



Saskatchewan
Agriculture
and Food

LIVESTOCK LOAN GUARANTEE

***Cattle Feeder and Breeder
Associations Policy and
Procedures Manual***

January 2006

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A. Program Purpose and Benefits

PROGRAM PURPOSE

The Livestock Loan Guarantee Program facilitates growth of Saskatchewan's livestock industry by providing access to credit at competitive interest rates and with minimal deposits. The program may also be used as a management tool to generate cash flow through retained ownership. The program includes both association and individual options, as outlined below.

Residents of Saskatchewan who are at least 18 years of age can participate in the program, subject to association, lender and provincial supervisor approval. Corporations may participate in the Enhanced Cattle Feeder Option, the Individual Cattle Feeder Option or the Feedlot Construction Option.

The Livestock Loan Guarantee Program is governed by *The Farm Financial Stability Act*.

Association Options

For the association options, producers must either join an existing producer association or form a new association. Once approved, the association borrows funds on the strength of the association's assurance fund, the livestock and the association's assets as collateral, and a 25% government guarantee to the lender. The funds are used by the association to purchase livestock on behalf of its members. Members may also sell their own animals to the association to generate operating capital while maintaining the benefits of ownership.

All livestock are owned by the association and must carry the association's registered brand or permanent mark. Each member is responsible for repayment of loans taken out by the association on the member's behalf, regardless of the returns from the sale of the livestock or if a guarantee payment is made to the lender. When animals are sold, the required payment(s) is made on the member's account with the association and any excess profit is returned to the member.

Cattle Feeder/Breeder Options – for the purchase of feeder heifers and steers, feeder cows, pregnant females under five years of age, pregnant or non-pregnant females under five years of age with a calf at foot, up to a maximum of \$6 million per option.

Sheep Feeder/Breeder Options - for the purchase of feeder wethers or ewe lambs and pregnant females under four years of age, pregnant or non-pregnant females under four years of age with a lamb(s) at foot, up to a maximum of \$4 million per option.

Bison Feeder Option – for the purchase of bison feeder bulls and feeder heifers under two years of age, up to a maximum \$5 million per association.

Enhanced Cattle Feeder Option – for the purchase of feeder heifers, steers and feeder cows by an association comprised of one feedlot member and a minimum of 10 individual members, up to a maximum of \$6 million per association.

Individual Options

For the individual option, loans are made directly to the producer.

Individual Cattle Feeder Option – for the purchase of cattle feeder heifers and steers by individual feedlots, up to a maximum of \$3 million per producer.

Feedlot Construction Option – for the construction or expansion of feedlot facilities for feeding of cattle, bison or sheep.

BENEFITS TO THE PRODUCER

Key benefits of the Livestock Loan Guarantee Program to the producer include:

- provides an alternate source of credit at competitive interest rates
- government guarantee and assurance fund provide the basis for the lender to finance up to 100% of the purchase price of the livestock
- minimal assurance fund deposit allows members to purchase during times of limited cash flow
- improves cash flow management through retained ownership options by producer associations
- associations are producer controlled

Note

Producers are responsible for repayment of loans regardless of the returns from the sale of the cattle or if a guarantee payment is made to the lender.

B. Overview of the Cattle Feeder and/or Breeder Options

The following is a brief outline of the operations of the Cattle Feeder/Breeder Options:

- 1) An association incorporates as a co-operative or a corporation with a minimum of 10 members in each option. A minimum of 10 active members is required in each option during the association's fiscal year.

Definition – Active Member

☞ Active means having an outstanding feeder or breeder account with the association at any time during the fiscal year of the association. A member's activity is considered separately for the feeder and breeder options.

- 2) The association members elect a board of directors to govern the affairs of the association.
- 3) The members of an association and the amount that can be borrowed by the association on behalf of each member must be approved by the board of directors, the lender and the provincial supervisor.
- 4) The board of directors appoints a secretary-treasurer and a local supervisor to monitor cattle purchases and sales, ensure loans are properly advanced and repaid, maintain the records of the association, and provide the provincial supervisor and lender with monthly inventory reports, and other duties outlined on pages D-7 to D-18, or as directed by the board.
- 5) The association negotiates with a lender for loans and to set up the required accounts.
- 6) The board appoints an auditor for the association.
- 7) All cattle and offspring are owned by the association, not the individual members. As such, all cattle purchased by the association, and any offspring, must be branded with the association's registered brand.
- 8) When providing loans to an association, the lender obtains the following security:
 - a credit agreement, loan agreement and/or promissory note;
 - all cattle owned by the association through a charge under Section 427 of *The Bank Act* and/or a blanket charge under the *Personal Property Security Act* (PPSA) on all assets of the association;

- hypothecation of the association's assurance fund; **and**
- a general assignment of all book debts (accounts receivable) of the association.

Note

☞ Each member is responsible for repayment of loans taken out by the association on the member's behalf, regardless of the returns from the sale of the livestock or if a guarantee payment is made to the lender.

- 9) When association cattle are sold, the sale proceeds are applied first to the advance(s) taken by the association to purchase cattle on the member's behalf. Any funds remaining after the feeder advance is repaid or the breeder annual payment is made may be returned to the member.
- 10) The lender and local supervisor of the association submit monthly reports to the provincial supervisor and to each other.
- 11) If, after all cattle have been sold and the returns applied to the member's account with the association, there is a shortfall, the association attempts to collect the shortfall from the member. If the shortfall is not repaid, the member is in default, the lender debits the association's assurance fund for the amount required to pay out the advance(s).
- 12) In the event that the assurance fund is depleted, the lender attempts to collect any additional losses from the association and/or the member.
- 13) If unsuccessful in collecting the loss from the association or the member, the lender makes a formal request for payment under the government guarantee.

C. Establishing a Cattle Feeder and/or Breeder Association

Under the Cattle Feeder/Breeder Option, Saskatchewan residents establish production associations for the purpose of borrowing funds to purchase feeder cattle and female breeder cattle. It normally takes about four to six months to establish an association.

STEPS TO ESTABLISH A CATTLE FEEDER AND/OR BREEDER ASSOCIATION

The following guidelines outline the process for establishing an association:

- 1) Organize a general information meeting by contacting the provincial supervisor for your area:
 - Saskatoon: 933-5745
 - Regina: 787-5275
- 2) Select the option(s) to be offered by the association:
 - The association may offer the feeder option (including feeder cows for approved members), the breeder option, or both options to its members.
 - Where an association offers the feeder option and the breeder option, the assurance fund and loans for each option must be managed separately.
- 3) Develop an initial membership list:
 - The initial membership list must include at least 10 members in each option and the association may continue to add members up to the day of application for the government guarantee.
 - All members must complete and sign a *Membership Application* (see form CF9).
 - There must be at least 10 active members in each option operated by the association.
 - i) To be considered active, a member must have an outstanding feeder or breeder account with the association at any time during the fiscal year of the association. A member's activity is considered separately for each option.
- 4) Apply for incorporation as a corporation or co-operative:
 - Contact a lawyer to incorporate as a corporation.
 - Contact Saskatchewan Justice, Corporations Branch to form a co-operative (see the Government of Saskatchewan Blue Pages for current listings).

- 5) Elect a board of directors:
 - Association members are responsible for electing a board of directors.
- 6) Establish the association's by-laws:
 - The board of directors is responsible for establishing the association's by-laws concerning membership, fees and other administrative criteria.
- 7) Elect an executive committee:
 - The board of directors elects an executive comprised of the president and secretary-treasurer and any other officers the association requires.
 - i) The main roles of the executive include:
 - (a) carrying out the day-to-day business of the association in between board meetings, such as payroll, cheque signing, and carrying out resolutions passed by the board;
 - (b) dealing with emergency situations that require a decision before a full board meeting can be arranged; **and**
 - (c) handling other duties as authorized by a resolution of the board of directors.
 - ii) When electing the executive, the board must avoid conflict of interest situations such as those outlined on pages D-19 and D-20: Conflict of Interest Guidelines.
- 8) Designate signing authorities for the association:
 - At least once per year, the board of directors must pass a resolution to designate which board members are authorized to sign association cheques and/or documents.
 - i) At least two executive members should be granted signing authority.
 - ii) At least one board member must sign all association documents, with the exception of *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements*, where the board may choose to follow additional procedures rather than requiring a board member's signature. For details, refer to pages G-7 to G-8: Signing Feeder/Breeder Agreements.
 - The board may pass a resolution authorizing the secretary-treasurer to sign routine association documents as the association signing officer and/or to sign association cheques.

- i) Separate resolutions are required to grant authority to the secretary-treasurer to sign both documents and cheques.

Definition – Association Signing Officer

☞ An association signing officer may be any board member, and/or the secretary-treasurer, who has been authorized by the board to sign such a document.

