

# NOVA SCOTIA FARM LOAN BOARD

# Business Plan

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## 2017 - 2018

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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 2017-2018. 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 to advance, encourage, and support the development of agricultural and timber businesses in Nova Scotia.



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Arnold Park  
Chair  
Nova Scotia Farm Loan Board



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Honourable Keith Colwell. E.C.N.S.  
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*. This Act provides authority to the Board to make loans to or guarantee loans of, a borrower for acquiring or improving any farm asset, including livestock. Regulations made under 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*. 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*.

## Operations

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: farm mortgages; quota loans; debt consolidator loans; capital injections loans (for working capital); the 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 Board's management staff report directly to the Director of Crown Agencies. The Director of Crown Agencies reports to the Deputy Minister of Agriculture and is also responsible to the Minister of Agriculture. 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 position of Director of Crown 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 staff supporting the two Board at all levels. To date, several senior management positions now cover both Boards. These include; the Director of Crown Agencies; Credit Manager; Senior Risk Manager; and Manager of Finance. A new organizational structure was approved in October 2016 to better reflect the needs of industry and the boards.

Capital can be acquired for both short and long term developments, utilizing fixed rate loans. Term loans of three, five and ten 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.



## 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. 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 and disbursements; posting of payments; receipting of payments and maintaining 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/ loans in default and working with the external auditors to develop annual financial statements. To cover all 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 the supervision of solid lending practices carried out by the Loans Officers. The Credit Manager helps 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; the Board's Director; Credit Manager; and the Risk Manager. At least two senior staff managers must 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 with an investment of \$200 million in Nova Scotia farms and farm processing. 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 and more productive place to farm, as well as providing more local food for Nova Scotians. These investments support a great deal of related industry 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 identified 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. The staff that support the NSFLB and its 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 to gain both Public Trust and Market Acceptance for their products.

**Increasing Trade and Market Access:** While most 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 honeycrisp apples (a relative new variety that grows especially well in Nova Scotia's climate) are sold in the USA. Many of the honeycrisp 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:** One 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 NSFLB has supported several growers in this transition. The NSFLB has recently invested in an organic malt operation that will support the craft beer industry. Risks can be higher for value added products, but so are the economic impacts. The Board will continue to offer financial support to clients when taking on value added opportunities with good business potential.

A review is underway to update the Board's regulatory and policy framework to enhance Board effectiveness in addressing industry changes; improve service quality; develop innovative and creative programs and financing solutions; and alleviate undue risk to Board investments.



## Budget Context

### Nova Scotia Farm Loan Board Operational Income Statement

Description	2016–2017	2016–2017	2017–2018
	Estimate	Forecast	Estimate
	(\$ 000)	(\$ 000)	(\$ 000)
Interest	6,800	5,730	5,800
Life Insurance revenue <sup>(1)</sup>	22	22	22
Fee revenue / recoveries	209	264	209
<b>Total revenue</b>	<b>7,031</b>	<b>6,016</b>	<b>6,031</b>
Interest	5,100	4,645	4,700
Operating expenses	1,697	1,503	1,648
Bad debt expense	253	2,920	253
<b>Total expenses</b>	<b>7,050</b>	<b>9,068</b>	<b>6,601</b>
<b>Net income (loss)</b>	<b>(19)</b>	<b>(3,052)</b>	<b>(570)</b>
Transferred to the province	19	3,052	570
Remaining	0	0	0

#### Notes:

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

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**Capital Funds**

Description	2016-2017	2016-2017	2017-2018
	Estimate	Forecast	Estimate
	(\$ 000)	(\$ 000)	(\$ 000)
Opening principal	185,600	180,849	180,415
Add loan advances	35,000	32,000	40,000
Less repayments	(23,000)	(32,000)	(30,000)
Less principal written off	(3,000)	(434)	(2,000)
Closing principal	194,600	180,415	188,415
Provision for impaired accounts			
Opening provision	12,144	10,982	14,906
Less accounts written off	(1,000)	(434)	(2,000)
Additions (principal portion of bad debt expense +/- adjustments)	500	4,358	253
Closing allowance	11,644	14,906	13,159
Net portfolio at year end	182,956	165,509	175,256

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)	18.3	18.3	18.3
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## Outcomes and Performance Measures

### Core Business Area 1 *Lending*

Outcome	Measure & Rationale	Base Year Data	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	2016-17: \$30 m 2017-18: \$35 m	2012-13: 26.4 2013-14: 31.1 2014-15: 25.5 2015-16: 25.7 2016-17: 32.0 forecast	Continue to provide loan financing to clients who have a reasonable likelihood of success.  Continue to develop additional loan products to meet client needs, including clients with lower inherent risk and less likelihood of loss.  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.
Increase in stable successful clients.	Total arrears as percentage of value of all accounts. [As an indication of client strength].	2006-07: 3.7%	2016-17: 3.0% or less 2017-18: 5.5%	2012-13: 4.4% 2013-14: 4.3% 2014-15: 5.2% 2015-16: 4.6% 2016-17: 6.0% forecast	The special credit section will continue working with clients in arrears or having trouble to achieve the best chance of success in the long term (see arrears strategies above).  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.  Strengthened new-loan approval review, using the Risk Manager position.