step. Additionally, several lenders noted that if an annual principal payment is one day late, they will not be able to collect on the guarantee. Others indicated that FIMCLA was quite forgiving and paid their claim even though they included “*innocent documentation mistakes.*” Some of the lender complaints about FIMCLA’s claim process may arise from the fact that FIMCLA relies on another section within AAFC to coordinate and manage the claims recovery process.

<sup>53</sup>Unpaid claims includes rejected claims, closed claims (i.e., claims that lenders ceased to pursue), and unpaid amounts of claims paid.

Given the difficulties some lenders have experienced with the default and claims processes, some believe that the FIMCLA guarantee is not worth anything because financial institutions will not be able to collect on it anyway. This may be leading some lenders to not consider the FIMCLA guarantee as a financing option.

It is worth noting here that FIMCLA administration has a fiduciary duty to protect the assets of the Crown. In most loan guarantee programs (such as Canada Student Loans and the Canada Mortgage and Housing Corporation Mortgage Guarantee), the lender should be required to make all reasonable effort to secure payment. If the loan guarantee is too easy, then lenders could off load the entire risk (up to 80% of the loan value) to the government. Finding balance between refusing all claims and accepting a claim the instant a payment is late represents a central administrative challenge for programs such as FIMCLA. The recent farm crises (drought, low prices, and BSE) are likely to test these claim procedures further in the near future.

Despite the difficulties some lenders have had with the claims process, it appears that there is little demand for a claims appeal process. Respondents indicated that provided the lender has a good working relationship with FIMCLA, an informal process works well. Nonetheless, interviewees could see the benefit of a formal process in cases where a lender and FIMCLA reached an impasse.

#### *Concerns regarding the service delivery model*

Key informants have several important concerns regarding FIMCLA's service delivery model. The first concern is that with the third-party delivery model, if the third party loses interest in the program, the number of registrations will decline. The second concern is that lenders often do not find out if a loan they have booked is ineligible for FIMCLA until the claim stage. One key informant suggested that the issue should be resolved if FIMCLA moves to on-line loan registration. In addition to this, lenders noted that, compared to traditional loans, FIMCLA loans can require a few additional hours of work to prepare, especially if a claim is made on a loan. Some said that because of the extra work (i.e., additional forms, extra due diligence, and extra steps to send in fees and forms), FIMCLA does not fit well with their daily activities.

There was some discussion around whether another entity could administer FIMCLA. While it is entirely feasible for another entity to administer FIMCLA, most respondents did not believe that this would be desirable:

- ▶ Interviewees noted that it would be a conflict of interest for Farm Credit Canada (FCC) to administer the program. The main reason for this belief is that lenders view FCC as a direct competitor (refer to Section 4.3.2 for more details).

- ▶ Canada Small Business Financing Program (CSBF) was also mentioned as a potential candidate. However, a few respondents believe that because the CSBF does not specialize in agricultural loans, it cannot provide producers with the most favourable terms.<sup>54</sup>

#### **4.3.2 Comparison with other programs**

*Evaluation question: In what manner and to what extent does the program complement other loan programs? Overlap/duplicate other loan programs?*

##### **Summary response:**

FIMCLA overlaps and therefore competes with some of the comparison programs. However, the degree of the overlap (and consequent duplication) varies with the comparison programs' eligibility criteria and eligible uses. FIMCLA faces the greatest competition in provinces where programs similar to FIMCLA are available (e.g., Alberta and Québec).

##### **Details:**

To assess whether FIMCLA complements or overlaps with other loan programs, the contractor completed a program comparison exercise.<sup>55</sup> The programs selected for inclusion in the program comparison were:

1. Canada Small Business Financing (CSBF) Program (Industry Canada)
2. Alberta Farm Development Loans (AFDL) (Agriculture Financial Services Corporation)
3. Alberta Beginning Farmer Program (Agriculture Financial Services Corporation)
4. Agricultural Value-Added Loan Program (Farm Credit Canada and Western Economic Diversification)
5. Financière Agricole du Québec (FADQ)
6. Loans for Beginning Farmers and Ranchers (US Department of Agriculture)
7. Feeder Cattle Loan Guarantees<sup>56</sup>
  - a. British Columbia
  - b. Alberta
  - c. Saskatchewan
  - d. Ontario

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<sup>54</sup>Note that this program is administered by Industry Canada, not AAFC. However, as the agricultural industry becomes more "business-like," Industry Canada's involvement with agriculture is expected to increase.

<sup>55</sup>Refer to Section 4.6 for a cost comparison of benchmarking programs and FIMCLA.

<sup>56</sup>Note the Feeder Cattle Loan Guarantee programs for each province are designed and administered independently of each other.

e. Québec.

*Program objectives*

As demonstrated in Table 14, most of the programs included in this study share the objective of increasing the availability of credit to the agricultural sector (aside from the CSBF, which targets small business<sup>57</sup>). However, these programs differ in terms of the segment of the sector that they target. FIMCLA is a far-reaching program in that it essentially targets all segments of the agricultural sector. Some programs, such as the AFDL and FADQ, also target all sectors of agriculture but are limited to residents of their respective provinces. Other programs, such as the Alberta Beginning Farmer Program and the Loans for Beginning Farmers and Ranchers, limit financing to young and/or beginning farmers. The provincial feeder association loan guarantee programs, which are quite similar across jurisdictions, are limited to specific segments of the livestock industry.

<b>Table 14: Program objectives</b>		
<b>Program</b>	<b>Year established</b>	<b>Objective</b>
FIMCLA	1988	▶ To increase the availability of loans for the purpose of the improvement and development of farms and the processing, distribution, or marketing of farm products by cooperative associations.
1. CSBF	1960s	▶ To increase the availability of loans for the establishment, expansion, modernization, and improvement of small business enterprises.
2. AFDL	1973	▶ To make short, medium, and long-term financing available quickly to farmers at a reasonable cost.
3. Alberta Beginning Farmer Program	1974	▶ To assist Alberta farmers to start and develop viable operations.
4. Agriculture Value-Added Loan Program	1997	▶ To improve access to patient debt capital for small and medium-sized agricultural processors. (Note: "Patient" debt capital refers to long-term venture capital that allows companies sufficient time to mature into profitable organizations - <a href="http://www.sba.gov/financing/capital/equity.html">http://www.sba.gov/financing/capital/equity.html</a> )
5. FADQ	1936 (current form 2001)	▶ To sustain and promote, in a perspective of lasting development, the growth of the agriculture and agri-food sector.
6. Loans for Beginning Farmers and Ranchers	1994	▶ To make more loans to beginning farmers and ranchers, thereby lowering the age of farmers and ranchers in the United States.
<b>Feeder programs</b>		
7a. BC	1990	▶ To help cattle and sheep producers raise calves or lambs to heavier weights before selling them.
7b. AB	1938	▶ To enable producers to acquire cattle/sheep for growing and finishing.

<sup>57</sup>Note that the CSBF is the sister program to FIMCLA and therefore does not provide financing to the agricultural sector. These loan guarantee programs were established in the 1960's. At the time of their inception, these programs, along with a fisheries improvement loans program, were jointly administered by the Department of Finance. Later, at a time unknown to the key informants, these programs were split into three independent programs. Since the separation, the fisheries improvement loans programs has been canceled and CSBF has been given the authority to register loans that are made to businesses in the fisheries industry.

<b>Table 14: Program objectives</b>		
<b>Program</b>	<b>Year established</b>	<b>Objective</b>
7c. SK	1984	<ul style="list-style-type: none"> <li>▶ To assist Saskatchewan residents to establish production associations and to borrow funds on the strength of a government guarantee to the lender.</li> </ul>
7d. ON	1990 (pilot study) 1992 (permanent program)	<ul style="list-style-type: none"> <li>▶ To assist cattle producers who are members of feeder finance cooperatives by guaranteeing loans made to purchase cattle.</li> </ul>
7e. QC	1996	<ul style="list-style-type: none"> <li>▶ To support three key goals of the strategic plan for the beef industry, which are to:                             <ul style="list-style-type: none"> <li>- increase the profitability and competitiveness of operations involved in beef production, slaughtering, and end-use activities</li> <li>- increase the proportion of cattle slaughtered by operations in Québec (compared to the proportion of cattle that are sent for slaughter outside of Québec) .</li> <li>- support the growth and diversification of the agricultural operations.</li> </ul> </li> </ul>

Given these objectives, FIMCLA faces various levels of competition with the comparison programs. One way to determine the level of competition is to compare program eligibility and eligible uses.

In terms of program eligibility, the programs in this study share some similar eligibility criteria including residency (e.g., permanent residence of province) and age requirements (e.g., 18 or 19 years of age). These programs also specify that loan applicants must be engaged in farming or, at the very minimum, plan to become engaged in farming (again, for reasons previously mentioned, this excludes the CSBF). An additional requirement of the provincial feeder association loan guarantee programs is that applicants must be a member of a feeder association in their province of residence.

The CSBF and the Agriculture Value-Added Loan Program have several eligibility criteria based on the size of the business applying for financing. For example, applicants to the CSBF must be a for-profit business with sales of less than \$5 million in the year of the loan, and applicants to the Agriculture Value-Added Loan Program must have annual sales of less than \$20 million and employ fewer than 250 workers.

Other significant differences between these programs are related to eligible uses. Based on the eligibility criteria and eligible uses, Table 15 identifies the level of competition between FIMCLA and the comparison programs.

<b>Table 15: Level of competition between FIMCLA and comparison programs</b>		
<b>Program</b>	<b>Level of competition</b>	<b>Comments</b>
1. CSBF	None	<p>Primary agricultural producers are not eligible for the CSBF.</p> <p>Organizations involved in value-added processing may be eligible for CSBF guaranteed loan.</p> <p>If CSBF agricultural producers were eligible for CSBF, these two programs would be in direct competition. In the past, these two programs actually operated as a single program.</p>

<b>Table 15: Level of competition between FIMCLA and comparison programs</b>		
<b>Program</b>	<b>Level of competition</b>	<b>Comments</b>
2. AFDL	High (Alberta) None (rest of Canada)	The eligible uses for these programs and FIMCLA are very similar. However, one important difference is that the AFDL can be used to finance operating capital and quota purchases while FIMCLA cannot.  This program is only available to producers in Alberta.
3. Alberta Beginning Farmer Program	None	Beginning farmers are not eligible for FIMCLA.  If FIMCLA were available to beginning farmers, it would be in direct competition with the Alberta Beginning Farmer Program. However, as with the AFDL, the Alberta Beginning Farmer Program is only available to producers in Alberta and its list of eligible uses differs slightly from FIMCLA (i.e., the Alberta Beginning Farmer Program can be used to finance operating capital and the purchase of quota).
4. Agriculture Value-Added Loan Program	None	The Agriculture Value-Added Loan Program targets value-added agricultural processors while FIMCLA targets primary producers.  Eligible uses for financing through the Agriculture Value-Added Loan Program include final stage research and development, pre-commercial and commercial product development, and development of internal markets. FIMCLA's eligible loan uses target purchases relating to primary production such as machinery and equipment.
5. FADQ	High (Québec) None (rest of Canada)	The eligible uses for these programs and FIMCLA are very similar. However, one important difference is that the AFDL can be used to finance operating capital and quota purchases while FIMCLA cannot.  This program is only available to producers in Québec.
6. Loans for Beginning Farmers and Ranchers	None	This program is only available to producers in the United States.
7. Provincial feeder programs	None	FIMCLA guaranteed loans cannot be used to finance feeder livestock.  If FIMCLA's list of eligible uses was expanded to include feeder livestock, FIMCLA would be in direct competition with these provincial feeder programs. However, financing through the feeder programs is only available to producers who belong to a feeder association. As well, these provincial guarantee programs are not available in all provinces.