- The local supervisor must not sign association cheques and cannot be authorized to sign documents other than those required to fulfill the duties of the position.
 - The board of directors may establish additional requirements for signing. For example, some associations restrict persons with the same last name from signing the same document.
 - Signing authorities for the association must be renewed annually, usually at the association's annual general meeting or at the first board of director's meeting following the annual general meeting.
- 9) Appoint a local supervisor and secretary-treasurer:
- The board appoints a local supervisor to be responsible for confirming cattle are branded, monitoring cattle purchases and sales, providing the provincial supervisor and lender with a monthly report (see forms CF26 and CF27), completing an annual breeder inventory and inspection, and handling other duties as outlined on pages D-7 to D-13: Duties of the Local Supervisor, or as directed by the board.
 - The board appoints a secretary-treasurer to be responsible for providing bookkeeping and accounting, maintaining a current membership list, ensuring loans are properly advanced and repaid, working with the local supervisor to prepare reports, ensuring the association receives the original cattle invoices, providing support to the board of directors, and handling other duties outlined on pages D-14 to D-18: Duties of the Secretary-Treasurer, or as directed by the board.
 - When appointing a local supervisor or secretary-treasurer, the board must avoid conflict of interest situations such as those outlined on pages D-19 and D-20: Conflict of Interest Guidelines.
 - The provincial supervisor must approve both the local supervisor and the secretary-treasurer (see form CF3).

10) Selection of a lender who will provide loans for the purchase of cattle:

- Discussions should be carried out with several lenders to negotiate the best terms.
- After receiving the association's proposal, the lender may require additional information about the program.
 - i) Most lender head offices will have some knowledge of the Livestock Loan Guarantee Program, but the local manager may request copies of the program brochure, program manual or the act and regulations, any of which may be obtained from the provincial supervisor.

11) Finalize the membership list:

- Each member and the amount the association is eligible to borrow on behalf of each member must be approved by the board of director's and the lender.
- The board of directors should consult with the lender before deciding a member's eligibility.
- The lender will:
 - i) require the name, address and personal financial statements for each proposed member;
 - ii) conduct a credit check of the applicants and ensure there are no legal proceedings against them; **and**
 - iii) either approve or reject each applicant.
- The provincial supervisor will do a final confirmation of member eligibility.

12) Register an association brand:

- The association must register a brand, which consists of a shelter with letters or numbers above it, to be located in one or more of the six locations available.
- Associations approved for feeder cows must also register a brand, which consists of a shelter over C with letter or numbers above it, to be located in one or more of the six locations available.
- To select and register a brand, associations should contact the Inspection and Regulatory Management Branch of Saskatchewan Agriculture and Food in Regina at 787-4682.

13) Complete a *Three Party Agreement*:

- After the lender has been selected and the membership list is finalized, the association and the lender sign a *Three Party Agreement* (see forms CF7 and/or CF8), which stipulates the responsibilities of each party.
- Where the association plans to offer both a feeder option and a breeder option, a separate *Three Party Agreement* must be completed for each option.

14) Complete a *Guarantee Application*:

- The association and lender complete an application for a guarantee from the Government of Saskatchewan.
- Where the association plans to offer both the feeder and the breeder option, a separate *Guarantee Application* must be completed for each option (see forms CF5 and/or CF6).

15) Submit a complete application package to the provincial supervisor for approval:

- For each option, the following documents must be submitted to the provincial supervisor:
 - i) *Guarantee Application and Membership List* (see forms CF5 and/or CF6)
 - ii) *Three Party Agreement* (see forms CF7 and/or CF8)
 - iii) Copy of the Incorporation Certificate
 - iv) *Management Information Summary* (see form CF2)
 - v) *Local Supervisor and Secretary-Treasurer Confirmation* (see form CF3)
 - vi) *All Membership Applications* (see form CF9)

16) Await approval of the government guarantee:

- The government guarantee is usually finalized within two weeks of the provincial supervisor's receipt of the application package.
- Once the application is approved, the Government of Saskatchewan issues a guarantee to the lender and sends a copy to the association.

17) Schedule a start-up meeting:

- After the government guarantee has been issued to the lender, the association should arrange a meeting with the provincial supervisor to review operating procedures and other program requirements.

18) Work with the lender to establish accounts:

- The association should work with the lender to set up the required operating and assurance fund accounts.
- Members' assurance fund deposits should be placed in an interest bearing assurance fund account, with separate accounts for the feeder and breeder options.
- Assurance fund deposits must be invested only in investments where the principal amount cannot be lost.
 - i) If not held in government investments, assurance fund accounts must be insured under the Canada Deposit Insurance Corporation or the Credit Union Deposit Guarantee Corporation.
- Any interest earned from the assurance funds may be credited to the association's operating account and used to cover operating costs or returned to the members, as determined by the association's by-laws.

19) Begin operating:

- After the government guarantee has been issued and the required accounts have been created, arrangements can be made for the association to start purchasing cattle and drawing funds.

20) Select an auditor and develop a bookkeeping system:

- The board of directors must hire a Chartered Accountant (CA), a Certified Management Accountant (CMA), or a Certified General Accountant (CGA) to perform an annual audit of the association's books.
- The auditor should be selected immediately so the association can work with the auditor to develop a mutually agreeable system which is easy to maintain and audit.
- The secretary-treasurer is responsible for setting up the bookkeeping system for the association, in consultation with the auditor.
- The suggested fiscal year-end for feeder/breeder associations is August 31.

D. Association Board of Directors and Staff

DUTIES OF THE BOARD OF DIRECTORS

The board of directors is responsible for making decisions on behalf of the association members. Where an association offers the feeder option and the breeder option, the same board of directors serves for both options.

Roles and Responsibilities

The main roles and responsibilities of the board of directors are to:

- 1) Elect an executive committee that includes a president, secretary-treasurer and any other officers the association requires.
- 2) Designate signing authority for the association. For details, refer to page D-3: Designating Signing Authority.
- 3) Appoint/hire a secretary-treasurer and a local supervisor and direct their activities.
- 4) Delegate responsibilities to board members, committees, and staff concerning the day-to-day operations and record-keeping for the association.
- 5) Set policy related to membership approvals, loan limits, financial management and control, and staff duties and remuneration.
- 6) Operate the association on a break-even basis.
 - Reasonable surpluses should be maintained to ensure the association remains fiscally viable.
- 7) Review and either approve or reject applications for membership, custom feeding, loan increases, loan extensions and other applications using the *Board of Directors' Application Review Checklist* (see form CF12).
- 8) Ensure prices paid for cattle do not exceed the current fair market value;
 - At least once yearly, the board of directors must set the maximum price that the Association will pay for cows, pregnant heifers and cow-calf pairs.
 - i) The maximum purchase price set by the board may be less than the current market price.

- ii) Where the purchase price exceeds the maximum price set by the board, the difference must be paid by the member.
 - iii) Where markets fluctuate throughout the year, the board may need to review the association's purchase limits more frequently.
- 9) Ensure that the association's financial records are audited on an annual basis. For additional information, refer to Section 2-P: Financial Audits.
- 10) Ensure that an annual general meeting is held within six months of the association's fiscal year end for co-operators and no later than 15 months after the last annual meeting for corporations. For additional information, refer to Section 2-Q: Annual Meetings.
- 11) Meet a minimum of four times annually to conduct affairs of the association according to the association's articles and by-laws; and other legislation and regulations pertaining to the operation of the association.
- 12) Take appropriate action to deal with members who fail to act in accordance with program requirements.

Selecting an Executive Committee

The board of directors must elect an executive that includes a president, secretary-treasurer and any other officers the association requires. When electing the executive, the board must avoid conflict of interest situations such as those outlined on pages D-19 to D-20: Conflict of Interest Guidelines.

The main roles of the executive include:

- carrying out the day-to-day business of the association in between board meetings such as payroll, cheque signing, and carrying out resolutions passed by the board;
- handling emergency situations which require a decision before a full board meeting can be arranged; **and**
- other duties as authorized by a resolution of the board of directors.

Designating Signing Authority

At least once per year, the board must pass a resolution to designate which board members are authorized to sign association cheques and/or documents. Policies and procedures for authorizing signing authority include:

- 1) At least two of the three executive members should be granted signing authority.
- 2) At least one board member must sign all association documents, with the exception of *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements*, where the board may choose to follow additional procedures rather than requiring a board member's signature. For details, refer to pages G-7 to G-8: Signing Feeder/Breeder Agreements.
- 3) The board may pass a resolution granting authority to the secretary-treasurer to sign routine association documents as the association signing officer and/or to sign association cheques (in addition to a board member signature).
 - Separate resolutions are required to grant authority to the secretary-treasurer to sign both documents and cheques.
- 4) The local supervisor must not sign association cheques and cannot be authorized to sign documents other than those required to fulfill the duties of the position.
- 5) Signing authorities for the association must be renewed annually, usually at the association's annual general meeting or at the first board of director's meeting following the annual general meeting.

