Feeder Associations of Alberta Ltd.

Sources of Financing for Feedlots

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Take Home Message

- ✓ The right financing package can enhance the capability and profitability of the farm.
- ✓ Two types of financing are required: 1) Capital and 2) Operating.
- ✓ Investment capital is available as mortgage loans from a variety of financial institutions.
- ✓ Operating credit is available from banks, credit unions, feeder associations, private commission firms and feed companies.

Introduction

Agricultural lenders who finance farm production are key to the financial success or failure of the farm. Farming is subject to risk and uncertainty in both the production and the marketing of a commodity. The right financing package serves to enhance the capabilities and profitability of a farming operation.

Two types of financing are required; capital loans (such as longer term mortgage loans on land, facilities or equipment) and operating loans for the purchase of feeder cattle or feed.

Mortgage Loans

A wide variety of mortgage loan alternatives are available through the chartered banks, Treasury Branches and credit unions. Information on current loan programs and new options are available at all branches. Besides these conventional lenders, there are other alternatives available to producers for their feedlot money requirements. These include government agencies, trust and loan companies and suppliers (feed or equipment companies). As well, a variety of provincial and federal government lending programs are available.

Alberta's Agriculture Financial Services Corporation (AFSC) offers a number of lending programs to farmers. For instance, those qualifying as a beginning farmer can obtain up to $200,000 for the purchase of land, for land improvements and facilities as well as for equipment purchases. Young farmers are also able to purchase shares in or make a shareholders loan to an existing farm company facilitating the transfer of farm assets and responsibilities to the next generation.

For individuals who have developed their operations but are unable to access other credit sources, AFSC offers the developing farmer loans. Loans eligible under this program are similar to the beginning farmer loan program. As well, the program offers financial restructuring and/or debt consolidation. Under this program, applicants are required to have 20% equity in cash or farm assets. Amortization periods range up to 20 years. Repayment is calculated on preferred direct lending rates in effect at the time of loan approval.

Farm Credit Corporation (FCC) is a federal corporation which provides mortgage loans for purchasing farm land, farm equipment, improvements and livestock as well as any other purpose that facilitates the efficient operation of the farm. Farm Credit financing is also available to refinance debts. Under the present program, there are no statutory limits on the size of loan.

Farm Credit Corp. offers one-year convertible loans or fixed interest rate terms of 1, 3, 5, 7, 10, 15, or 20 years. Amortization periods range from 3 to 29 years. Interest rates applied are those rates in effect on the date of application. FCC also offers family farm loans, which facilitate the transfer of farm assets from retiring farmers to family members or other purchasers.

Operating Loans

Operating credit is used over the period of production and is necessary to bridge current expenses to future income. For the feedlot, this credit is used to finance the purchase of feeder cattle, plus the production or purchase of feed and supplies.

Loans to cover a feedlot's operating requirements are primarily available through the chartered banks, credit unions and Treasury branches. The criteria used by lenders in establishing an operating credit include management ability, cash flow projection and the equity position of the producer. Security for operating loans is based on the value of inventory. Secured by section 427 of the bank act or by a general security agreement on feed and livestock, lenders will require a significant equity contribution on the part of the feedlot. In some cases, the required equity is as high as 40% to 50%. Interest charged is negotiable and tends to range from prime to prime plus two.

In Western Canada credit to purchase feeder cattle is also available through feeder associations, private commission firms and feed companies.

Alberta's Feeder Associations Guarantee Act provides farmers with an alternative method of financing cattle for growing or finishing. Local feeder associations are formed as cooperatives and are administered by a board of directors and staff. The board of directors approves and monitors loans on feeder cattle for feeder members. Each board hires a supervisor and secretary/treasurer to administer loans and maintain financial records.

Members provide a 5 percent security deposit to the association. These funds are maintained in a separate assurance account to be used for repayment of defaulted bank loans associated with the program. Members may lose all or part of their security deposit if the association is required to repay any member's defaulted loan. Associations purchase cattle on behalf of members therefore retain legal ownership of cattle purchased under the program. All cattle are branded with the association brand and are sold in the name of the association. First year members are eligible for up to $ 30,000 and in their second year may obtain up to $ 100,000 worth of cattle.

Commission firms, auctions and some feed companies provide financing for cattle purchases. Producers should research these agreements as a variety of requirements and restrictions apply in these financing packages. Under such arrangements the cattle are generally branded with the creditor's brand and sometimes are ear tagged with a tag carrying the creditor's name. With some commission firms, cattle must be bought and sold through the firm. Should cattle not sell back through the commission firm, a sales commission is charged anyway. Producers are required to provide a deposit to the creditor prior to having cattle delivered to them. The deposit or equity required from the producer can vary from 5 to 15 % depending on the reputation and financial stability of the feeder, the production program and weight or class of the cattle. Some companies offer feeder cattle contracts similar to the feeder association program. The company buys cattle on behalf of the farmer, brands the cattle with the their brand and the farmer signs a feeder agreement with the creditor. The cattle are managed by the farmer but are sold through the auction in the creditor's name to the account of the farmer.

The Cattlemen's Financial Corporation (CFC) in alliance with the Farm Credit Corporation also offers a finance program for feeder cattle purchased by cattlemen in the backgrounding and feedlot industry. Cattlemen's Financial Corporation (CFC) representatives visit prospective applicants as part of a pre-approval process, good for up to one year to purchase cattle.

For more information on individual lender programs contact local branches and offices, or call:

Alberta Auction Markets Association
(403) 340-2460

Alberta Feeder Associations
(780) 427-5096

Agriculture Financial Services Corporation
(403) 679-1311

Alberta Treasury Branches
(780) 493-7203 - Edmonton region
(403) 541-4291 - Calgary region

Bank of Montreal
(403) 340-4652 - Red Deer region
(780) 672-1213 - Edmonton region
(403) 382-3207 - Lethbridge region

Bank of Nova Scotia
(403) 221-2375

Canadian Imperial Bank of Commerce
(403) 221-5819 - Calgary region
(780) 429-7649 - Edmonton region

Credit Unions
(780) 258-5900 - Edmonton
(780) 986-2216 - Edmonton

Cattlemen's Financial Corporation
(780) 448-0033

Royal Bank of Canada
(403) 382-3890

Toronto Dominion Bank
(403) 292-1081 - Calgary