Other factors that may influence the degree of competition between FIMCLA and the comparison programs are the terms and conditions of the financing or guarantee.

- **Fees.** Along with the Alberta Beginning Farmer Program (0.5% of loan amount), FADQ (0.75% of loan amount), and AFDL (1%–1.5% of loan amount, shared with lender), FIMCLA<sup>58</sup> (0.85% of loan amount) fees are among the lowest when compared to other

<sup>58</sup>Note that under FIMCLA, lenders can also charge an administration fee equal to the lesser of 0.25% of the loan principle or \$250 for loans up to \$250,000 and .1% of the loan principle for loans over \$250,000.

programs included in this study. CSBF fees are the highest with a registration fee of 2% of the loan amount and an annual fee of 1.25% (although the annual fee is charged to lenders, it can be passed on to the borrowers through the interest rate).

- ▶ **Guarantees.** The percent of losses that a program guarantees ranges from 80% under the Agriculture Value-Added Loan Program to 100% under FADQ. FIMCLA guarantees 95% of losses. CSBF pays claims on 90% of the first \$250,000 of losses in a lenders' account, 50% on the next \$250,000, and 10% on all remaining losses.
- ▶ **Interest rates.** Some programs, such as FIMCLA and CSBF, set maximum interest rates and offer borrowers the option of a floating or fixed interest rate. Floating rates are typically based on prime while fixed rates are based on the residential mortgage rate. FIMCLA's floating rate is prime + 1% and its fixed rate is the residential mortgage rate + 1%. These rates are lower than CSBF's floating rate of prime + 3% and fixed rate of the residential mortgage rate + 3%. Other programs, such as AFDL and FADQ, vary the interest rate charged according to the term of the loan. AFDL interest rates range from prime + 1% to prime + 1.5%, whereas FADQ's interest rates range from residential mortgage rate - 0.6% to the residential mortgage rate - 0.3%.
- ▶ **Repayment terms.** Programs tend to offer different repayment terms for different loan purposes. Typically, programs set longer repayment terms for large purchases such as land. FIMCLA,<sup>59</sup> CSBF, AFDL, and the Agriculture Value-Added Loan Program offer a repayment term of 10 years. FADQ offers a repayment term of up to 30 years, and Loans for Beginning Farmers and Ranchers offers repayment terms of seven years for operating loans and 40 years for farm ownership loans.
- ▶ **Down payment requirements.** Down payment information was not available for a number of programs. Those that specified down payment requirements, CSBF and the Down payment Farm Ownership Loan of the Loans for Beginning Farmers and Ranchers program, indicated that borrowers must have cash to cover 10% of the purchase price. This is lower than FIMCLA's requirement of 20%.

In conclusion, there is little overlap between FIMCLA and the programs included in the comparison analysis. Where there is overlap in terms of eligible uses, the eligibility criteria and/or terms and conditions of the loans differ (which in turn affects the level of competition between FIMCLA and the comparison programs). One observation is that provinces that have programs that are similar in nature to FIMCLA (i.e., Québec and Alberta) have lower uptake rates than provinces that do not have similar programs.

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<sup>59</sup>Note that FIMCLA offers a repayment period of 15 years for land loans and 20 years for coop loans.

Although FCC, as a whole, was not included in the benchmarking analysis, potential overlap and duplication with FIMCLA exists. This is because both FCC and FIMCLA are national programs with the broad objective of increasing Canadian agricultural producers' access to credit. FCC offers producers a wide variety of financing programs, some of which target similar uses as FIMCLA. As such, there is no doubt that in terms of some loan uses, FIMCLA is in direct competition with FCC. However, two important differences are that: 1) FCC programs are not delivered by banks; and 2) FCC loans are not government guaranteed. While it is outside the scope of this evaluation, a detailed analysis of the similarities and differences between FCC and FIMCLA is an opportunity for further research.

#### **4.3.3 Consistency of lending activities with program mandate**

*Evaluation question: Are FIMCLA lending activities consistent with FIMCLA's program mandate?*

**Summary response:**

FIMCLA's lending activities are consistent with its mandate.

**Details:**

Respondents believe that FIMCLA's lending activities have been consistent with the program mandate. Any inconsistencies become known when a claim on the guarantee is made. If the loan has not been made within the program's guidelines, the claim is denied.

**4.4 Acceptance**

This section reports on stakeholder's acceptance of FIMCLA. It also discusses what mechanisms are available for stakeholders to provide feedback on the program.

**4.4.1 Stakeholder acceptance**

*Evaluation question: Is the current FIMCLA program acceptable to stakeholders?*

**Summary response:**

Program managers support FIMCLA; however, they recognize that the program needs updating. Lenders are generally not satisfied with FIMCLA because, in the view of many, it is not relevant to the needs of the agricultural community and its administrative processes are too burdensome. Clients are generally satisfied with FIMCLA.

**Details:**

Program managers support the objective of FIMCLA but realize that the program needs revision. For example, as suggested by key informants, improvements could be made to help FIMCLA respond to the APF, new technology, beginning farmers, and additional categories of loans.

Some lenders reported that they are becoming more reluctant to use FIMCLA because of their perception that FIMCLA is rejecting a high percentage of claims. As previously mentioned, many lenders are not satisfied with FIMCLA because the program has not evolved to meet today's needs.

Most clients' seem satisfied with the terms and conditions of FIMCLA loans. As Table 16 shows, virtually all respondents (97%) said that they are at least *somewhat satisfied* with FIMCLA. This includes 56% who are *very satisfied*.

Table 16: Satisfaction with FIMCLA Q34. Overall, how would you rate your satisfaction with the FIMCLA guarantee loan program?	
	% (n=383)
Very satisfied	56%
Somewhat satisfied	41%
Not very satisfied	1%
Not at all satisfied	<1
Don't know/no response	3%

For several features of the FIMCLA program, interviewers asked clients to rate whether the limitation was *too high*, *about right*, or *too low*. In each case, more than half of the respondents thought the limitation was *about right*. The exception is the maximum loan amount for marketing cooperatives where 48% of respondents thought the amount was *about right*.

- ▶ For example, FIMCLA guarantees loans of up to \$250,000 for producers. When asked if this amount was appropriate, 60% of respondents thought the amount was *about right* and 28% thought the amount was *too low*. Interviewers asked those 107 respondents who thought the amount was *too low*, how much FIMCLA should guarantee. Most of these respondents (57%) thought FIMCLA should guarantee between \$500,000 and \$749,999. Responses ranged from \$300,000 to \$5 million, with an average of \$590,000.
- ▶ FIMCLA guarantees loans of up to \$3 million for marketing cooperatives. When asked if this amount was appropriate, about half (48%) thought the amount was *about right*. Some 7% thought the amount was *too low*, and 26% did not know or did not respond. Of those 27 who thought the amount was *too low*, respondents said that FIMCLA should guarantee between \$5 million and \$10 million. Just over 44% of those respondents who thought the amount was *too low* said that FIMCLA should guarantee loans up to \$5 million.
- ▶ Interviewers told respondents that FIMCLA guarantees up to 80% of the purchase price for a loan (meaning that a down payment of 20% is required on a loan) and asked whether this amount was appropriate. Almost 8 in 10 (79%) said the amount was *about right* and some 1 in 7 (14%) said it was *too low*.

- ▶ When informed that FIMCLA charges a registration fee of 0.85% of the amount of a loan, about 6 in 10 (62%) said the amount was *about right* and one-third (33%) said the amount was *too high*.

#### **4.4.2 Mechanisms for feedback**

*Evaluation question: Are there formal mechanisms to provide feedback on the program (loan guarantees/appeal process)?*

##### **Summary response:**

FIMCLA does not have formal mechanisms in place to provide feedback on the program. Lenders will contact FIMCLA verbally or in writing with questions or concerns regarding a registration or claim.

##### **Details:**

###### *Client contact with FIMCLA*

Most clients have not contacted FIMCLA administration for any reason. In fact, only 3% of respondents reported having contacted FIMCLA either by phone, in person, or by letter.

Most clients heard of FIMCLA through their lender, and little need exists for clients to have any interaction, formal or informal, with the program.

###### *Lender contact with FIMCLA*

Lenders frequently interact with FIMCLA staff in two ways. First, lenders and their associations communicate – both verbally and in writing – about general policy issues and operational problems they may be encountering. Second, and most importantly, lenders and FIMCLA staff interact on the claims process. Neither method is formalized, but the program relies on these informal methods of communication. One respondent noted that a formal claims appeal process could reduce the amount of resources required to address a claim because the program would not have to deal with the same case repeatedly.

## **4.5 Results achievement**

Results achievement can best be described in terms of the “results chain” expressed in the program logic model (see Appendix A). This logic model identified the following three key elements or “business lines:”

1. Farm Improvements Loan (FIL)
2. Federal Loan Guarantee System
3. Co-operative Marketing Loan (CML).

This section discusses the results achievement of these three elements and their activities, outputs, and outcomes.

### **4.5.1 Activities**

***Evaluation question:*** *In what manner and to what extent has the FIMCLA program achieved its intended activities as identified in the FIMCLA Program Logic Model?*

#### **Summary response:**

Through its administration of FIMCLA, the program has delivered the activities as identified in the Program Logic Model.

#### **Details:**

Activities refer to what the program does operationally under each key element. Based on all lines of evidence, it is clear that the program has performed all required steps for each activity:

- ▶ *Farm Improvement Loan (FIL)* activities include application processing, implementing eligibility procedures, administering and registering loans, implementing registration, default and claims processes, and effecting collections process for claims made.<sup>60</sup>
- ▶ *Federal Loan Guarantee System* activities involve the enacting of legislation and regulations to support the program, designation of lenders, developing awareness of the program and its conditions, determining and paying claims, and recovering losses.

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<sup>60</sup>It is important to note that lenders actually execute many of these processes in the course of accepting loan applications from clients. Increasingly, lenders are embedding FIMCLA processes within their own on-line applications processes.