Definition – Association Signing Officer

☞ *An association signing officer may be any board member, and/or the secretary-treasurer, who has been authorized by the board to sign such a document.*

Elections

Directors are elected at annual or general meetings, subject to the following terms and conditions:

- 1) Only members who are approved by the lender for an association loan are eligible for election to the board of directors.
- 2) A bankrupt person is not eligible for election to the board of directors.
- 3) Board members must be free from any conflict of interest situations as outlined on pages D-19 to D-20: Conflict of Interest Guidelines.

For additional information, refer to *The Co-operatives Act, 1996* or *The Business Corporations Act*.

Board Meetings

Board meetings are subject to the following policies and procedures:

- 1) *Frequency of Meetings* – The association must hold a minimum of four board meetings per year, with meetings held no more than three months apart.
 - Where the association and lender agree that a board member's signature is not required on *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements*, the board must hold at least six meetings annually, as outlined in item 4 on page G-8: *Signing Feeder/Breeder Agreements (Schedules A and B)*.
- 2) *Meeting by Telephone Conference* – Board meetings may be held via telephone conference call, provided the following requirements are met:
 - All directors of the association must consent in writing to conduct board meetings via telephone conference call.
 - i) A *Telephone Conference Consent Form* (see form CF32) must be signed and dated by all directors of the association and submitted to the provincial supervisor.
 - ii) When a change in director(s) occurs, each new director(s) must sign and date a *Telephone Conference Consent Form* and submit it to the provincial supervisor;
 - All persons participating in the meeting must be able to hear and speak to each other at the same time. (Separate one-to-one phone calls between board members do not constitute a board meeting.)

- All other requirements of a board meeting remain the same.
- 3) *Minutes* – Copies of the minutes from all board meetings, including telephone conference calls, must be sent to the lender and the provincial supervisor within two weeks of the meeting.

For additional information, refer to *The Co-operatives Act, 1996* (for co-operatives) or *The Business Corporations Act* (for corporations).

Selecting a Local Supervisor

When considering potential candidates for the position of local supervisor, the board of directors must consider and confirm the following:

- The candidate must be familiar with cattle feeding, branding, manifesting, management and facilities;
- The candidate must be interviewed and approved by the provincial supervisor (see form CF3);
- The candidate must have no conflict of interest, as outlined on pages D-19 to D-20: Conflict of Interest Guidelines; **and**
- The local supervisor should be compensated based on the time, travel and other expenses involved.

For addition information about the duties and responsibilities of the local supervisor, refer to pages D-7 to D-13: Duties of the Local Supervisor.

Selecting a Secretary-Treasurer

When considering potential candidates for the position of secretary-treasurer, the board of directors must consider and confirm the following:

- The candidate must be familiar with bookkeeping and administration;
- The candidate must be interviewed and approved by the provincial supervisor (see form CF3);
- The candidate must have no conflict of interest, as outlined on page D-19 to D-20: Conflict of Interest Guidelines; **and**

- The secretary-treasurer should be compensated based on the time, travel and other expenses involved.

For additional information about the duties and responsibilities of the secretary-treasurer, refer to pages D-14 to D-18: Duties of the Secretary-Treasurer.

DUTIES OF THE LOCAL SUPERVISOR

The local supervisor is responsible for the following:

Supervising Members

- 1) Advising the board of directors that new applicants and current members have the facilities, feed, and management abilities necessary to grow, finish or maintain cattle.
- 2) Ensuring that the duties and responsibilities of the local supervisor can be carried out with each member. For example, it may be difficult to inspect cattle or obtain signatures for members who live 150 km away, or are frequently absent.

Enforcing Purchasing Policies and Procedures

- 3) Ensuring that all new purchases by the association are made through a licensed dealer.
- 4) Ensuring that cattle being transferred from the feeder option to the breeder option are processed through a licensed dealer so that the lender retains valid security.
- 5) Enforcing the following policies and procedures concerning the purchase of cattle by the association:
 - An association may not transfer cattle owned on behalf of a member in the feeder or breeder option to the account of a second member in the same option who shares the same farm operation. However, this kind of transfer is permissible where the transfer is between different options.
 - Feeder cows cannot be purchased under the breeder option.
 - If the association wants to purchase calves or pregnant heifers owned by a member, a member's company, or any person who shares the same farm operation, the transaction must go through a licensed dealer. The purchase price must not exceed 100% of the fair market value of the cattle.
 - i) The local supervisor must ensure that the licensed dealer includes on the invoice the name of the contributor; that is, the previous owner of the cattle being purchased by the association.
 - Calves must be weaned before they can be purchased or transferred into the feeder option.

- When cattle are transferred from one option to another (for example, calves transferred from the breeder option to the feeder option), the local supervisor must ensure that the cattle being transferred are still owned by the association, based on the *Local Supervisor's Monthly Report*.

Example

☞ *If the Association owns 30 calves in the breeder option on behalf of a member, as confirmed by the Local Supervisor's Monthly Report, the association may transfer up to only 30 calves to the feeder option on behalf of that member for 100% of the fair market value of the calves. This transaction does not require a licensed dealer.*

☞ *Any calves beyond the number confirmed by the Local Supervisor's Monthly Report are deemed to be owned by the member and may be purchased by the Association. The purchase price does not exceed 100% of the fair market value of the cattle and this transaction is required to be made through a licensed dealer.*

Monitoring Purchase Prices

- 6) Working with the secretary-treasurer on an ongoing basis to ensure that loans taken out on behalf of association members, and the purchase price per animal, do not exceed the limits set out in the program regulations or those authorized by the board of directors and the lender.
 - Where the purchase price exceeds the maximum price set by the board of directors, the difference must be paid by the member.
- 7) Reviewing the issuance of purchase orders to ensure the amounts being authorized are appropriate for the member.
 - Purchase orders must include:
 - i) a PO number;
 - ii) the amount the member is authorized to spend; **and**
 - iii) the size, weight range (for feeder cattle only) and price range of the cattle being purchased.

- 8) Ensuring that prices paid for cattle do not exceed:
- 100% of fair market value where the association purchases feeders or pregnant heifers from a member, a member's company or any person who shares the same farm operation.
 - Fair market value for commercial cattle.

Inspecting and Verifying Association Brands

- 9) Verifying that all cattle purchased by the association, and their offspring, are branded with the association's registered brand prior to completing the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*.
- The member's own brand may also be applied, if the member chooses.
 - For more information about branding requirements, including procedures to follow when two or more members keep association cattle at the same location, refer to Section H: Branding.

Collecting Assurance Fund Deposits

- 10) Collecting the 5% feeder deposit or the 10% breeder deposit required for the association's assurance fund and arranging to have the funds deposited by the secretary-treasurer.
- The local supervisor should confirm that the member's required assurance fund deposit is in place before signing the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*.
 - As an advance is repaid, any amount standing to the credit of the member in the association's assurance fund in excess of 5% of the feeder advances outstanding for that member or 10% of the breeder advances outstanding for that member, including interest, may be applied to the assurance fund deposit required for a new purchase.

Completing Feeder and Breeder Agreements

- 11) Completing *Schedule A Feeder Agreements* (see form CF15) or *Schedule B Breeder Agreements* (see form CF16), and ensuring that the documents are signed by the member, the local supervisor, and a board member and/or association signing officer.
 - *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements* must be completed and signed as described on pages G-4 to G-8: Completing and Signing Feeder/Breeder Agreements (Schedules A and B).
 - The local supervisor must ensure that all information on the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is complete and correct before the member or the local supervisor sign the document.
 - The local supervisor must explain to the member that the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is a personal covenant whereby the member promises to repay the association the advance amount and any interest that accrues, regardless of the returns from the sale of the cattle or if a guarantee payment is made to the lender, and agrees to abide by all the conditions and by-laws of the association.
 - Feeder cows may not be combined on the same *Feeder Agreement* as feeder heifers or steers—a separate *Schedule A Feeder Agreement* is required.
- 12) Obtaining a certificate of pregnancy for the purchase of any breeding stock.
 - If the cattle are purchased from an auction market, a statement is required from the auction market operator indicating that the animals were purchased from a bred cow or bred heifer sale and were pregnancy checked by a veterinarian.
 - If the cattle are purchased from the member or another producer, a certificate of pregnancy signed by a veterinarian is required.
 - If the cattle are in advanced pregnancy and a pregnancy examination may cause harm or undue stress, a certificate of pregnancy is not required provided the local supervisor confirms on the purchase invoice and the *Schedule B Breeder Agreement* that the cattle were visibly pregnant.
- 13) Ensuring that all five copies of the completed *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements* are submitted to the secretary-treasurer, along with the purchase invoices and supporting documentation. This process is necessary since the lender requires both the schedule and the invoice before authorizing the loan.

- If corrections are made on a *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* or the purchase invoice, the local supervisor and the member must initial each change.

Authorizing Custom Feeding

- 14) Authorizing a member, in conjunction with board of directors' approval, to feed association cattle at a custom feedlot or pasture.
- For further information about custom feeding, refer to page G-12 and forms CF17 and CF18.

