

NOVA SCOTIA FARM LOAN BOARD

Business Plan

2016 - 2017



Nova Scotia Farm Loan Board

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Message from the Minister and the Board Chair

We are pleased to present the Nova Scotia Farm Loan Board business plan for 2016-2017. The plan outlines the board's goals and priorities for the coming year in line with its mission and mandate.

The primary focus of the board continues to be the provision of agricultural financing and of credit counselling in order to advance, encourage, and support the development of agricultural and timber businesses in Nova Scotia.

Arnold Park
Chair
Nova Scotia Farm Loan Board

The Honourable Keith Colwell
Minister
Nova Scotia Department of Agriculture

Mission

The Nova Scotia Farm Loan Board supports the development of agriculture and agri-rural business in Nova Scotia through responsible lending.

Vision

The Nova Scotia Farm Loan Board is a leader in agricultural lending, creating opportunities in rural Nova Scotia.

Mandate

The Mandate of the Nova Scotia Farm Loan Board (NSFLB) is to support the agricultural industry through the provision of capital financing. The NSFLB operates as a Crown Corporation under the authority of the *Agriculture and Rural Credit Act*, most recently amended in December of 2011. This act provides authority, in part, to the board to make loans to or guarantee loans of, a borrower for the purpose of acquiring or improving any farm asset, including livestock. Regulations made under section 8 of the act govern the terms and conditions of capital provided by the NSFLB.

The NSFLB also serves the forest industry, as the Timber Loan Board. The Timber Loan Board's authority is provided by the *Forest Act, in section 20 Chapter 179*. The *Forest Act* provides for credit to acquire forested land for forest product mills. Regulations of the Timber Loan Board, which govern terms and conditions of credit provided are made under the *Forest Act subsection 20(4)*; and differ significantly from the farm regulations.

Capital can be acquired for both short and long term developments, utilizing fixed rate loans. Term loans of 3, 5 and 10 years with fixed rates of interest for the term period are available for short to medium length developments. Long term financing with a maximum of a 30 year amortization and an accompanying 30 year fixed rate of interest are available for qualifying farm mortgages. Timber loans are limited to a 20 year amortization.

Past - Present - Future

The NSFLB, formerly the Land Settlement Board, has been active since 1932. The board is an agricultural development agency, acting to build a financially stable and sustainable agricultural

base in Nova Scotia. It supports agriculture and rural business development by providing short, medium and long term capital with competitive fixed rates of interest. The board has developed several products designed to serve specific lending needs. These include: the Classic Farm Mortgage; Quota loans; Debt Consolidator loans; Capital Injections loans (for working capital); a Fast Tractor (preapproved equipment finance); Deferred Product Options (primarily for orchard / grape establishment); and a Jump Start Program (for new entrant farmers).

The board staff are primarily trained in agriculture and know the product commodities sectors of Nova Scotia agriculture well. Many have agribusiness training and are well equipped to understand the inner workings of farm finance. The staff of the NSFLB are committed to the industry and are interested in serving their client base effectively, with the right product at the right time. The board staff are part of the larger Department of Agriculture and can access many additional resources.

The NSFLB staff report directly to the Director of Crown Agencies, in the dual role as CEO of the NSFLB. The Director of Crown Agencies reports to the Deputy Minister of Agriculture and is also responsible to the Minister of Agriculture. (Special Note: The Minister of Agriculture is currently also the Minister of Fisheries and the Deputy Minister of Agriculture is also the Deputy Minister of Fisheries.) The Director of Crown Agencies is responsible for the operations of the Nova Scotia Farm Loan Board and the Nova Scotia Fisheries and Aquaculture Loan Board. The Nova Scotia Fisheries and Aquaculture Loan Board has its own CEO. The Directors of Crown Agencies monitors the activities of this lending agency through its CEO.

The position of Director of Crowning Agencies was established in 2012 to work cooperatively with the two departmental lending agencies and their respective Boards of Directors. This has resulted in a great deal of harmonization between the two boards' staff at the management level. While this harmonization is a work in progress to date, several senior positions now cover both boards. These include; the Director of Crown Agencies; Credit Manager; Senior Risk Manager; and Manager of Finance. In the near future the Director plans to have a Special Credit Senior Loans Officer covering both boards and a new Senior Loans Officer hired to be responsible for further processor lending for both boards. This position will also include aquaculture lending, as it is as complex and as difficult as further processing lending.