- ▶ *Co-operative Marketing Loan (CML)* activities include those associated with the FIL, except that these are applied to loans made to cooperatives.

For each key element, FIMCLA managers designate lenders, and they become informed of FIMCLA eligibility and have incorporated applications processing within their own institutional procedures. Program managers and staff tend to be more active at the back end, namely, validating default and claims processes and handling the collections process. Based on interviews with key informants, and the long-term nature of the program, it is apparent that the program completes the activities enumerated in the logic model. However, several important process issues have emerged in the course of the evaluation, which are discussed in the final section on conclusions and observations.

#### **4.5.2 Outputs**

***Evaluation question:*** *In what manner and to what extent has the FIMCLA program achieved its intended outputs as identified in the FIMCLA Program Logic Model?*

##### **Summary response:**

As the FIMCLA database demonstrates, the program has achieved its output of issuing loans at no more than legislated maximum interest rates. However, for reasons discussed below, it is not possible to determine whether clients received more flexible repayment terms.

##### **Details:**

According to the logic model, the FIL and CML key outputs are loans “*at no more than legislated maximum interest rates and more flexible repayment terms.*” All of the evidence collected by annual reports and by this evaluation confirms that most FIMCLA loans have been made at the ceiling rate (prime plus 1%). In fact, most lenders automatically apply the maximum allowable interest rates. As such, a danger exists that the legislated maximum (ceiling) rates may have become the effective minimum or floor rates. The most common reasons for applying the maximum allowable interest rate are that: 1) prime plus one percent is a competitive rate, 2) the financial institution cannot make a profit if it offers a lower rate, and 3) the risk associated with clients’ using FIMCLA does not warrant a lower rate.

A few lenders indicated that they may offer a “good” client an interest rate that is lower than the maximum allowable. These lenders noted that the interest rate offered depends on the relationship with the client as well as the client’s credit rating, debt serviceability, and ability to leverage his/her debt. Despite this, it is worth noting that some key informants indicated that their large agricultural clients are able to obtain much lower rates outside of FIMCLA. This means that the client does not have to pay the fees associated with FIMCLA. It also means that lenders can issue the loan using one of their own

products and therefore do not have to complete the administrative processes associated with FIMCLA. In summary, FIMCLA tends to serve small and medium-sized farmers, and these clients may not be able to shop for better rates.

Formally, in addition to the fixed interest rate, a FIMCLA loan has a legislated repayment period of 10 years and a minimum down payment of 20%. Whether the loans actually involve “*more flexible payment terms*” is difficult to ascertain, since any loan has a range of attributes, formal and informal. Formal attributes include collateral requirements, repayment options, loan to value ratio, etc., while informal attributes include how a lender manages a late payment. Since the context of a loan varies by lender, borrower, loan purpose and general economic environment, determining whether FIMCLA has resulted in loans that are more flexible than average requires detailed information on all FIMCLA loans compared to a reference group of all other farm loans. Such a comparison is not possible with the information available to the program or to this evaluation. It is possible that some borrowers are able to negotiate loans that have both a lower interest rate and a more flexible repayment schedule.

### **4.5.3 Outcomes**

***Evaluation question:*** *In what manner and to what extent has the FIMCLA program achieved the anticipated immediate, intermediate, and longer-term outcomes/impacts identified in the FIMCLA Program Logic Model?*

#### **Summary response:**

In terms of immediate outcomes, FIMCLA has increased access to credit for producers, particularly in Saskatchewan. However, relatively few marketing cooperatives have used FIMCLA, which suggests that the program has not been as effective at reaching this target population.

Linking intermediate and long-term outcomes to FIMCLA is challenging. Farmers and lenders believe that FIMCLA has had some impact in terms of increasing the productivity of farming operations, increasing the efficiency of farming operations, and making farming operations more sustainable. Given marketing cooperatives’ limited involvement in FIMCLA, it is not possible to comment on intermediate outcomes for this aspect of the program. With respect to longer-term outcomes, all that can be said is that FIMCLA has probably contributed to a variety of expansion and modernization/innovation initiatives across its portfolio of loans. However, in the absence of a detailed study that tracks how loans were used, it is not possible to connect FIMCLA to specific outcomes of modernization and/or innovation.

#### **Details:**

The logic model identifies two immediate outcomes for FIMCLA:

- ▶ *Farmers have increased access to farm improvement loans.*
- ▶ *Marketing co-operatives have increased access to loans for farm processing, distribution or marketing.*

Marketing cooperatives have had limited involvement in FIMCLA. Lenders suggested that this may be due to the fact that this form of farm organization is inherently risky, or typically has weak management, which discourages lenders from making loans. FIMCLA regulations also limit lending to co-ops with non-farmer members (“new style” farmer co-ops).

With respect to access to loans, historically, the high levels of activity certainly confirm that lenders did use the program and that it did increase access to credit. This is particularly true in Saskatchewan, where provincial legislation limits the ability of banks to call loans issued to family farms. In that province, arguably a major “player” in Canadian primary agriculture FIMCLA clearly became a vital catalyst to increasing farm credit. At the same time, its role in Québec has been much less important, largely because of provincial programs that compete favourably in their terms and conditions. Additionally, according to the client survey, some producers (27%) believe that they could have received a loan with the same terms and conditions outside of FIMCLA.

The intermediate goals of FIMCLA relate to farm expansion and modernization/innovation as well as value-added processing, diversification, and market expansion by cooperatives. The low participation of co-ops precludes a conclusion on the intermediate outcome of the program on these types of farm operations. However, it is possible to gain some insight into the intermediate outcomes using the client survey responses.

Clients rated, on a scale of 1 to 10 where 1 is no contribution at all and 10 is a major contribution, FIMCLA’s contribution to their farm in terms of eight different items.

- ▶ About 7 respondents in 10 said that FIMCLA made some contribution (including about half who said it made a major contribution) in terms of:
  - *increasing the productivity of the farming operation* (72%, including 50% who said it made a major contribution)
  - *increasing the efficiency of the farming operation* (69%, including 48% who said it made a major contribution)
  - *making the farming operation more sustainable* (69%, including 47% who said it made a major contribution).
- ▶ Almost 6 in 10 (59%) said that FIMCLA made some contribution in terms of *helping to modernize the farming operation.*
- ▶ About 4 in 10 said that it made some contribution in terms of:

- *expanding one of the business lines of the farming operation (49%)*
  - *helping to diversify the farming operation (46%)*
  - *updating the technology used on the farming operation (43%).*
- ▶ Approximately one-third of respondents indicated that the following three anticipated outcomes of FIMCLA were not applicable to their loan:
- *updating technology used on farming operation (35%)*
  - *helping to diversify the farming operation (32%)*
  - *expanding one of the business lines of the farming operation (31%).*
- ▶ In terms of updating technology, clients who received loans to finance improvements were more likely to indicate that FIMCLA made a major contribution to their farming operation, while those who used the financing to purchase livestock were the least likely to report this.
- ▶ In terms of modernizing the farming operation, respondents with more than 40 years of farming experience were the most likely to indicate that FIMCLA made no contribution in this regard. Clients producing fruits or grains and oilseeds were the most likely to report that FIMCLA made a major contribution to modernizing their operation. Most often, clients who obtained loans for building construction or renovation and land development said that FIMCLA made a major contribution to their operation.

Many key informants agreed that FIMCLA has supported modernization and diversification initiatives. For example, some respondents noted that FIMCLA has enabled operations to modernize through the purchase of better equipment and handling systems. Interviewees noted that, because of the maximum loan amounts and repayment terms, FIMCLA has had less impact in terms of expansion. Several reported that modernization, diversification, and loan terms and conditions should lead to improved profitability, although a few mentioned that profitability would not increase because loans are spread over a longer repayment period.

Respondents participating in the case studies found it difficult to discuss the net impact of FIMCLA on their farming operation or marketing cooperative. Essentially, they reported that the main benefit of FIMCLA was that it enabled them to purchase an asset/item they needed for their operation.

Several lenders reported that FIMCLA has had little impact on producers. Other lenders recognized that FIMCLA enables financial institutions to issue loans to clients who otherwise may not have received a loan due to restrictions on the institution's local lending limits.

#### **4.6 Cost-effectiveness**

Cost-effectiveness may be interpreted as the cost of producing a unit of outcome. In a program such as FIMCLA where the outcomes are diffused across several dimensions (i.e., farm expansion and modernization/innovation initiatives), cost-effectiveness should be viewed as some measure of relative efficiency and cost recovery.

***Evaluation question:*** *What is the cumulative total volume of loans guaranteed under FIMCLA? What are the cumulative AAFC costs associated with FIMCLA?*

**Summary response:**

The volume of new FIMCLA loans has been steadily decreasing from 16,250 in 1996-1997 to 4,722 in 2002-2003.<sup>61</sup> Since 1999-2000, the value of claims paid has been rising, while revenues from registration fees has been falling. Recoveries of claims paid has been inconsistent. As such, despite a claim loss of only 0.64% over the life of FIMCLA (since 1988),<sup>62</sup> in recent years FIMCLA's net gain has steadily been trending downward.

**Details:**

Table 17 (next page) provides statistics on the operation of FIMCLA since 1995. Note that program use has declined by 68% since 1995-1996 and that claims paid have increased, while registration fees have declined as have recoveries of claims paid.

FIMCLA's administration budget increased from \$567,000 in 1996-1997 to \$1 million 1997-1998. Treasury Board authorized the increase to enable FIMCLA to:

- ▶ respond to increased demand
- ▶ place more emphasis on default and claim prevention
- ▶ establish a performance measurement model
- ▶ invest in technology and information bases to support the above elements as well as financial controls and reporting systems.

Table 17 also shows that the administrative costs per registration have climbed from a low of \$35 in 1996-1997 to a high of \$213 in 2002-2003.

The apparent increase in claims paid is partially the result of a couple of large marketing cooperative claims. In 2001-2002, FIMCLA paid a marketing cooperative claim in the amount of \$1.5 million.

FIMCLA's net gain has tended to fall. This demonstrates that FIMCLA is experiencing losses that need to be covered. These losses are a result of decreasing revenues from loan registrations, increasing claims paid, and decreasing recoveries of losses.

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<sup>61</sup> AAFC Annual Reports. 1996-2003.

<sup>62</sup> As reported by FIMCLA management.