Monitoring Loan Repayment Dates

- 15) Assisting the secretary-treasurer, where required, to ensure that:
- members zero-balance their entire feeder steer and heifer account at least once every 12 months; or, as an option, where the association chooses, feeder advances are to be repaid within 12 months of the anniversary date of each advance;
 - feeder cow advances do not go beyond their expiry dates and that the association's feeder cow account for each member is zero-balanced at least once every 12 months;
and
 - breeder advances are repaid within 60 months of the purchase date.

For further information about monitoring loan repayments, refer to pages D-15 to D-16: Duties of the Secretary-Treasurer.

Applying Selling Policies and Procedures

- 16) Advising members that they are to notify the local supervisor or the secretary-treasurer before association cattle are sold.
- 17) Ensuring that members correctly complete *Livestock Manifests* (see form CF22).
- *Livestock Manifests* are available from Agriculture Business Centres, auction markets, and brand inspectors.
- 18) Working with the secretary-treasurer to ensure proceeds from the sale of association cattle are paid directly to the association on behalf of the member.

- 19) Working with the secretary-treasurer to reconcile the inventory of association cattle held by each member based on sales settlements to ensure that the required inventory for any remaining advances is in place prior to the release of any equity to the member.

Monitoring and Inspecting Inventory

- 20) Monitoring each member's cattle inventory on an ongoing basis.
- In the event of the culling or death loss of breeding stock, the local supervisor must ensure that the member either:
 - i) replaces the breeding stock with one of equivalent value and continues making regular annual payments (requires completion of form CF20: *Replacement of Breeding Stock*); **or**
 - ii) pays out the prorated amount of the advance for the breeding stock that was culled or died.
- 21) Confirming by physical inspection the number and condition of association feeder or breeder cattle held by members who apply to extend feeder or breeder loans, or as directed by the board of directors.
- 22) For those associations who do not zero out their feeder advances on an annual basis, a complete physical inspection and count of each member's feeder inventory must be completed at least once per year.
- A *Feeder Inventory Confirmation Report* (see form CF25.1) must be completed and sent to the provincial supervisor and lender.
 - For details, refer to page K-3: *Feeder Inventory Confirmation Report* and form CF25.1
- 23) Conducting a complete physical inspection and count of each member's breeder inventory and ensuring that all offspring are either branded with the association's brand, or the annual payment made, before the calves turn three months of age, or before going to pasture, whichever comes first.
- A complete *Breeder Inventory Confirmation Report* (see form CF25) must be completed and sent to the provincial supervisor and lender by June 30 of each year.
 - For details, refer to pages K-4 to K-5: *Breeder Inventory Confirmation Report* and form CF25

Reporting

- 24) Reporting to the board of directors at their regular meetings on activities, issues and other reports specified by the board.
- 25) Working in conjunction with the secretary-treasurer to prepare the *Local Supervisor's Monthly Report* on the association.
- Separate reports are required for the feeder and breeder options (see forms CF26 and CF27).
 - The *Local Supervisor's Monthly Report* must be signed by the local supervisor and sent to the provincial supervisor no later than the tenth day of the month following the month being reported, with a copy sent to the lender: (for example, January reports must be submitted by February 10).
- 26) Advising the board and provincial supervisor immediately of any events or practices which are not in keeping with policies and procedures of the Livestock Loan Guarantee Program or the articles and by-laws of the association.

DUTIES OF THE SECRETARY-TREASURER

The secretary-treasurer is responsible for the following:

Bookkeeping and Administration

- 1) Providing support to the board of directors and the local supervisor in the proper operation of the association.
- 2) Providing bookkeeping and accounting as required and set in consultation with the association's auditor.
- 3) Maintaining a current membership list under the following headings:
 - name
 - mailing address
 - telephone number
 - date of first loan
 - authorized loan amount
- 4) Being accessible to the membership for:
 - document signing
 - making deposits to the assurance fund
 - maintaining a record of each member's assurance fund deposits
 - payment of accounts
 - other business pertaining to the proper operation of the association
- 5) Receiving applications for membership, loan increases, loan extensions, and other requests, processing the applications for completeness and accuracy, and presenting the applications to the board for approval.
- 6) Ensuring that all association records are maintained on a daily basis, including purchase orders, feeder or breeder agreements, invoices, bills of sale, loan limits, loan extensions, and other relevant documents.
- 7) Ensuring that the association has the original cattle invoice in its files and that bills of sale are completed for all cattle marketed by the association.

Managing the Association's Assurance Funds

- 8) Ensuring that the required 5% feeder assurance fund or 10% breeder assurance fund is on deposit with the association before submitting a new *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* to the lender for approval.

- The secretary-treasurer must maintain an up-to-date record of assurance fund deposits for each member.
 - As an advance is repaid, any amount standing to the credit of the member in the association's assurance fund in excess of 5% of the outstanding feeder advances for that member or 10% of the outstanding breeder advances for that member, including interest, may be applied to the assurance fund deposit required for a new purchase.
 - The secretary must maintain a separate record of assurance fund deposits left in the association assurance fund for a member's advance(s) that have been repaid for 90 days or more, provided there has not been any default by any other member during the 90 day period.
- 9) Managing the association's assurance fund deposits, as directed by the board of directors. For details, refer to pages F-2 to F-5: Assurance Fund Accounts

Processing Purchase Documentation

- 10) Working with the local supervisor on an ongoing basis to ensure that loans taken out on behalf of association members, and the purchase price per animal, do not exceed the limits set out in the program regulations or those authorized by the board of directors or the lender.
- 11) Submitting the lender's and provincial supervisor's copies of any completed *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements* to the lender, along with any supporting documentation.

Monitoring Loan Repayment Dates

- 12) Notifying members of any upcoming loan due dates and informing the board of directors when loan extensions may be required.
- 13) Ensuring that members choose to either:
- (a) Zero-balance their feeder steer and heifer account at least once every 12 months, as outlined in the example below:

Example

☞ *If the association takes out a \$10,000 loan on behalf of a member on February 1 and, before this loan is paid out, takes out a \$15,000 loan on behalf of the same member in June, both loans must be repaid by February 1 of the following year.*

- Once a member's account is zero-balanced, a new 12 month period begins with the next purchase; **or**
 - (b) Repay each advance on its own anniversary date (not zero-balanced) provided an inventory count is completed at least once yearly.
 - If the sale of feeder cattle on or before the repayment date would result in reduced returns to the association due to insufficient growth, finishing or current marketing conditions, the member may apply to extend the period within which the payment must be made, by not more than three months.
 - i) A *Loan Extension Application (Feeder)* (see form CF23) must be completed by the member and submitted to the association prior to the repayment date of the loan.
 - ii) The local supervisor must carryout an inspection and inventory of the association feeder cattle held by the member.
 - iii) For more information about feeder loan extensions, refer to pages E-18 to E-19 and form CF23.
- 14) Ensuring feeder cow loans do not go beyond their expiry dates and the association's feeder cow account for each member is zero-balanced at least once every 12 months.
- The loan term for feeder cows is 180 days.
 - The zero-out date for feeder cows is not required to coincide with the zero-out date for feeder steers and heifers, so close monitoring of loan repayment dates is essential.
 - Feeder cow loans are not eligible for extensions.
- 15) Ensuring that breeder advances are repaid within 60 months of the purchase date.
- Annual breeder payments must include 20% of the principal, plus interest, and must be paid on or before the anniversary date of the advance.
 - If the sale of breeder calves on or before the annual payment date would result in reduced returns to the association due to insufficient growth, finishing or current marketing conditions, the member may apply to extend the period within which the annual payment must be made, by not more than six months.
 - i) A *Loan Extension Application (Breeder)* (see form CF24) must be completed by the member and submitted to the association prior to the annual payment date of the loan.

- ii) The local supervisor must carryout an inspection and inventory of the association breeder cattle held by the member.
- iii) For more information about breeder loan extensions, refer to pages E-18 to E-19 and form CF24.

Notifying Members of Meeting Dates

16) Notifying members of the annual general meeting and any special meetings:

- For co-operatives (see Section 105 of *The Co-operatives Act, 1996*), members must be notified of the time and place of any annual or special meeting not less than 10 and not more than 50 days before the meeting by:
 - i) sending a notice by mail; **or**
 - ii) inserting a notice at least two issues of a newspaper circulated in the area served by the co-operative and posting a notice in a place that, in the opinion of the directors, is prominent and accessible to members.
- For corporations (see Section 129 of *The Business Corporations Act*), notice of the time and place of a meeting of shareholders must be sent not less than 21 days nor more than 50 days before the meeting to:
 - i) each shareholder entitled to vote at the meeting;
 - ii) each director; **and**
 - iii) the auditor of the corporation.

Note

☞ *Since the provincial supervisor is required to attend the association's annual meeting, the secretary-treasurer or president must contact the provincial supervisor prior to setting the meeting date to avoid conflicting with the meeting date for another association.*

Releasing Equity upon the Sale of Association Cattle

17) Working with the local supervisor to reconcile the inventory of association cattle held by each member based on sales settlements to ensure that the required inventory for any remaining advances is in place prior to releasing any equity to the member.