Portfolio Management

The developmental nature of the NSFLB means that in practical terms that the board is willing to take on more credit risk than a traditional bank. The result of this is that the board carries larger arrears than would be acceptable to a main stream institutional lending organization such as a Tier 1 bank. In order to better manage this risk and provide greater certainty around collection, more emphasis has been placed on credit assessment, risk assessment, and special credit roles.

The role of the Finance Manager is to maintain the integrity of the accounting as it relates to the entire loan portfolio. This broad definition includes: loan bookings & disbursements; posting of

payments; receipting of payments & maintain accurate balance records; tracking of term maturities & renewals; tracking of repayment policy as it relates to five year intervals; accounting of the annual pay back policy; changes in interest rates as the provincial borrowing rates change; development of an accurate provision for arrears accounts and working with the external auditors to develop annual financial statements. To cover all of the above responsibilities and those not specifically referenced, the Finance Manager has a staff with strong skill sets in accounting procedures.

The role of Credit Manager is critical to supervision of solid lending practices carried out by the Loans Officers. The role of the Credit Manager is to help the Loans Officer structure an effective application. The Credit Manager must ensure that the deal is both good for the client and the board. The Credit Manager will typically be looking for potential policy breaches especially as it relates to applicable interest rates and to security required to provide a back door exit for the board in the event of default. The position requires the ability to coach and mentor less experienced Loans Officers in good lending practices.

The role of Senior Risk Manager is to provide adjudication to assess the risk presented with a given credit application. The Risk Manager may assign conditions under which a loan will be made to better protect the investment. Authorization limits at the Loan Officer and Senior Loan Officer level have been removed and authorization limits are restricted to the board's CEO; Credit Manager and Senior Risk Manager. All three senior staff manager have to sign off on a loan prior to disbursement.

The role of the Special Credit position will provide focused special credit activities with the objective of re-establishing the farm business to a regular repayment regime; or coming to an agreeable solution to the arrears problems that works for all parties concerned. The role of Special Credit is to actively manage the arrears portion of the loan portfolio so that the board is protected from unwarranted losses to as great an extent as possible.

Alignment with the Provincial Economy

The NSFLB forms a critical link in the capitalization of rural Nova Scotia businesses. The investment of some \$200 million in Nova Scotia farms and farm processing is no small commitment on the part of the Province. This capital is used to: buy farm land; construct farm buildings, plant new crop varieties; make animal genetic improvements; purchase new efficient equipment; adopt new agricultural technology; purchase marketing quotas; and provide working capital.

These investments make Nova Scotia a better place to farm, and a more productive place to farm as well as providing more local food for Nova Scotians. These investments support a great deal of related industries including: building and material suppliers; building contractors; equipment dealers; and provide a very significant spin off impact through the entire Nova Scotia economy.

The Department of Agriculture has five strategic themes:

Enabling Responsible Economic Growth: As discussed above the NSFLB has a positive and significant impact on the rural economy of Nova Scotia. NSFLB staff and Board Directors are very aware of the responsibility they have as stewards of this provincial investment. When it makes good business sense the NSFLB will partner with other lenders to allocate risk and complete a deal. Portfolio Management is critical and is top of mind.

Supporting Research and Innovation: The NSFLB supports innovative farmers in their quest to develop new crops and processes and in the adoption of new technology.

Building Public Trust and Market Acceptance: The NSFLB disburses approximately \$30 million annually. These funds are used to improve food production, to improve processes and in general improve the quality of food that consumers in Nova Scotia buy each day of the year regardless of the season. Much of this money is used to construct and improve storage facilities to maintain or enhance the quality of the food produced. Investments in improved genetic quality for breeding stock also provides greater market acceptance for a diverse line of products including cattle, mink and horticultural products. In this manner farmers are aided in their goal to gain both Public Trust and Market Acceptance for their products.

Increasing Trade and Market Access: While the majority of Nova Scotia fresh produce is sold in province, a large and growing sector in apples, blueberry (both wild and high bush) and certain cole crops such as Kale are making significant in-roads in cross border sales to the USA and Europe. As an example 75% of the Honey Crisp Apples (a relative new variety that grows especially good in Nova Scotia's climate) are sold in the USA. Many of the Honey Crisp Variety orchards now in production were planted with support of the NSFLB using our deferred payment option. The entire mink pelt crop is sold out of province with a large proportion in China and Russia.