<b>Table 17: FIMCLA - General financial trends</b>								
	<b>1995-1996</b>	<b>1996-1997</b>	<b>1997-1998</b>	<b>1998-1999</b>	<b>1999-2000</b>	<b>2000-2001</b>	<b>2001-2002</b>	<b>2002-2003</b>
Number of new loans registered ('000)	14,806	16,250	15,946	8,641	7,628	6,304	5,659	4,722
Value of new loans registered (\$ '000)	\$371,922	\$488,759	\$516,885	\$259,174	\$215,998	\$189,087	\$178,732	\$160,425
Claims paid (\$ '000)	\$1,537	\$1,664	\$691	\$2,258	\$881	\$963	\$2,524	\$2,792
Loan registration fees (\$ '000)	\$1,860	\$2,443	\$2,559	\$1,296	\$1,630	\$1,574	\$1,527	\$1,372
Recoveries of claims paid out (\$ '000)	\$1,149	\$1,199	\$791	\$709	\$308	\$344	\$158	\$255
Administration costs (\$ '000)	\$567	\$567	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Administrative cost per registration	\$78	\$35	\$63	\$116	\$131	\$159	\$177	\$213
Net gain (\$ '000)*	\$905	\$1,411	\$1,659	(\$1,253)	\$57	(\$45)	(\$1,839)	(\$2,165)
Note: Claims paid out in a fiscal year are not necessarily related to loans issued in the same year and could include claims paid out against guarantees issued under the former Farm Income Loans Act (FILA). *Net gain = (loan registration fees + recoveries of claims paid out) - (claims paid + administration costs) FIMCLA annual reports (1995-1996 to 2002-2003).								

Because claims paid and recoveries pertain to loans made in previous years, the “net gain” can be misleading. By using a three-year moving total,<sup>63</sup> it is possible to present a more stable picture of the net gain, as shown in Table 18. The data below show that, over time, the value of claims has remained fairly consistent at between \$3.8 million and \$4.6 million.<sup>64</sup> It appears that the decline in net gain is broadly due to decreasing loan registration fees, decreasing recoveries of claims paid, and increasing claims paid. The systematic decline in net gain suggests that an audit of the claims and recoveries processes would be useful (see Section 5.0 for a list of key questions that could be included in a financial review).

<sup>63</sup>Note that the three-year moving total for 1997-1998 is derived by summing the data for 1995-1996, 1996-1997, and 1997-1998. This same process is followed for each subsequent year.

<sup>64</sup>Claims paid increased significantly in 2002-2003. This is likely due, in part, to the large marketing cooperative claim paid in 2001-2002.

<b>Table 18: FIMCLA - General financial trends (three-year moving total)</b>						
	<b>1997-1998</b>	<b>1998-1999</b>	<b>1999-2000</b>	<b>2000-2001</b>	<b>2001-2002</b>	<b>2002-2003</b>
Number of new loans registered ('000)	47,002	40,837	32,215	22,573	19,591	16,685
Value of new loans registered (\$ '000)	\$1,377,566	\$1,264,818	\$992,057	\$664,259	\$583,817	\$528,244
Claims paid (\$ '000)	\$3,892	\$4,613	\$3,850	\$4,102	\$4,368	\$6,279
Loan registration fees (\$ '000)	\$6,862	\$6,298	\$5,485	\$4,500	\$4,731	\$4,473
Recoveries of claims paid out (\$ '000)	\$3,139	\$2,699	\$1,808	\$1,361	\$810	\$757
Administration costs (\$ '000)	\$2,134	\$2,567	\$3,000	\$3,000	\$3,000	\$3,000
Net gain (\$ '000)	\$3,975	\$1,817	\$463	(\$1,241)	(\$1,827)	(\$4,049)

Note: Claims paid out in a fiscal year are not necessarily related to loans issued in the same year and could include claims paid out against guarantees issued under the former FILA.  
 Net gain = (loan registration fees + recoveries of claims paid out) - (claims paid + administration costs)  
 FIMCLA annual reports (1995-1996 to 2001-2002).

It is also possible to examine FIMCLA claims using accrual accounting, which recognizes the claim when it was incurred, not when it was paid. As shown in Table 19, according to the accrual method of accounting, FIMCLA's claims have been decreasing since 1999. However, an important caution is that accrual claims tend to lag cash claims since, on an accrual basis, any future claims will be discounted back to the year the loan was issued.

<b>Table 19: Accrual claims versus cash claims</b>		
<b>Fiscal year</b>	<b>Cash accounting</b>	<b>Accrual accounting</b>
	\$'000	
1997	\$691	\$1,090
1998	\$2,258	\$1,068
1999	\$881	\$2,255
2000	\$963	\$379
2001	\$2,524	\$84
2002	\$2,792	\$0

Source: AAFC annual reports and FIMCLA management.

Over the past five years, the net gain for the program has consistently trended down. This counters the findings of the cost recovery study<sup>65</sup> completed in 2001, which identifies a breakeven value of \$230.1 million in new registrations. This is much higher than the current level of new registrations. Further, this suggests that the combination of weakening fees, growing claims, and lower recoveries, could threaten the cost recovery basis of the program.

**Evaluation question:** *Are the costs comparable to those of other lending programs?*

**Summary response:**

This evaluation relied on publicly available sources of cost information for other lending programs. The level of information available in these sources does not support cost comparison analysis. Information that was available for comparison programs shows that as the volume of loans a program issues increases, so does the total value of loans issued. This suggests that programs issuing fewer loans are not necessarily issuing higher value loans. Additionally, FIMCLA's claim rate of 1% is similar to the rates of 1%–2% that other programs report.

**Details:**

The nature of other loan guarantee programs varies greatly, which complicates cost comparisons. Ideally, full benchmarking involves agreements with reference programs/organizations to share production and cost information beyond that which is available in public financial statements. That level of benchmarking is beyond the resources available for this study. Accordingly, cost comparisons with other programs can only be general.

Table 20 provides general information for each program included in the program comparison. Much of the information is not available (cells blank) or not applicable (n/a), reflecting the limits of the program comparison process.

- ▶ The number of loans issued in 2002 varies by program. The CSBF records the highest number of loans issued per year, primarily because it is available to small businesses in many industries. Other programs examined in this study are only available to the agriculture industry. In the agriculture sector, the most used programs are the Alberta Cattle Feeder Loan Guarantee (~10,000), the Beginning Farmer and Rancher Loan Program (8,633), and the FADQ (6,503). The least-used program is the Agriculture Value-Added Loan Program (~20). FIMCLA falls in the middle with 4,721 loans.

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<sup>65</sup>Grant, Charles W. and Gabriel Tochoa. Risk Analysis Framework for the Farm Improvement and Marketing Cooperatives Loans Act. July 2001.

- ▶ As expected, the programs that issued the highest volume of loans also issued the highest value of loans (CSBF issued 11,142 loans worth \$915 million, and FADQ issued 6,503 loans worth \$938 million). The exception is the Québec Feeder Association Loan Guarantee program, which issued 267 loans worth \$116 million.
- ▶ Little information was available regarding claims on the guarantees. Most programs indicate claims of 1%–2% since their inception, and clearly, FIMCLA is in line with claims of 1%.

The information in Table 20 does not support cost comparisons among the programs.

<b>Table 20: Program statistics, 2002</b>					
<b>Program</b>	<b>Number of co-ops/ members</b>	<b>Number of loans issued</b>	<b>Value of loans issued</b>	<b>Number of claims (% of loans)</b>	<b>Value of claims</b>
<b>FIMCLA</b>	<b>n/a</b>	<b>4,721</b>	<b>\$160 million</b>	<b>1.6%</b>	<b>\$2 million</b>
1. CSBF (2001-2002)	n/a	11,142	\$915 million	7.1%	\$38 million
2. AFDL	n/a	661	\$23 million	< 1%	n/a
3. Alberta Beginning Farmer Program	n/a	754	\$89 million	n/a	n/a
4. Agriculture Value-Added Loan Program	n/a	~20	confidential information		
5. FADQ	n/a	6,503	\$938 million	106	\$5.4 million
6. Loans for Beginning Farmers and Ranchers (2003)	n/a	8,633	US\$851 million	2.2%	n/a
<b>Feeder programs</b>					
7a. BC	16/ 1,300	n/a	n/a	n/a	n/a
7b. AB	0/~7,000	~10,000	\$44 million	< 1%	n/a
7c. SK	123/6,313	n/a	\$26 million	n/a	n/a
7d. ON	21/1,057	n/a	\$52 million	n/a	n/a
7e. QC (2001)	11/ 134,213	267	\$116 million	n/a	n/a

#### **4.7 Program strengths and weaknesses**

*Evaluation question: What were the strengths and weaknesses of the program?*

FIMCLA has a long history that speaks to its core strengths. Viewing it over the past decade, the main advantages involve its rationale/relevance, lender/borrower acceptance, and efficient administration. Recently, weaknesses and limitations have emerged, primarily as a result of changing economic and agricultural conditions.

## *Strengths*

### *Rationale*

The FIMCLA program has a strong and well-tested rationale. Government has a history of assisting specific groups to manage risks associated with capital investment. The mortgage guarantee program of Canada Mortgage and Housing Corporation and the Canada Student Loan program are two national examples of long-standing loan guarantees. Other orders of government offer a comprehensive array of loan guarantees to farmers.

Under this model, by charging a modest registration fee to borrowers, government can build financial capacity that can be used to manage the program and settle claims arising from defaults. Lenders extend loans at favourable rates, borrowers benefit from access to capital, and government produces a long-run social benefit in the form of additional stability to key sectors of the economy. The direct result is an incremental supply of credit, especially to viable farmers that present some riskier elements to lenders.

### *Relevance*

Farmers reported that the two most commonly recognized benefits of FIMCLA are the longer repayment term (10 years) and the lower interest rate (prime + 1%). Also important is the low down payment requirement (20%). Lenders reported that for many clients, especially the small and medium-sized farmers presenting a riskier profile, they most likely would still have issued the loan; however, the terms and conditions may not have been the same. Historical usage has been high, especially during periods when interest rates have been higher. FIMCLA has been a relevant element of federal support for farmers.

Further, despite the existence of similar programs in many provinces, FIMCLA provides broader coverage in terms of loan use and/or national eligibility. As a national program, FIMCLA offers uniform access to farmers in all parts of Canada.

It is important to note that FIMCLA has become less relevant to larger farm operations for two possible reasons:

- ▶ Current interest rates are at historic lows. Farm operations with good “financials” are able to negotiate terms that are more favourable than the FIMCLA ceiling rate of prime plus 1%.
- ▶ The agricultural consolidation over the past decade, the growth of capital-intensive operations (livestock), and the emergence of more corporate forms of ownership have

created financially stronger units that can access more diversified capital sources (equity, retained earnings as well as debt) at relatively low cost.

Just because FIMCLA is available everywhere does not mean that it is used uniformly. The uptake of FIMCLA is lower where “competitor” programs exist, notably Québec. Use in Saskatchewan is much higher than anywhere else, reflecting the existence of provincial legislation that limits seizing farm properties in the event of a loan default.

It is worth noting that FIMCLA has the potential to support the new APF. Nothing in the approved loan uses impedes borrowers from using the program to make on-farm improvements that are consistent with the goals of the APF (see Section 4.1.1).

#### *Design, delivery, and appropriateness*

Loan guarantee programs work under the following conditions:

- ▶ many clients, so that a small registration fee can support the required administrative costs
- ▶ financial capacity to meet claims from registration revenues and recoveries from prior claims paid to lenders..