Reporting

- 18) Reporting to the board of directors at their regular meetings, including:
 - an updated financial report;
 - an update of the association's membership;
 - a summary of all purchases and sales since the last board meeting;
 - an update of any overdue accounts and issues with members; **and**
 - any other reports requested by the board.

- 19) Recording minutes from all meetings of the association, including board meetings and any general meetings, and submitting a copy of these minutes to the provincial supervisor and the lender within two weeks of the meeting.

- 20) Informing the local supervisor of any sales of association cattle and working in conjunction with the local supervisor to prepare monthly reports for the lender and provincial supervisor.

- 21) Advising the board and/or provincial supervisor immediately of any events or practices which are not in keeping with policies and procedures of the Livestock Loan Guarantee Program or the articles and by-laws of the association.

CONFLICT OF INTEREST GUIDELINES

Conflict of interest can create problems for associations due to a reduction in control over financial transactions. This occurs when association board members and/or staff do not operate at arm's length from themselves or other members. Because the potential for fraudulent activity increases as controls are lessened, it is proper business practice to address and manage conflict of interest situations.

Guidelines for the Board of Directors

To ensure that board members are not in a conflict of interest situation:

- Any board member who becomes bankrupt or is ineligible to borrow due to judgements or other circumstances must resign from the board of directors.
- Board members or their spouses cannot hold the position of secretary-treasurer or local supervisor for the association.

Guidelines for Designating Signing Authority

To ensure that the signing officers for the association are not in a conflict of interest situation, any board member who is granted signing authority for association cheques or documents must not be:

- individuals, spouses or immediate family members of persons who provide certain goods and/or services to the association including, but not limited to, livestock dealers, custom feedlot operators, auction market staff, or other individuals who stand to gain from doing business with the association.

Guidelines for Local Supervisors and Secretary-Treasurers

To ensure that association employees are not in a conflict of interest situation, the local supervisor and/or secretary-treasurer must not be:

- a licensed dealer or agent who purchases cattle for the association;
- a custom feeder of any cattle owned by the association;
- a member of the association's board of directors or a spouse of a member of the board of directors;
- an auditor for the association;

- an immediate family member of a custom feeder who feeds association cattle;
- an immediate family member of the licensed dealer who purchases cattle for the association;
- the same person; **or**
- spouses or immediate family members.

Furthermore:

- The local supervisor must not be granted authority to sign association cheques or to sign association documents as an association signing officer.

Definition – Immediate Family Member

☞ An immediate family member is defined as an individual's spouse, child, parent or sibling.

Guidelines for Inspection and Signing of Documents

- Boards, members, local supervisors, secretary-treasurers who have signing authority should not sign documents or inspect cattle involving their immediate family members or members of their own farm operation.

Guidelines for Board Meetings

- Board members should not participate in discussion of issues involving their immediate family members or members of their own farm operation.

E. Membership and Loan Administration

REDUCING OR INCREASING AN ASSOCIATION'S LOAN LIMIT

Maximum Association Loan Limits

The maximum loan limits for an association are:

- \$6 million in the feeder option
- \$6 million in the breeder option

Reducing an Association's Loan Limit

The following policies and procedures relate to the reduction of an association's loan limits:

- 1) The provincial supervisor will review an association's loan limits on an annual basis.
- 2) If an association uses less than 75% of its authorized loan limit during the previous year, the provincial supervisor may reduce the association's authorized limit and the corresponding guarantee to the lender.
 - The amount of the reduction will be based on the maximum amount used during the year plus a margin to allow for any potential increase in purchases or new members.
- 3) If an association requires additional funds after a reduction, the association may apply for a guarantee increase.

Increasing an Association's Loan Limit

If an association is nearing its maximum authorized loan limit(s) as a result of increased borrowing, the association may apply for an increase to its authorized limit(s) by completing and submitting a *Guarantee Application* (see forms CF5 and/or CF6).

MEMBERSHIP ELIGIBILITY

Basic Membership Requirements

Residents of Saskatchewan who are at least 18 years of age can participate in the Cattle Feeder/Breeder Option, subject to association, lender and provincial supervisor approval. Associations and lenders may establish additional criteria.

Undischarged Bankrupts

Applicants who are undischarged bankrupts (that is, the applicant is still in bankruptcy) are not eligible to join feeder/breeder associations. Once the bankrupt has been discharged by the bankruptcy trustee, an application for membership may be considered. The member should provide formal documentation to prove discharge before an application for membership is considered. In addition, the association should advise the lender that the member is a discharged bankrupt, since a discharged bankrupt may face restrictions to borrowing for several years.

Applicants Under Financial Review

Producers who are before the Farm Debt Mediation Services or the Farm Land Security Board are not eligible to join feeder/breeder associations. Once the process with either or both review agencies has been completed, an application for membership may be considered, provided the member provides formal documentation to verify the process has been completed. In addition, the association should advise the lender that the applicant has been under review, since a producer involved in a review may face restrictions to borrowing for the next several years.

Membership in Multiple Associations

Participation in multiple associations or options while a member of the Cattle Feeder/Breeder Option is subject to the following conditions:

- 1) Members may participate in the feeder option of one association and the breeder option of a second association, but may not belong to the same option, whether feeder or breeder, in two associations at the same time.
- 2) Members in the Cattle Feeder Option may not participate concurrently in the Individual Cattle Feeder Option.
- 3) Members may participate concurrently in the Cattle Feeder Option and the Enhanced Cattle Feeder Option, subject to association, lender and provincial supervisor approval. In this case, members are required to allocate a portion of their current maximum feeder loan limit between the two options.
- 4) Members may participate concurrently in the Cattle Feeder/Breeder Option, the Sheep Feeder/Breeder Option and/or the Bison Feeder Option, subject to association, lender and provincial supervisor approval.

MEMBER LOAN LIMITS

General Policies and Procedures

- 1) Members may participate in both the feeder and the breeder option of an association and are eligible for up to the maximum member loan limit offered for each option.
- 2) The maximum amount the association can borrow on behalf of a member under both options is \$225,000.
- 3) Member loan limits are determined separately for each option and are based on the member's history of activity in each option.
 - For example, a member who has been active at the \$50,000 loan limit for four years is eligible to apply for a loan increase directly to the maximum \$200,000 loan limit. The member is not required to proceed sequentially through each of the four levels.
- 4) Member loan limits are subject to association, lender and provincial supervisor approval:
 - The board of directors, in consultation with the lender, is responsible for setting the maximum amount that can be borrowed by the association on a member's behalf. For example, a member may be eligible for a \$50,000 limit according to the regulations, but the association and lender may agree to limit the member to a lesser amount, such as \$30,000.
- 5) When determining the length of time that a member has been active, the first year begins on the date of the association's first loan on behalf of the member and ends 12 months later.
- 6) When dealing with a farm operation that involves more than one association member, the board of directors and the lender must consider the ability of the operation to repay the association in the event of a shortfall.
- 7) The local supervisor and secretary-treasurer must work together to ensure that loans taken out by the association on behalf of its members do not exceed the limits allowed by the regulations for the option concerned, or the limits approved by the board of directors and the lender.

Member Loan Limits – Feeder Option

A feeder association's maximum loan limit on behalf of each member is based on the member's history of activity in the feeder option, as outlined in the table below:

History of Member Activity in the Feeder Option	Maximum Loan Limit
1 st year	\$50,000
2 nd year	\$100,000
3 rd year	\$150,000
4 th and following years	\$200,000

Note: The maximum amount the association can borrow on behalf of a member under both options is \$225,000.

Member Loan Limits - Breeder Option

A breeder association's maximum loan limit on behalf of each member is based on the member's history of activity in the breeder option, as outlined in the table below:

History of Member Activity in the Breeder Option	Maximum Loan Limit
1 st year	\$50,000
2 nd year	\$75,000
3 rd and following years	\$125,000

Note: The maximum amount the association can borrow on behalf of a member under both options is \$225,000.

Retention of Loan Limits while Inactive

When a member has had no outstanding advances for an extended period of time, the association's ability to resume borrowing on behalf of the member up to the previously approved loan limits is subject to association, lender and provincial supervisor approval.

Note

☞ *Active means having an outstanding feeder or breeder account with the association at any time during the fiscal year of the association. A member's activity is considered separately for each option.*

☞ *The member loan limits provided are maximum limits. The association, lender or provincial supervisor may restrict a member to less than the maximum limit.*

ASSOCIATION/MEMBER APPROVAL FOR THE FEEDER COW OPTION

Association Approval for the Feeder Cow Option

If an association wishes to purchase feeder cows on behalf of a member(s), the association must provide approval for the feeder cow option for that member(s) using a *Membership Application* (see form CF9).

- Once approved by the board, lender and provincial supervisor, the association may purchase feeder cows on behalf of a member within that member's existing loan limits for the feeder option (i.e. the purchase of feeder cows on behalf of a member offsets the feeder loan limits available to the association for the purchase of feeder heifers and steers).