Encouraging Value Added Opportunities: The concept of value added is a mechanism to escape the commodity markets where margins are very minimal. Some level of value added can make the difference between profit and loss. An exciting opportunity in Nova Scotia is the development of the wine industry. While grape production can result in profit, wine production can be more profitable. The capital investment required to make the leap from primary grape production to wine production is staggering and not for the faint of heart. The NSFLB has participated in this journey with a number of growers with strong business plans. As well the NSFLB has recently invested in an organic malt operation that will support the boutique beer industry. Risks are higher in the value added transition but so are the rewards for the skilled managers who can navigate the process. The board will continue to offer financial support to clients when taking on value added opportunities with good business potential.

Budget Context

Nova Scotia Farm Loan Board Operational Income Statement

Description	2015–2016	2015–2016	2016–2017
	Estimate	Forecast	Estimate
	(\$ 000)	(\$ 000)	(\$ 000)
Interest	7,400	6,507	6,800
Life Insurance revenue ⁽¹⁾	20	22	20
Fee revenue / recoveries	210	392	230
Total revenue	7,630	6,921	7,050
Interest	5,500	5,028	5,100
Operating expenses	1,612	1,517	1,612
Bad debt expense	253	2,151	253
Total expenses	7,365	8,696	6,965
Net income (loss)	265	(1,775)	85
Transferred to the province	(265)	1,775	(85)
Remaining	0	0	0

Notes:

See year-end annual reports for complete financial information and notes (www.gov.ns.ca/agri/farmlb/busplan/).

Interest expense is established under terms of a Memorandum of Understanding arranged with the Department of Finance.

See notes the following the Capital Funds table.

Capital Funds

Description	2015-2016	2015-2016	2016-2017
	Estimate	Forecast	Estimate
	(\$ 000)_	(\$ 000)_	(\$ 000)_
Opening principal	185,748	180,876	185,600
Add loan advances	35,000	27,000	35,000
Less repayments	(23,000)	(21,000)	(23,000)
Less principal written off	(3,000)	(1,276)	(3,000)
Closing principal	194,748	185,600	194,600
Provision for impaired accounts			
Opening provision	8,802	9,914	12,144
Less accounts written off	(1,000)	(1,276)	(1,000)
Additions (principal portion of bad debt expense +/- adjustments)	500	3,506	500
Closing allowance	8,302	12,144	11,644
Net portfolio at year end	186,446	173,456	182,956

The board funds loans by arranging financing through the Department of Finance for terms similar to loans issued on a quarterly basis.

Accounting adjustments are subject to the approval of the Department of Agriculture. The board is assigned budgetary authority through the department and is required to conform the forecast and estimate authority to the amount assigned. Authority assigned for fees, operations, and bad-debt expense is based on funding availability.

Significant portions of the board's expenses, especially bad-debt expense, are variable, somewhat unpredictable, and beyond short-term control.

Total Staff (FTEs)	17.3	18.3	18.3
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Staff complement has increased by 1 financial services officer. The Fisheries and Aquaculture Loan Board is co-located with the Farm Loan Board in Truro. During the 2015-16 year, the Farm Loan Board accounting section took over Fisheries Loan Board accounting work formerly provided by two staff and a Director of the Department of Finance located in Halifax. As a result, one position was transferred to the Farm Loan Board in Truro.

Outcomes and Performance Measures

Core Business Area 1 *Lending*

Outcome	Measure Rationale	& Base Data	Year	Targets	Trends	Strategic Actions
Growth in the rural economy	Total new funds advanced during the year (in millions). [As a measure of new economic activity].	2012: \$21.1 m		2015-16: \$30 m 2016-17: \$30 m	2011–12: 21.1 2012–13: 26.4 2013-14: 31.1 2014-15: 25.5 2015-16: 27.0 forecast	<p>Continue to provide loan financing to clients who have a reasonable likelihood of success.</p> <p>Continue to develop additional loan products to meet client needs, including clients with lower inherent risk and less likelihood of loss.</p> <p>Ensure that lending information is readily available to those seeking credit, through the website, publicity, and participation in producer meetings as well as directly through the loan officers.</p>
Increase in stable successful clients.	Total arrears as percentage of value of all accounts. [As an indication of client strength].	2006–07: 3.7%		2015–16: 4.3% or less 2016–17: 3.0% or less	2011–12: 4.9% 2012–13: 4.4% 2013–14: 4.3% 2014-15: 5.2% 2015-16: 2.9% forecast	<p>The special credit section will continue working with clients in arrears or experiencing difficulty to achieve the best chance of success in the long term (see arrears strategies above).</p> <p>Monitor account status, contacting clients in arrears and referring them to industry resources where appropriate. Maintain contact and work with client and work out arrangements for payment. Include larger arrears accounts in annual review process.</p> <p>Strengthened new-loan approval review, using the Risk Manager position.</p>