Historically, FIMCLA has managed this balance effectively, with a positive net gain (fees plus recoveries, less claims and administrative costs). At that time (roughly 1992-1997), FIMCLA was an appropriate and efficient model for extending access to capital while providing a risk management structure for lenders. However, the environment has changed. Unit administrative costs (per loan) are now much higher, and registrations have plummeted, which calls into question the program’s basic design and delivery.

#### *Acceptance*

For the most part, lenders are aware of the program and use it when they need to offer a loan to a client with a riskier profile. Some lenders reported that the ceiling of \$250,000 is too low and argued that this ceiling limits greater use. However, the fact that registrations have plummeted indicates that the program is not accepted by lenders, who are the critical instrument for extending credit to farmers who are unable to access financing conventionally.

As well, farmers often do not know about the program until a lender indicates that their risk profile warrants either less favourable terms and conditions or registration in the FIMCLA program. Most borrowers accept the registration fee as a fair cost for being able to get the loan on better terms and

believe that FIMCLA has allowed them greater access to loans than they otherwise would have had. However, the fact is that these borrowers form an increasingly smaller subset of farmers in general.

*Success/impacts*

Although the program does not track outcomes, the client survey suggests that the loans have been associated with innovation and modernization of farm operations. This provides evidence that FIMCLA has supported activity that is consistent with the APF.

### *Weaknesses*

Weaknesses of FIMCLA have emerged in the last few years and relate to the rationale of its eligible applicants and the balance between receipts and revenues (design and delivery).

### *Rationale*

The rationale for continuing FIMCLA is very weak. The fact that program use has declined sharply calls into basic question the rationale for the program's continuation. The average value of FIMCLA loans is very low, and very few loans are at the maximum allowable level of \$250,000. Finally, the original premise that FIMCLA be a cost recovery required annual registrations of \$174 million and a net surplus of \$33 million. In 2003, the program managed \$80 million (as at November 2003) in new registrations and had a net loss of \$2 million (2002-2003). Trends continue to show erosion in usage and net gain. The demand for this program has shrunk, and it questionable whether the program is operating on a full cost recovery basis.

The argument that FIMCLA must be maintained to assist farmers to deal with current problems such as BSE, poor crops, and trade disputes is flawed. These crises reflect a short-term need of liquidity, not the long-term investment to assist farms to modernize and become sustainable. It is unlikely that lenders would be willing to use FIMCLA to share the risks associated with rescuing a livestock operation with a surplus of maturing calves.

The evidence collected in this report also supports a comprehensive needs assessment for agricultural credit. Once needs are established and quantified, the next step is to review the role of a government-backed loan guarantee program in the contexts of emerging trends in the financial services sector and other available credit sources such as the Farm Credit Corporation and various provincial programs.

### *Design and delivery*

If the program were to be maintained, and based on the client surveys and lender interviews, the list of approved loan uses requires little change, except for the possible addition of loans to buy feeder livestock for farmers that are not members of a feeder association. This would be a minor adjustment. More limiting are the restrictions on the eligible borrowers. A weakness of the program is the restriction on lending to beginning farmers and cooperatives with non-farmer investors. In general, FIMCLA has not been used in lending to co-ops, but most key informants do not ascribe this to deficiencies in FIMCLA but rather to the fact that few marketing cooperatives exist and those that do are perceived as risky.

Also problematic is the requirement for a loan to be paid in the event that a partnership is dissolved, rather than being reassigned to the surviving partner in accordance with normal business practices.

Finally, the requirement for the lender to work immediately with FIMCLA staff in the event of a default rather than first trying to reschedule the terms and conditions contravenes normal business practices and increases the administrative burden on program staff. On the other hand, such quick involvement could offer important insight into the nature of the default, which may contribute to a speedier acceptance of a claim, a point that will be reviewed in Section 5.0.

One important design issue is whether the lender or the farmer is the client. The research showed that while lenders are aware of the program, many farmers are not. On the face of it, this would suggest that a marketing campaign directed to lenders would increase registrations. For example, the high ratio loans (low down payments) that are guaranteed by CMHC to first-time buyers is a widely known program. It is hard to know whether the marketing of this program by CMHC drives demand or whether the lenders, and especially real estate brokers and developers promoted the program. At any rate, the analogy between FIMCLA loans and home mortgages is weak. Lenders use FIMCLA to manage the risk for equipment and land loans, a fraction of the total farm value. Second, it is unlikely that if the agricultural producers and marketing cooperatives were more aware of the program, they would approach their financial institution for a loan. Remember, the loan must be for an approved use and may have a slightly lower interest rate with a lower down payment than might be required under conventional financing. This research has shown that many farmers get this deal anyway and therefore do not need a FIMCLA-guaranteed loan. In the final analysis, an expanded marketing campaign to inform farmers about the program is unlikely to raise program usage and will certainly add to cost, with an unlikely offset in the form of increased registration revenue.

### *Cost-effectiveness*

Lenders have indicated that the costs of the FIMCLA program for them are not in the registration process, but in the complexities of the default and claims processes (including the rejection of claims). This may be contributing to the slowing rate of registration, since it is primarily lenders that determine when to register a loan under the FIMCLA program.

The result of rising claims and falling registrations is that the net gain is also declining, which in turn raises concerns about the cost-recovery and risk-management processes of FIMCLA. Program management commissioned a cost-recovery study in response to comments by the Auditor General, but it has yet to complete an RBAF, which would systematically identify the risks and explain how these risks would be managed. Of course, unit administrative costs continue to rise because the same infrastructure is servicing a smaller registration base.

### *Outcomes*

It is difficult to link FIMCLA loans to the expected intermediate and long-term outcomes for the program. These outcomes relate to farm expansion and modernization/innovation for individual farms

and value-added processing, diversification, and market expansion by co-ops. In principle, the eligible loan uses support these outcomes, but they could equally support the replacement of aging equipment. FIMCLA maintains information on the use of the loan, but not on how the acquired asset supports the outcomes. Collecting this information is of little interest to lenders, and insisting that the applicant state whether the purchased equipment will contribute to modernization or innovation is likely to produce unanimous affirmations. After all, it seems “obvious” that replacing an old truck with a new one is modernization. To strengthen outcome reporting, the program could study the feasibility of gathering data that links loan use with the expected outcomes.

## **5.0 Options and recommendations**

This report has shown that program activity is a fraction of its previous level, and continues to decline. No one we interviewed forecasted a reversal of these trends, unless the external lending environment changes suddenly. It is important to note that FIMCLA had its peak in 1995-1996, when interest rates were higher than today, but not at the inflationary levels of the 1970s and 1980s. However, increasing interest rates alone are unlikely to provoke a reversal of current registration trends.

What seems to have occurred are other trends. First, and many we interviewed concurred, is that farmers have become larger and more sophisticated. Most analysts have been arguing that farmers need to embrace value added and seek economies of scale, and this has happened. An increasing number of farmers are in fact very large businesses who are well able to negotiate favourable terms with lenders. Second, lenders have introduced innovative financial arrangements. Aside from leasing and joint ventures with equipment dealers to offer credit at the point of sale, many non-financial companies are entering the lending market. GE-Capital is but one example of a manufacturer that has become very active in lending.

### ***Recommendation 1***

#### **Suspend the program but continue to support the existing portfolio of loans.**

With program suspension, the Department would need to execute the following actions:

- ▶ Compare the costs (administrative and net expected recoveries less expected claims) of maintaining the declining balance of the portfolio with the costs associated with maintaining the program to demonstrate the net savings from suspending the program.
- ▶ Communicate with all lenders that, while new loans would not be registered, all existing obligations would be maintained.
- ▶ Communicate the rationale for program suspension noting that unit costs are rising and registrations have plummeted. The program no longer meets the breakeven requirement, It is also important to note that this is not related in any way to on-going efforts to assist the farm community to deal with crises such as BSE, since FIMCLA has little bearing on managing these issues.
- ▶ Initiate the needs assessment without delay to communicate the intent to determine need and develop policy and programming as appropriate.
- ▶ Calculate the administration needed to maintain the existing portfolio of loans.

### ***Recommendation 2***

The department should undertake a credit needs assessment for agricultural producers with a view to identifying gaps in support for target groups such as beginning farmers and marketing/production cooperatives. This needs assessment should also:

- ▶ Review all existing credit sources for agricultural producers (private and public, federal and provincial).
- ▶ Using the previous two studies, develop an integrated credit policy for agriculture that may or may not include FIMCLA in its present or an amended form.

### ***Recommendation 3***

Considerable uncertainty exists about the risk associated with FIMCLA. Currently program activity is well below breakeven, and with registrations continuing to decline, the program is far away from cost-recovery. An immediate analysis of the financial risks associated with FIMCLA is needed.

### **Observation**

If suspensions is not an option, the program needs to urgently address some of the procedural issues of the program and broaden the eligibility in an effort to stabilize demand.

To limited extent, the decline in program use also reflects several issues that lenders have in terms of how the program is managed (i.e., default and claims processes) and limitations on eligibility (such as the low maximum loan amount – in the view of lenders – and restrictions on loan uses, including the exclusion of beginning farmers). Addressing these issues may raise demand for the program somewhat, but it may not reverse the steep decline in registrations experienced over the last six years. If AAFC wishes to maintain FIMCLA, some adjustments to the program are required.

- ▶ *FIMCLA objectives.* The objective of FIMCLA is: “*to increase the availability of loans for the purpose of the improvement and development of farms and the processing, distribution or marketing of farm products by co-operative associations.*” This objective may be intended to achieve one of two goals:
  - to provide the agricultural community with access to credit with favourable terms and conditions
  - to provide access to credit to those who would not otherwise be able to receive financing.

Depending on the prevailing economic environment, these goals may conflict with eligibility criteria. The first goal implicitly focuses on producers who are higher risk since those with a proven financial track record are usually able to obtain financing at an interest rate that is below prime + 1%. Under this objective, FIMCLA appears to be focusing on the small to medium producer with a weak financial capacity. However, the guidelines also require that a borrower must qualify for financing in accordance with the financial institution's normal business practice, albeit with less favourable terms. This could contradict the first goal of the program. As such, the objective of FIMCLA must be clearly defined.