Member Applications for the Feeder Cow Option

Members in the feeder option may apply to have the association purchase feeder cows on their behalf, within their existing loan limits in the feeder option, provided the association and the lender have agreed to offer the feeder cow option, as described above.

Policies and procedures relating to member participation in the feeder cow option include:

- 1) The applicant must complete and submit a *Membership Application* (see form CF9) requesting to participate in the feeder cow option. This application must be approved by the association, lender and provincial supervisor.
- 2) Once approved, the association may begin to purchase feeder cows on behalf of the member within that member's existing loan limit for the feeder option (that is, the purchase of feeder cows on behalf of a member offsets the feeder loan limits available to the association for the purchase of feeder heifers and steers).

MEMBERSHIP APPLICATIONS

Purpose

A *Membership Application* (see form CF9) is to be completed when:

- an existing member in the feeder option or the breeder option wants to apply for membership in the other option;
- an existing member in the feeder option wants to be approved for the purchase of feeder cows; **or**
- a prospective member wants to join the association.

The *Membership Application* must be approved by the association, the lender and the provincial supervisor prior to any loan(s) being advanced to the association on the applicant's behalf.

Completing and Approving a Membership Application

The process for approving a *Membership Application* is as follows:

- 1) The secretary-treasurer provides the prospective member with a *Membership Application* and any documents required by the lender.
 - Along with the *Membership Application*, the association should provide the applicant with a copy of the *Basic Rules for Members* (see form CF10).
- 2) The prospective member completes the application, signs and dates the application and submits it to the association for approval.
- 3) The board of directors reviews the application using the *Board of Directors' Application Review Checklist* as a guide (see form CF12). As part of their review, the board is responsible for:
 - verifying the applicant's Saskatchewan residency and age
 - verifying the applicant's past or current membership with another association(s)
 - i) If not completed on the *Membership Application*, the board should contact the member to confirm any past or current involvement with another association(s).

- ii) For further confirmation of a member's past or current involvement in the Livestock Loan Guarantee Program, the board may contact the provincial supervisor.
 - confirming that the association has sufficient authorized loan limit to handle any loans taken on behalf of the new member
 - considering, through discussions with the lender, the ability of the applicant to repay the loan in the event of a shortfall
 - considering the ability of a farm operation to repay the association in the event of a shortfall where more than one member of a farm operation is a member of the association
 - working with the lender to determine a member's eligibility and set the maximum amount that can be borrowed by the association on the member's behalf
 - i) For example, although a member may be entitled to a \$50,000 limit according to the program regulations, the association and lender may agree to limit purchases made on behalf of the member to a lesser amount such as \$30,000.
- 4) After considering the above items, the board either approves or rejects the application:
 - If approved, a board member with signing authority signs and dates the application, indicates any special limitations applying to the member, and the secretary-treasurer forwards it to the lender for approval.
 - If rejected, the secretary-treasurer or a member of the board of directors advises the applicant of the board's decision.
- 5) The lender reviews the application, performs the normal credit checks, and either approves or rejects the application:
 - If approved, the lender signs and dates the application, indicates any special limitations applying to the member, and forwards it to the provincial supervisor for final approval.
 - If rejected, the lender either contacts the applicant directly or advises the association.
- 6) The provincial supervisor reviews the application to confirm the applicant's eligibility for the Cattle Feeder/Breeder Option, and a review of the applicant's past history with the Livestock Loan Guarantee Program:

- If approved, the provincial supervisor signs and dates the application and returns the original to the association and a copy to the lender.
 - If rejected, the provincial supervisor sends a letter to the applicant and a copy to the association and lender to explain why the application was denied.
- 7) Upon receipt of the application approved by the provincial supervisor, the lender may provide loans to the association on behalf of the new member.
 - 8) If not already provided with the *Membership Application*, the secretary-treasurer should immediately provide the new member with a copy of the *Basic Rules for Members* (see form CF10).
 - 9) The local supervisor and secretary-treasurer must work together on an ongoing basis to ensure that loans taken out on behalf of association members do not exceed the limits set out in the program regulations or those authorized by the board of directors and the lender.

MEMBERS TRANSFERRING BETWEEN ASSOCIATIONS

A member may transfer from one association to another, provided the following procedures are followed:

- 1) The member must complete a *Membership Application* (see form CF9) for the new association. While the application is reviewed using the normal credit check and approval process for new members, the board of directors may want to contact the member's current association before approving the application.
- 2) The member's loan experience (that is, the member's loan history and current maximum loan limit) specific to each option may be transferred to the same option of the new association for purposes of determining the maximum loan limit(s) for the member.
- 3) The member's assurance fund deposit with the original association must remain with that association for 90 days from the date the member's account(s) is paid out, unless the association's loans on behalf of all other members have already been paid out.
 - If the original association has any outstanding or impending issues at the time the loan(s) is paid off or before expiry of the 90 day period, then the assurance fund for the transferring member must remain with the association until all the issues have been resolved.
- 4) Inventory for outstanding loan(s) on behalf of the member concerned must be transferred to the new association and branded with the new association's registered brand. If the remaining members transfer to another association as well, or pay out the remaining advances, a brand transfer form may be used.
- 5) The member must deposit into the new association's assurance fund 5% (feeder) and/or 10% (breeder) of the total loan amount(s) being transferred to the new association before any cattle may be transferred to the new association on the member's behalf. The amount of assurance fund required is based on the amount of the new loan.
- 6) A new *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is required for any cattle being transferred to the new association.
 - The term for the new loan is the same as the remaining term on the loan to the original association.
 - The new lender releases funds to the new association to pay the original association for the cattle. The original association, in turn, issues a receipt for the cattle to the new association.

LOAN INCREASE APPLICATIONS

Eligibility Requirements

Members who want to increase the maximum limit for loans which can be taken by the association on their behalf may apply to the association for a loan increase.

Undischarged Bankrupts - Members who are undischarged bankrupts (that is, members who are still in bankruptcy) are not eligible for a loan limit increase until they have been discharged from bankruptcy. The member should provide formal documentation to prove discharge before a loan increase application is considered. In addition, the association should advise the lender that the member is a discharged bankrupt, since a discharged bankrupt may face restrictions to borrowing for several years.

Members under Review - Members who are before the Farm Debt Mediation Services or Farm Land Security Board are not eligible for a loan limit increase until the review process has been completed. This time frame is case dependent; some may be resolved more quickly than others. The member should provide formal documentation to verify that the process has been completed before a loan increase application is considered. In addition, the association should advise the lender that the member has been under review, since a producer involved in a review may face restrictions to borrowing for the next several years.

Applying for a Loan Increase

The process for approving a *Loan Increase Application* is as follows:

- 1) The secretary-treasurer provides the member with a *Loan Increase Application* (see form CF11).
- 2) The member completes the application and submits it to the association for approval.
- 3) The board of directors reviews the application using the *Board of Director's Application Review Checklist* as a guide (see form CF12). As part of their review, the board is responsible for:
 - verifying the applicant's Saskatchewan residency
 - confirming that the association has sufficient authorized loan limits to handle any loans taken on behalf of the new member

- considering the ability of a farm operation to repay the association in the event of a shortfall when more than one member of that farm operation applies for membership in the association
 - working with the lender to determine a member's financial status and set the maximum amount that can be borrowed by the association on the member's behalf
 - i) For example, although a member may be entitled to a \$100,000 limit according to the program regulations, the association and lender may agree to limit purchases made on behalf of the member to a lesser amount such as \$70,000.
- 4) After considering the above items, the board either approves or rejects the application:
- If approved, a board member with signing authority signs and dates the application, indicates any special limitations applying to the member. The secretary-treasurer forwards it to the lender for approval.
 - If rejected, the secretary-treasurer or a member of the board of directors advises the applicant of the board's decision
- 5) The lender reviews the application, performs the normal credit checks, and either approves or rejects the application:
- If approved, the lender signs and dates the application, indicates any special limitations applying to the member, and forwards it to the provincial supervisor for final approval.
 - If rejected, the lender either contacts the applicant directly or advises the association.
- 6) The provincial supervisor reviews the application to confirm the applicant's eligibility for the loan increase and reviews the applicant's past history with the program.
- If approved, the provincial supervisor signs and dates the application and returns the original to the association and a copy to the lender.
 - If rejected, the provincial supervisor sends a letter to the applicant and a copy to the association and lender to explain why the application was denied.
- 7) Upon receipt of the application approved by the provincial supervisor, the lender may provide additional loans to the association on behalf of the member, up to the approved amount(s).
- 8) The local supervisor and secretary-treasurer must work together on an ongoing basis to ensure that loans taken out on behalf of association members do not exceed the limits set out in the program regulations or those authorized by the board of directors and the lender.

LOAN PURPOSE

Loans to the association are for the purchase of cattle on behalf of individual members. In addition to the purchase price of the cattle, other eligible costs, subject to association and lender approval, include:

- buying commissions
- branding costs, if the cattle are branded at the market
- any yardage incurred after the purchase (that is, any costs to cover the care and feeding of cattle at the auction market for a reasonable period of time)
- trucking costs to the feeding location
- the Goods and Services Tax (GST)

Members are responsible for all other feeding and care expenses, such as the purchase of feed outside the normal yardage feed, custom feeding charges, or the construction or maintenance of facilities.

ELIGIBLE LIVESTOCK

Feeder Option

Cattle purchased under the feeder option are subject to the following policies and procedures:

- 1) Livestock that are eligible for purchase under the feeder option include:
 - feeder heifers
 - feeder steers
 - feeder cows (see note below)
- 2) Livestock that are **not** eligible for purchase under the feeder option include:
 - bulls, recreation and rodeo stock
 - pregnant heifers
 - pregnant cows
 - unweaned calves
- 3) Bull calves must be castrated prior to purchasing.
- 4) Heifers are not permitted to calve while in the feeder option.
- 5) Feeder heifers that are bred while in the feeder option must be transferred to the breeder option or sold prior to calving.
- 6) Cattle owned by the association on behalf of one member cannot be refinanced in the same option on behalf of that member, the member's company, or any other member who shares the same farm operation.

Note

☞ Both the association and the member must be approved to participate in the feeder cow option before the association can purchase feeder cows on the member's behalf (see form CF9: Membership Application).

ELIGIBLE LIVESTOCK

Breeder Option

Cattle purchased under the breeder option are subject to the following policies and procedures:

- 1) Livestock that are eligible for purchase under the breeder option include:
 - Pregnant females under five years of age (must be confirmed pregnant).
 - Pregnant or non-pregnant females under five years of age with a calf at foot.
 - A member's own pregnant heifers.
 - Dairy cows (if permitted by the association's by-laws);
 - i) If dairy cows are financed, both the cows and their offspring must be branded with the association's registered brand.
 - (a) If a member would prefer not to brand heifer calves, the member has the option to make the annual payment for the cow.
 - ii) All proceeds from the sale of the offspring are to be applied to the loan.
- 2) Livestock that are **not** eligible for purchase under the breeder option include:
 - Cows or cow-calf pairs that have been owned for more than 30 days by the member, the member's company, or any person who shares the same farm operation; **and**
 - Feeder cows (branded with shelter over C).
- 3) Cattle owned by the association on behalf of one member cannot be refinanced in the same option on behalf of that member, that member's company, or any person who shares the same farm operation.

LOAN TERMS AND CONDITIONS OF REPAYMENT

Feeder Option

Feeder Heifers and Steers - Advances taken under the feeder option for the purchase of feeder heifers and steers have the following repayment options:

- 1) Each member's entire feeder steer and heifer account must be zero-balanced at least once every 12 months. Under this option, feeder heifer and steer advances must be repaid within one year from the date of purchase; or on the anniversary date of the earliest advance taken since the member's account was last zero-balanced; or when the cattle are sold; **whichever comes first.** or;
- 2) Repay each advance on its own anniversary date (not zero-balanced) provided an inventory count is completed at least once yearly.

Feeder Cows - Advances taken under the feeder option for the purchase of feeder cows are subject to the following terms and conditions of repayment:

- 1) Feeder cow advances must be repaid within 180 days from the date of purchase; or when the cattle are sold; or on the anniversary date of the earliest advance taken since the member's account was last zero-balanced; **whichever comes first.**
- 2) Each member's entire feeder cow account must be zero-balanced at least once every 12 months.
- 3) The zero-balance date for a member's feeder cow account is not required to coincide with the member's zero-balance date for feeder heifers and steers, (if chosen) so close monitoring of loan repayment dates by the secretary-treasurer and local supervisor is essential.

Note

☞ Members are responsible for repayment of advances taken by the association to purchase cattle on their behalf, regardless of the returns from the sale of the cattle or if a guarantee payment is made to the lender.

LOAN TERMS AND CONDITIONS OF REPAYMENT

Breeder Option

Advances taken under the breeder option for the purchase of pregnant heifers, pregnant cows or cow-calf pairs are subject to the following terms and conditions of repayment:

- 1) Advances must be repaid within five years from the date of purchase.
- 2) Payments are to be made annually, with the first annual payment due one year from the date of purchase, or upon sale of the calf(s), **whichever comes first**.
- 3) Annual payments are to include 20% of the original advance amount plus interest to that date.
- 4) With lender approval, advances may be amalgamated within a four month period, with the amalgamated advance coming due on the earliest advance date.
- 5) With lender and association approval, payment dates for breeder advances may be consolidated so that all advances are due on the same date.
- 6) Dairy cow advances require monthly repayment based on $\frac{1}{60}$ of the original loan amount plus interest.

Note

☞ Members are responsible for repayment of advances taken by the association to purchase cattle on their behalf, regardless of the returns from the sale of the cattle or if a guarantee payment is made to the lender.

LOAN EXTENSIONS

Feeder Option

Loan extensions under the feeder option are subject to the following terms and conditions:

- 1) Loan repayment dates for feeder heifers and steers may be extended for up to three months, upon approval from the association, lender and the provincial supervisor (see form CF23).
- 2) Loan extensions must not be approved for heifers to calve in the feeder option.
- 3) When a feeder advance to the association on behalf of a member is extended, no further feeder advances may be taken on behalf of the member until the extended advance has been repaid in full.
- 4) Under the zero-balance option, where the association has more than one outstanding feeder advance on behalf of a member, the feeder loan extension, if approved, extends the zero-balance date for all of the outstanding feeder advances for that member.
- 5) Feeder cow loan repayment dates are not extendable.

Breeder Option

Loan extensions under the breeder option are subject to the following terms and conditions:

- 1) Loan repayment dates for the breeder option may be extended for up to six months, upon approval from the association, lender, and provincial supervisor (see form CF24).
- 2) A breeder loan extension does not change the due date for future annual payments.

Applying for a Loan Extension

When a member requests a loan extension, the following procedures apply:

- 1) The secretary-treasurer provides the member with a *Loan Extension Application* (see form CF23 for the feeder option and form CF24 for the breeder option).
- 2) The member completes the application, indicating the reason for the extension request, and submits it to the association for approval.
- 3) The local supervisor physically inspects and counts all association cattle held by the member in the option being extended (feeder or breeder), records the results of the inspection on the application, and signs and dates the application to certify the results of the inspection. If the inspection was completed within the last three months, those results may be used for this application for extension.
- 4) The board of directors reviews the application using the *Board of Director's Application Review Checklist* (see form CF12) as a guide and either approves or rejects the application.
 - If approved, a board member with signing authority signs and dates the application and the secretary-treasurer submits it to the lender for approval.
 - If rejected, the secretary-treasurer or a member of the board of directors advises the applicant of the board's decision.
- 5) The lender reviews and either approves or rejects the request for extension:
 - If approved, the lender signs and dates the application and forwards it to the provincial supervisor for approval.
 - If rejected, the lender either contacts the applicant directly or advises the association.
- 6) The provincial supervisor reviews and either approves or rejects the request for extension:
 - If approved, the provincial supervisor signs and dates the application and returns it to the association, with a copy sent to the lender.
 - If rejected, the provincial supervisor notifies the association of the decision.
- 7) Upon receipt of the application approved by the provincial supervisor, the lender may extend the loan repayment date to the approved date. The local supervisor and secretary-treasurer must work together to ensure that the appropriate payment is made on or before the approved repayment date.

CHANGING LENDERS

An association may apply to change its lender by completing a *Guarantee Application* (see forms CF5 and/or CF6) and a *Three Party Agreement* (see forms CF7 and/or CF8). If the association has unpaid loans with its present lender, the association must arrange for the new lender to pay out the outstanding loans. The new lender will ensure all assurance fund deposits and other accounts are also transferred.

F. Accounts

SUMMARY OF ACCOUNTS

The lender and the association work together to set up all or some of the following accounts, subject to the minimum requirements outlined below: Minimum Number of Bank Accounts:

Assurance Fund Account(s) – This is an interest bearing account into which all assurance funds are deposited. Interest from this account(s) is often used by the association to fund its day-to-day operations. Where an association offers the feeder option and the breeder option, a separate assurance fund is required for each option.

Operating Account(s) – This account is used to deposit and withdraw operating funds used in the day-to-day operations of the association. Where an association offers the feeder option and the breeder option, the association is permitted to use a single operating account for both options, provided the association's lender agrees.

Sales Account(s) for Loan Transactions – Often referred to as a chequing or current account, the sales account is used to deposit and pay out loan advances and sale returns. The board and lender may agree to combine the operating account and the sales account.

Association Loan Account and Member Sub-Accounts – All loan documentation must be made in the name of the association on behalf of its individual members. Because there may be more than one advance for each member of the association, lenders usually maintain separate sub-accounts for each member and separate loan numbers (for example, #01-99) for each advance.