- ▶ *Loan ceiling and loan uses.* The potential to expand the loan ceiling and eligible loan uses exists. However, any such expansion would require a needs assessment and risk analysis for each use. Issues that would need to be considered for these potential expansions include:
  - *Loan ceiling:* Some key informants recommended that the low uptake reflects a low loan ceiling of \$250,000. Given the cost of modern equipment and the capitalization of many farms, this ceiling appears low. On the other hand, few clients expect that they will experience poor access to credit, and very few FIMCLA loans and/or clients actually “push” against this ceiling. The fact that the average level of FIMCLA indebtedness is less than \$50,000 undermines the case for an increase in the ceiling. Additionally, the fact that average total farm borrowings are \$210,000 (2002 Farm Financial Survey) does not support an increase to the FIMCLA loan limit.
  - *Purchase of land previously leased or rented:* Using FIMCLA for land purchases may not be required since conventional mortgages include the property as sufficient security against default.
  - *Purchase of supply-managed commodity quotas:* Results of the client survey show little interest in the purchase of supply-managed commodity quotas within the next five years. The large Saskatchewan base for the program is a factor in such a response. However, issues surrounding potential World Trade Organization action against supply management cloud the acquisition of these property rights. An additional consideration is that quota prices could increase as additional credit becomes available.
  - *Purchase of feeder livestock:* Provincial feeder association loan guarantees are available in most provinces for the purchase of feeder livestock, although membership is required. As a cautionary note, including the purchase of feeder livestock as an eligible loan use may place FIMCLA in the position of lending for operating credit and not just term credit (i.e., not lending against a tangible asset).

- *Beginning farmers:* There is both lender and client interest in including beginning farmers as eligible borrowers under FIMCLA. However, opening FIMCLA to this client group may expose the program to additional risk, which may result in increased claims. Another consideration is that the maximum loan limit may be a limiting factor for beginning farmers wishing to use FIMCLA to finance inter-generational farm transfers. The risk potential for FIMCLA needs careful review. Additionally, before expanding FIMCLA to include beginning farmers, AAFC should have a clear picture of what other programs are available to assist beginning farmers.
- *Processing-related ventures:* Currently, co-ops represent a small fraction of the client base, which, according to some key informants, is due to the inherent riskiness of farmer co-ops. Including co-ops with non-farmer members, who are experienced manufacturers and business people that are able to manage risk, may enable FIMCLA to make a stronger contribution to the goal of increasing value-added production.
- ▶ *Claims processes.* Some lenders reported that the claims process is becoming onerous. This can become a disincentive for lenders recommending FIMCLA. That said, FIMCLA has a fiduciary responsibility to ensure that lenders have taken every action possible to collect on a defaulted loan. Rejecting too many claims could encourage lenders to reduce program participation, while easy acceptance of claims increases cost and risk to the Crown. The challenge is to work with lenders to balance due diligence in managing defaults with rapid processing/accepting of claims. A key to this is transparency, where lenders and FIMCLA staff have a high level of information and shared understanding of the processes needed to maintain program integrity. The introduction of a formal claims process may help alleviate some of these difficulties.

Balancing the reporting responsibilities of lenders and FIMCLA is an important element of the necessary risk management for a loan guarantee program. Options to achieve this include a formal protocol to manage this process (in place of the informal processes that have worked until now), providing lenders with timely updates on policy decisions, informing lenders if documentation is missing or inadequately completed at the time of registration, and providing lenders with information on program guidelines and practices. Each of these changes would have implications for program cost, and any decision to change administrative processes would need to be made in this light. Reviewing whether more formal and streamlined procedures to resolving claims are needed is one possible approach to dealing with this issue.

- ▶ *Financial review.* The cost and revenue picture for FIMCLA has changed since the risk analysis conducted in 2001. The recent large claim paid on a defaulted loan to a co-op aside, claims are rising. Declining recoveries and a few other large claims are also behind the losses for the program. Key questions for a financial review include:
  - determining the nature of claims (are they related to size of loan, loan use, risk appraisal)
  - reviewing administrative costs in settling claims and securing recoveries
  - reviewing the potential to use the database to create a probability model for forecasting defaults (note that this would require an augmented database)
  - recalculating a breakeven registration fee within the current economic environment.
  
- ▶ *Outcomes measures.* Short-term outcomes, such as the increase of credit, are easy to establish. Measuring longer-term outcomes is the challenge, especially the attribution of FIMCLA loans to the expansion and modernization/innovation of borrower operations. Based on the case studies and client reports of loan use, this has probably been achieved. However, looking to the future and how FIMCLA will support the APF, increasing the reliability and validity of the outcome measures would be useful. This implies that the program needs to complete an RMAF (as it has committed to do), within which a performance measurement strategy would be defined. The FIMCLA database is a strong platform for such a performance system. Using regular client surveys to track farm development and including fuller descriptions of the intended use of the acquired asset at the time of registration are two possible approaches to collecting information that would improve the program's ability to monitor outcomes.
  
- ▶ *Program monitoring.* An augmented FIMCLA database has the potential for contributing to program monitoring. To do this, the current database would need to include more information than just the FIMCLA loans made to each client. It would need to include information on other loans, other details on credit history, and information on farm operation. Such data on other debt is routinely collected by lenders in establishing the credit worthiness of the borrower and would allow the program to track usage of FIMCLA relative to other debt financing. Currently, the database does not even have phone numbers with which to conduct client follow-up, and without this, program monitoring will be complex and costly.

### **General conclusion**

FIMCLA has served the farm community well, but the economic context for agriculture has changed and the lending industry has become more competitive. The need for the program appears to no longer exist. The farmers whose loans are still registered under the program are likely to be able to access credit at reasonable terms if the program ceases. As such, this evaluation concludes that AAFC should suspend FIMCLA. Most important the department needs to commission a comprehensive needs assessment to determine whether the agricultural community needs access to long-term investment (as opposed to the short-term liquidity offered by various rescue packages). If a loan guarantee program is indicated as a need, then the procedural and administrative changes suggested above would be a good place to start with a revised program.

**APPENDIX A**  
EVALUATION FRAMEWORK

<b>Table 1: FIMCLA evaluation framework</b>		
<b>Evaluation questions</b>	<b>Indicators</b>	<b>Methodology/Data source</b>
<b>RELEVANCE</b>		
1. a) Are the objectives and mandate of FIMCLA consistent with the APF?	<ul style="list-style-type: none"> <li>▶ Consistency of policy context for FIMCLA and APF</li> <li>▶ Opinion of AAFC, provincial officials, Canadian Federation of Agriculture (CFA)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Key informant interviews (government)</li> </ul>
b) Are the objectives and mandate of FIMCLA relevant to the needs of the agricultural community including marketing cooperatives (e.g., larger farming operations, climate change, ageing farm population)?	<ul style="list-style-type: none"> <li>▶ Alignment of needs and provisions under FIMCLA</li> <li>▶ Client opinion</li> <li>▶ Lender opinion (users and non-users)</li> <li>▶ Role of FIMCLA in farm finance</li> <li>▶ Synthesis of findings</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Key informant interviews (government, clients, lenders, non-users)</li> <li>▶ Surveys (clients, lenders)</li> <li>▶ Case studies (clients, lenders)</li> </ul>
<ul style="list-style-type: none"> <li>▶ Number of loans by program objective</li> <li>▶ Number of loans by purpose</li> <li>▶ Number of loans by type of operation</li> <li>▶ Number of loans by size of operation</li> <li>▶ Number of loans by financial status of operation</li> <li>▶ FIMCLA as % of producer debt load</li> </ul> (Note: this will only demonstrate the need of producers who have used the program).	<ul style="list-style-type: none"> <li>▶ AAFC administrative data analysis</li> <li>▶ Case studies (clients, lenders)</li> </ul>	
2. Is there a need to amend FIMCLA to include provisions for (but not limited to): <ul style="list-style-type: none"> <li>▶ beginning farmers</li> <li>▶ purchase of land previously leased or rented</li> <li>▶ loan limit increases</li> <li>▶ processing-related ventures</li> <li>▶ 100% financing of new manure storage facilities</li> <li>▶ ad valorem taxes and duties</li> <li>▶ supply managed commodity quotas?</li> </ul>	<ul style="list-style-type: none"> <li>▶ Alignment of needs and provisions under FIMCLA</li> <li>▶ Perceived importance by AAFC, provincial officials, lenders, cooperative associations, and CFA</li> <li>▶ Client opinion</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Benchmarking</li> <li>▶ Key informant interviews (government, clients)</li> <li>▶ Survey (clients, lenders)</li> <li>▶ Case studies (clients, lenders)</li> </ul>

<b>Table 1: FIMCLA evaluation framework</b>		
<b>Evaluation questions</b>	<b>Indicators</b>	<b>Methodology/Data source</b>
3. Is there a continued need for the program?	<ul style="list-style-type: none"> <li>▶ Evolution of value and number of loans</li> <li>▶ Opinion of AAFC, provincial officials, lenders, cooperative associations, and CFA</li> <li>▶ Client opinion</li> <li>▶ Factors influencing lenders' decision to use FIMCLA</li> <li>▶ Evidence of unnecessary duplication or overlap with other programs</li> <li>▶ Reasons for declining number of loan registrations</li> </ul>	<ul style="list-style-type: none"> <li>▶ AAFC administrative data analysis</li> <li>▶ Key informant interviews (government, clients, lenders, non-users)</li> <li>▶ Surveys (clients, lenders)</li> <li>▶ Case studies (clients, lenders)</li> <li>▶ Benchmarking</li> </ul>
<b>DESIGN AND DELIVERY (MANAGEMENT EFFECTIVENESS)</b>		
4. a) What is the level of awareness of FIMCLA among lenders? b) What is the level of awareness of FIMCLA among clients? c) Should steps be taken to improve clients' and/or lenders' awareness of FIMCLA?	<ul style="list-style-type: none"> <li>▶ Percentage of lenders who are aware of FIMCLA</li> <li>▶ Percentage of clients who are aware of FIMCLA</li> <li>▶ Opinion of government, clients, lenders</li> <li>▶ Synthesis of findings</li> </ul>	<ul style="list-style-type: none"> <li>▶ Survey (clients, lenders)</li> <li>▶ Key informant interviews (government, clients, lenders)</li> </ul>
5. a) What processes are in place to facilitate communication between FIMCLA and lenders? How effective are these processes?	<ul style="list-style-type: none"> <li>▶ Whether management processes are adequate</li> <li>▶ Evidence of communication policy</li> <li>▶ Clarity of program information available (brochures, press releases, presentations, etc)</li> <li>▶ Opinion of AAFC, provincial officials, lenders, cooperative associations, and CFA</li> <li>▶ Opinion of lenders</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Key informant interviews (government, lenders)</li> <li>▶ Survey (lenders)</li> </ul>
b) What processes are in place to monitor performance? How effective are these processes?	<ul style="list-style-type: none"> <li>▶ Evidence of performance measurement strategy</li> <li>▶ Opinion of AAFC, provincial officials, lenders, cooperative associations, and CFA</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Key informant interviews (government)</li> </ul>
6. To what extent have the recommendations presented in 1999 Report of the Office of Auditor General (OAG report), Chapter 11- Agricultural Portfolio-User Fees been addressed?	<ul style="list-style-type: none"> <li>▶ Evidence of actions taken to address recommendations in the OAG report</li> <li>▶ Opinion of AAFC, provincial officials, lenders, cooperative associations, and CFA</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Key informant interviews (government)</li> </ul>

<b>Table 1: FIMCLA evaluation framework</b>		
<b>Evaluation questions</b>	<b>Indicators</b>	<b>Methodology/Data source</b>
<p>7. What are the outcomes (performance measurement) for the key managerial activities in terms of:</p> <ul style="list-style-type: none"> <li>▶ providing support to lenders</li> <li>▶ assessing and processing lender claims</li> <li>▶ recovering FIMCLA losses</li> <li>▶ negotiating compromise settlements?</li> </ul>	<ul style="list-style-type: none"> <li>▶ Identification of recovery/negation processes</li> <li>▶ Timeliness of response to lenders</li> <li>▶ Opinion of government, lenders</li> <li>▶ Time required to process guarantee applications (opinion of FIMCLA administration)</li> <li>▶ Assessment of lender claim processes (administrative and legal)</li> <li>▶ Time required to process lender claims (opinion of FIMCLA administration/lenders)</li> <li>▶ Time required to recover FIMCLA losses (opinion - FIMCLA administration)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Key informant interviews (government, lenders)</li> <li>▶ Survey (lenders)</li> <li>▶ Case studies (lenders)</li> <li>▶ AAFC administrative data analysis</li> <li>▶ Document review (sample of FIMCLA compromise settlement cases)</li> </ul>
<p>8. How effective is the technology infrastructure that supports the FIMCLA service delivery model?                      (To be completed by another contractor)</p>	<ul style="list-style-type: none"> <li>▶ The existing organizational structure defines management responsibility for decision-making.</li> <li>▶ The existing control framework defines segregation of duties and performance responsibilities.</li> <li>▶ Events and transactions are traceable to an employee who is supervised and whose work is reviewed.</li> <li>▶ Policies and procedures describe the system, functionality, and objectives.</li> <li>▶ Application controls ensure authorized, accurate, and complete processing of transactions, from input through processing, to output of information.</li> <li>▶ Errors/irregularities as transactions going through e-system are detected, corrected, and prevented.</li> <li>▶ Existing technology infrastructure effectively supports the FIMCLA service delivery model.</li> <li>▶ The technology requirements of FIMCLA will be optimized by the implementation of the proposed FIMCLA-on-Line project.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review - FIMCLA legislation and guidelines; proposed FIMCLA-on-Line project document and web site accessibility (hits)</li> <li>▶ Interviews - IT management</li> <li>▶ Review current logic models of the applications or develop one if none exists</li> <li>▶ Review current business model surrounding the application</li> <li>▶ Test controls</li> </ul>
<b>APPROPRIATENESS</b>		

<b>Table 1: FIMCLA evaluation framework</b>		
<b>Evaluation questions</b>	<b>Indicators</b>	<b>Methodology/Data source</b>
9. Is the FIMCLA service delivery model, including lenders' roles and responsibilities, the most appropriate design?	<ul style="list-style-type: none"> <li>▶ Evidence of similarities/gaps compared to other similar programs</li> <li>▶ Evidence/perception of inconsistencies redundancies in the FIMCLA service delivery model (government, lenders)</li> <li>▶ Identification of steps that expedite/impede the processing of loan guarantee applications/lenders' claims</li> <li>▶ Identification of barriers to implementing FIMCLA in individual provinces (government, lenders)</li> <li>▶ Perceived feasibility (government officials) of realigning/integrating FIMCLA with other AAFC support programs (i.e., Business Risk Management, Farm Credit Canada, and the APF initiative)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review (FIMCLA legislation and guidelines)</li> <li>▶ Benchmarking</li> <li>▶ Key informant interviews (government, lenders)</li> <li>▶ Case studies (lenders)</li> <li>▶ Survey (lenders)</li> </ul>
10. In what manner, and to what extent, does the program: <ul style="list-style-type: none"> <li>▶ complement other loan programs?</li> <li>▶ overlap/duplicate other loan programs?</li> </ul>	<ul style="list-style-type: none"> <li>▶ Evidence/perceived effectiveness of linkages between FIMCLA and other farm loan or business loan programs/organizations</li> <li>▶ Evidence/perception of complementarities with other similar programs</li> <li>▶ Evidence/perception of unnecessary overlap/ duplication with other similar programs</li> <li>▶ Identification of methods to streamline any duplication</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Benchmarking</li> <li>▶ Key informant interviews (government, lenders)</li> <li>▶ Survey (lenders)</li> <li>▶ Case studies (lenders, clients)</li> </ul>
11. Are FIMCLA lending activities consistent with FIMCLA's program mandate?	<ul style="list-style-type: none"> <li>▶ Evidence/perception of consistency between lending practices and the requirements of the FIMCLA legislation and guidelines</li> <li>▶ Summary of loan purpose</li> <li>▶ Summary of loan use</li> <li>▶ Summary of loan amount</li> <li>▶ Summary of loan terms and conditions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review (FIMCLA legislation and guidelines)</li> <li>▶ AAFC administrative data analysis</li> <li>▶ Key informant interviews (government, lenders)</li> <li>▶ Case studies (clients, lenders)</li> </ul>
<b>ACCEPTANCE</b>		
12. Is the current FIMCLA program acceptable to stakeholders?	<ul style="list-style-type: none"> <li>▶ Stakeholders' satisfaction with the FIMCLA program</li> </ul>	<ul style="list-style-type: none"> <li>▶ Key informant interviews (government, clients, lenders, non-users)</li> <li>▶ Survey (clients, lenders)</li> </ul>

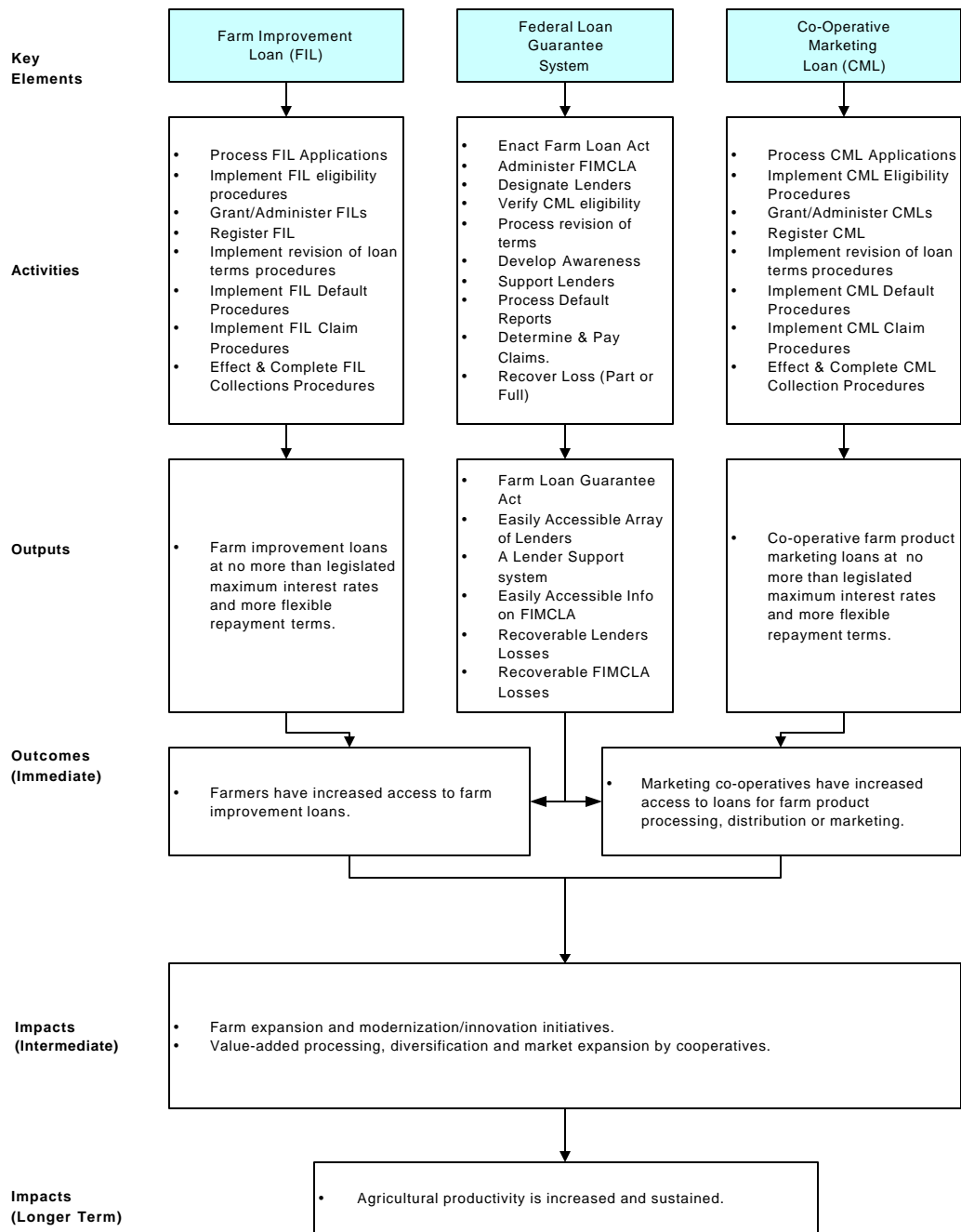
<b>Table 1: FIMCLA evaluation framework</b>		
<b>Evaluation questions</b>	<b>Indicators</b>	<b>Methodology/Data source</b>
<p>13. Are there formal or informal mechanisms to provide feedback on the program?</p> <ul style="list-style-type: none"> <li>▶ loan guarantees</li> <li>▶ appeal process</li> </ul>	<ul style="list-style-type: none"> <li>▶ Evidence of feedback mechanisms/appeal process</li> <li>▶ Perceptions of borrowers, lenders, and AAFC program staff</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review (procedures manual)</li> <li>▶ Survey (clients, lenders)</li> <li>▶ Key informant interviews (government, clients, lenders)</li> </ul>
<b>ACHIEVEMENT OF RESULTS/IMPACTS (SUCCESS)</b>		
<p>14. In what manner and to what extent has the FIMCLA program achieved its intended activities as identified in the FIMCLA Program Logic Model (Appendix B)?</p>	<ul style="list-style-type: none"> <li>▶ Evidence that intended program activities took place</li> <li>▶ Clients' and lenders' awareness of FIMCLA</li> <li>▶ Perceived accessibility of lenders</li> <li>▶ Perceived/assessed availability of information on FIMCLA</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Key informant interviews (government, clients, lenders)</li> <li>▶ Survey (clients, lenders)</li> <li>▶ Case studies (clients, lenders)</li> </ul>
<p>15. In what manner, and to what extent, has the FIMCLA program achieved its intended outputs as identified in the FIMCLA Program Logic Model (Appendix B)?</p>	<ul style="list-style-type: none"> <li>▶ Evidence that intended program outputs were produced</li> <li>▶ Identification/perception of level of risk of loans</li> <li>▶ Perceptions of whether loan would have been issued in the absence of FIMCLA (if so, how would the terms and conditions have differed)</li> <li>▶ Summary of loan terms and conditions</li> <li>▶ % of defaults that were recovered</li> <li>▶ % of defaults where a compromised settlement was reached</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review</li> <li>▶ Key informant interviews (government, clients, lenders)</li> <li>▶ Survey (clients, lenders)</li> <li>▶ Case studies (clients, lenders)</li> <li>▶ Administrative data analysis</li> </ul>

<b>Table 1: FIMCLA evaluation framework</b>		
<b>Evaluation questions</b>	<b>Indicators</b>	<b>Methodology/Data source</b>
16. In what manner, and to what extent, has the FIMCLA program achieved the anticipated immediate, intermediate, and longer-term outcomes/impacts identified in the FIMCLA Program Logic Model (Appendix B)?	<p>Immediate:</p> <ul style="list-style-type: none"> <li>▶ Perceptions of whether FIMCLA has facilitated farmers' access to farm improvement loans</li> <li>▶ Perceptions of whether FIMCLA has facilitated access to farm product processing, distribution, or marketing loans by marketing cooperatives</li> </ul> <p>Intermediate:</p> <ul style="list-style-type: none"> <li>▶ Perceptions of whether any significant changes in farm expansion and modernization/innovation are attributable to FIMCLA</li> <li>▶ Perceptions of whether any significant changes in value-added processing, diversification, and market expansion by cooperatives are attributable to FIMCLA</li> </ul> <p>Longer term:</p> <ul style="list-style-type: none"> <li>▶ Perceptions of whether any sustained increases in agricultural productivity may be attributed to FIMCLA</li> <li>▶ Identification of reasons for decline in number of FIMCLA registered loans</li> </ul> <p>Note: The results for this question will be largely based on key informant/respondent assessment. Statistical attribution will likely not be possible.</p>	<ul style="list-style-type: none"> <li>▶ Key informant interviews (government, clients, lenders)</li> <li>▶ Survey (clients, lenders)</li> <li>▶ Case studies (clients, lenders)</li> </ul>
17. What unintended benefits and outcomes resulted from the program (and not the loan)?	<ul style="list-style-type: none"> <li>▶ Evidence of unintended benefits and outcomes of the guarantee</li> <li>▶ Evidence of positive/negative influence on lenders' operations</li> <li>▶ Estimate of probability of loss versus actual loss</li> </ul>	<ul style="list-style-type: none"> <li>▶ Key informant interviews (government, clients, lenders)</li> <li>▶ Survey (clients, lenders)</li> <li>▶ Case studies (clients and lenders)</li> </ul>
18. What were the strengths and weaknesses of the program?	<ul style="list-style-type: none"> <li>▶ Perceptions of government, clients, and lenders</li> <li>▶ Synthesis of findings</li> </ul>	<ul style="list-style-type: none"> <li>▶ Key informant interviews (government, clients, lenders)</li> <li>▶ Survey (clients, lenders)</li> <li>▶ Case studies (clients, lenders)</li> </ul>
<b>COST-EFFECTIVENESS</b>		

<b>Table 1: FIMCLA evaluation framework</b>		
<b>Evaluation questions</b>	<b>Indicators</b>	<b>Methodology/Data source</b>
19. What are the cumulative AAFC costs associated with FIMCLA?	<ul style="list-style-type: none"> <li>▶ Net sum of accumulated AAFC costs associated with the administration of FIMCLA</li> <li>▶ Cost per FIMCLA loan compared to other programs</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review (annual reports)</li> <li>▶ Benchmarking</li> <li>▶ AAFC administrative data analysis</li> </ul>
20. What is the cumulative total volume of loans guaranteed under FIMCLA?	<ul style="list-style-type: none"> <li>▶ The cumulative total amount of loans guaranteed under FIMCLA (1988 - 2002)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Document review (annual reports)</li> <li>▶ AAFC administrative data analysis</li> </ul>
21. Are the costs comparable to those of other lending programs?	<ul style="list-style-type: none"> <li>▶ Comparison of the loan loss rate of FIMCLA with the loss rates of other similar programs. (Loan loss ratio is calculated based on loss made in a given year over total value of the portfolio in that same year.)</li> <li>▶ Comparison of amount FIMCLA charges for insurance fees, fees to negotiate loan, and renewal fees with other similar programs</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benchmarking</li> <li>▶ Document review (annual reports)</li> </ul>

**APPENDIX B**  
FIMCLA Program Logic Model

**FIMCLA PROGRAM LOGIC MODEL**



**Figure 1**

**APPENDIX C**  
1995 FIMCLA Amendments

## **1995 FIMCLA Amendments**

In June 1995, FIMCLA was amended to reflect concerns raised by agricultural producers, lenders, the Standing Joint Committee for the Scrutiny of Regulations, and past audits. The new regulations for FIMCLA came into force on May 31, 1999, and the substantive changes from the previous regulations include:<sup>66</sup>

- ▶ increasing the five-year aggregate (over all lenders) principal amount of loans (the cap) that can be guaranteed under the Act from \$1.5 billion to \$3 billion
- ▶ increasing the registration fee payable by the borrower for loans guaranteed under the Act from 0.5% of the loan amount to 0.85% of the loan amount (to offset the increased possibility of defaults resulting from the increase in the program cap and to cover program operating costs)
- ▶ changing the formula for determining the maximum interest rate that lenders can charge for fixed interest rate loans from a prime-rate formula to a maximum of the lender's residential mortgage rate plus 1% (to encourage lenders to consistently offer fixed term loans instead of only when the formula makes the practice cost-efficient for lenders)
- ▶ defining the nature of security to be taken for guaranteed loans (to improve the safeguards on guaranteed loans and contribute to controlling losses)
- ▶ expanding the definition of eligible activities (see Section 2.2.3) to include:
  - the purchase of crop storage condominiums, which would reduce storage/handling costs and increase marketing efficiencies
  - fees and charges, which would give producers the option of terming the costs over the life of the loan
  - costs associated with obtaining security for eligible purposes other than the purchase of additional land, which allows loan guarantees for the common practice of mortgaging property in order to finance a farm project.

AAFC also made the following two changes to the administration of FIMCLA:<sup>67</sup>

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<sup>66</sup>AAFC. Extract Canada Gazette, Part II. March 31, 1999, pp. 850-852.

<sup>67</sup>AAFC. Extract Canada Gazette, Part II. March 31, 1999. Page 847.

- ▶ allowing the registration of loans more than 60 days from the date on which the first disbursement is advanced (for all purposes except construction), providing the lender can show good cause
  
- ▶ allowing the registration of construction loans more than 180 days from the date on which the first disbursement is advanced, providing the lender can show good cause.

**APPENDIX D**  
FIMCLA Loan Uses

## **FIMCLA LOAN USES**

Under FIMCLA, eligible loan uses include:

- ▶ ‘Equipment Loans...
  - for the purpose of financing the purchase, installation, renovation, improvement or modernization of equipment necessary for the operation of the farm excluding the labour cost attributed to the proprietor.
  
- ▶ Building/Construction Loans...
  - made to the proprietor of a farming operation who is, or is to become, the owner of the building through construction or purchase; is or is to become, the owner or the tenant of the building and the loan is made for the purpose of financing the renovation, improvement or modernization necessary to the farming operation, excluding the labour cost attributed to the proprietor
  - involve the purchase, movement to, and installation on a farm of complete or partially complete structures and, if necessary, the completion of the initial structures; the repair or overhaul of fencing if the cost exceeds \$2,000; the construction of a road or driveway on a farm.
  
- ▶ Additional Land Loans...
  - made to the proprietor of a farming operation who: is to become the owner of additional land necessary for the farming operation for the purpose of financing the purchase of additional land including any building or structures....In order to meet the requirements of FIMCLA for additional land, the applicant must be either the owner of or have a leasehold interest in the land which the applicant is presently farming and the purchase would be in addition to this land, hence ‘additional land.’
  
- ▶ Livestock Loans...
  - the purchase of livestock, including cattle, sheep, goats, and other ruminants, swine, poultry, bees and fur bearing animals, other prescribed animals such as deer (including the white-tailed deer), elk, bison, alpaca, llama, game birds, and rhea.
  - Note: Short term feeder livestock are not eligible, horses are eligible for breeding purposes only, not for riding stables, sport, or pets.

- ▶ Consolidation/Refinancing Loans...
  - only loans originally made to an eligible applicant for an eligible purpose under the Act or Regulations can be consolidated/refinanced
  - only loans granted under FIMCLA may be consolidated/refinanced by the lending institution where loans originated...consolidating/refinancing of a lender's ordinary loans, (loans other than those granted under FIMCLA, but coming within the purposes of FIMCLA) must be referred to another lender
  - loans by a third party, originally made for the purposes eligible under FIMCLA (e.g., another financial institution, implement dealer, contractor), can be consolidated/refinanced under FIMCLA.
  
- ▶ Co-operative Loans.<sup>68</sup>

The following are some specific examples of eligible uses:

- ▶ “the clearing, breaking, irrigation and reclaiming of land
- ▶ the conservation of soil and the prevention of soil erosion by the planting of trees and shelter belts
- ▶ the purchase, movement to and installation on a farm of complete or partially complete structures and, if necessary, the completion of the installed structures
- ▶ if the cost is \$2,000 or more, a repair or overhaul of fencing
- ▶ if the cost is \$2,000 or more, the purchase and the planting of maple trees for maple syrup production and the purchase and planting of fruit trees, Christmas trees and ginseng
- ▶ the construction of a road or driveway on a farm
- ▶ the costs of land transfer taxes and survey, appraisal and legal costs relating to the purchase of additional land
- ▶ the purchase of a crop storage condominium
- ▶ the cost of obtaining security on existing assets (including premiums for life and/or disability insurance)
- ▶ the costs of a fee or charge referred to in section 17 of the regulations.<sup>69</sup>

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<sup>68</sup>FIMCLA Lender's Guidelines.

<sup>69</sup>Ibid.

Examples of ineligible loans uses include:

- ▶ “Borrower’s labour
- ▶ Refundable taxes (i.e., GST, PST or Custom Duties)
- ▶ Equipment for the sole use of custom work
- ▶ Recreational vehicles
- ▶ Quota purchases of all kinds
- ▶ Operating loans
- ▶ Loans for the purchase of short-term feeder livestock
- ▶ Stock in trade
- ▶ Improvements to or the construction of a family dwelling
- ▶ Share purchases
- ▶ Permits and licenses
- ▶ Goodwill
- ▶ Vehicles for personal uses
- ▶ Labour or services provided by the borrower/proprietor
- ▶ Intangibles such as research and development costs or prepaid expenses
- ▶ Working capital
- ▶ Construction of equipment
- ▶ Lease agreement
- ▶ Cut flowers for the retail market.”<sup>70</sup>

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<sup>70</sup>Ibid.