Minimum Number of Bank Accounts

Where an association offers both the feeder option and the breeder option, the minimum number of bank accounts required is three: 1) a feeder assurance fund; 2) a breeder assurance fund; and 3) a single operating account for both options. However, the association should consider the limitations of using a single operating account before choosing such an account structure. For example, with a single operating account, it's possible that an issue or loss in one option would restrict activity in both options, since the lender may freeze the operating account. As such, the board of directors and/or lender may require the association to have a separate operating account for each option.

ASSURANCE FUND ACCOUNTS

Establishing and Managing Assurance Funds

One of the central components of the Livestock Loan Guarantee Program is the development of an association assurance fund consisting of deposits from individual members. The assurance fund is part of the security held by the lender for the association's loans. General policies and procedures relating to establishing and managing the assurance fund(s) include:

- 1) In the feeder option, members must maintain an assurance fund deposit equal to at least 5% of the original amount of the outstanding advances taken by the association on their behalf, except where new advances have been taken where excess assurance funds were used, as outlined on page F-4: Reusing Excess Assurance Funds.
- 2) In the breeder option, members must maintain an assurance fund deposit equal to at least 10% of the original amount of the outstanding advances taken by the association on their behalf, except where new advances have been taken where excess assurance funds were used, as outlined on page F-4: Reusing Excess Assurance Funds.
- 3) Assurance funds must be kept separate from all other association funds or accounts.
- 4) The assurance fund is used solely to pay off association loans for the purchase of cattle which are due and cannot otherwise be repaid to the lender.
- 5) The association must maintain separate assurance fund accounts for the feeder and breeder options.
- 6) The assurance fund for one option must not be used to repay a default in the other option.
 - For example, an association's feeder assurance fund cannot be used to repay a default in the association's breeder option.
- 7) Where the association transfers pregnant heifers from the feeder option to the breeder option on behalf of a member:
 - The member must have the required 10% breeder assurance fund on deposit to cover the transfer; **and**
 - The member's 5% deposit in the feeder assurance fund must remain in place for at least 90 days before it may be refunded to the member, and may be refunded only if all accounts for all members in the feeder option are up-to-date.
- 8) Where the association transfers calves from the breeder option to the feeder option on behalf of a member:

- The member must have the required 5% feeder assurance fund on deposit to cover the transfer; **and**
 - The member's 10% deposit in the breeder assurance fund must remain in place for at least 90 days after the breeder agreement(s) has been repaid in full, provided any accounts for any other member(s) in the breeder option are not in arrears.
- 9) Where a member has repaid either **All** his or her breeder advances in full and chooses not to withdraw his or her assurance fund deposits after 90 days, and there are no defaults during these 90 days, these deposits are not at risk of being utilized for future losses.

Collecting Assurance Funds

Associations must collect assurance funds in one of two ways:

- 1) *By Member* – The association collects the assurance fund deposit up front, before any funds are advanced, based on the maximum that the association is authorized to borrow on behalf of the member.
 - For example, if the association was authorized to borrow up to a maximum of \$25,000 on behalf of a member in the feeder option, that member would be required to deposit \$1,250 ($\$25,000 \times 5\%$) into the association's feeder assurance fund upon approval to the \$25,000 level.
- 2) *By Individual Advance* – The association collects the assurance fund deposit based on each individual advance.
 - For example, if the association is authorized to borrow \$25,000 on behalf of a member in the breeder option, but at this time is purchasing only \$10,000 worth of cattle, the member would be required to deposit \$1,000 ($\$10,000 \times 10\%$) into the association's breeder assurance fund at the time the *Schedule B Breeder Agreement* is completed.

Investing Assurance Funds

For investment purposes, the association's assurance fund(s) must be:

- Kept liquid;
- Covered by the Canadian Deposit Insurance Corporation, the Credit Union Deposit Guarantee Corporation, or invested in government investments; **and**
- Invested only in investments where the principal cannot be lost.

Reusing Excess Assurance Fund Deposits

As an advance is repaid, any amount standing to the credit of the member in the association's assurance fund in excess of 5% of the outstanding feeder advances or 10% of the outstanding breeder advances on behalf of the member, including interest, may be applied to the assurance fund deposit required for a new purchase.

Example

☞ If a member in the feeder option has \$500 on deposit in the feeder assurance fund, yet the association's outstanding advances on behalf of the member, including interest, total only \$4,000 [requiring an assurance fund deposit of \$200 ($\$4,000 \times 5\%$)], the member is deemed to have an excess assurance fund deposit of \$300. This excess may be applied towards the assurance fund deposit required for a new purchase.

Refunding Assurance Fund Deposits

The following policies and procedures relate to the refund of assurance fund deposits.

- 1) Provided the association is not in default with respect to the account of any member:
 - Under the breeder option, and the feeder option where a member does not zero-out all advances annually, and where a member has paid out an advance in full, the association **may** refund the member's assurance fund deposit related to that advance at any time following the expiration of a 90 day waiting period from the date the advance was paid out, less any excess that has been re-used for any new advances.
 - Under the feeder option, where a member zeros out all advances annually, and where a member has paid out all advances in full, the association **may** refund the member's assurance fund deposit at any time following the expiration of a 90 day waiting period from the date the advance(s) was paid out.
 - Where a member has paid out all advances and subsequently resigns from the association, the association **must** refund the member's assurance fund deposit within 15 days of resignation, but no sooner than 90 days from the date the member paid out all advances in full.
- 2) If the association is in default with respect to the account of any member, the association must not refund any portion of the assurance fund to any member until the default has been resolved.

Applying and Replenishing Assurance Funds

Policies and procedures relating to the application of assurance funds include:

- 1) The assurance fund must not be used to repay any advance(s) taken by the association on behalf of a member unless the advance(s) is in default. The rationale for this requirement is as follows:
 - *The Cattle Feeder and Breeder Associations Loan Guarantee Regulations* require the association to retain a member's assurance fund deposit for at least 90 days after the member has paid out an advance so these funds cannot be used to repay advances before the 90 days has expired.
 - The assurance fund is a common fund for the protection of all members. Should more than one member fall into default, it should not be seen or treated as a source of last payment by individual members.
- 2) In the event of a default, the lender must not apply the assurance fund until all association cattle held by the defaulting member have been sold and the proceeds have been applied to the outstanding advance(s) for the cattle.
- 3) If the assurance fund is used to repay an advance that is in default, no further advances may be made to the association until the feeder assurance fund is replenished to the required 5% and/or the breeder assurance fund is replenished to the required 10% of current balances of all outstanding advances for all members.

OPERATING ACCOUNTS

The operating account is used for the deposit and withdrawal of operating funds used in the day-to-day operations of the association. Typical deposits might include handling charges, inspection fees, interest from the assurance funds, and other income generated from the operation of the association. Typical expenses would include the auditor's fee, compensation for the local supervisor and secretary-treasurer, and other general expenses required to operate the association.

Note

☞ *Where the association and lender agree to use only three accounts for both options (feeder assurance fund, breeder assurance fund and operating account), the operating account is also used to facilitate the flow of loan advances for the purchase of cattle and proceeds from the sale of association cattle.*

SALES ACCOUNTS FOR LOAN TRANSACTIONS

The purpose of the sales account(s) is to facilitate the flow of loan advances for the purchase of cattle and of proceeds from the sale of association cattle. In some cases, the board and lender may agree to combine the sales account and the operating account.

Policies and procedures relating to the sales account(s) include:

- 1) The lender assists the association in establishing a chequing account.
- 2) When a *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is approved, the lender transfers the appropriate funds into the association's sales account. The secretary-treasurer then writes a cheque to pay for the cattle.
- 3) When association cattle are sold, proceeds from the sale are deposited into the association's sales account and are applied to the appropriate member's account, as directed by the secretary-treasurer.
- 4) After the required principal and interest payment(s) is made on the member's account, any surplus funds may be returned to the association's operating account. The secretary-treasurer returns any excess sale proceeds to the member.

ASSOCIATION LOAN ACCOUNTS AND MEMBER SUB-ACCOUNTS

Policies and suggested procedures relating to the association loan account and member sub-accounts include:

- 1) All loan documentation must be made in the name of the association, with appropriate sub-accounts for each member.
 - Attached to the loan application should be a complete listing of all members and the maximum amount that the association is entitled to borrow on behalf of each member.
- 2) A sub-account for each member should be established in the association's loan account.
 - As there may be several advances on behalf of a member, the lender usually maintains a separate loan number or record (for example, #01-99) for each advance.
 - The accrued monthly interest should be recorded for the appropriate sub-account.
 - For feeder steers and heifer loans, the member's sub-account must show the date of each advance.
 - i) Each member's entire feeder heifer and steer account must be zero-balanced at least once every 12 months; or
 - ii) If an association chooses not to zero balance, then an inventory check must be carried out at least once annually.
 - For feeder cow loans, the member's sub-account must show the date of each advance and the repayment date for each advance.
 - i) Each member's entire feeder cow account must be zero balanced at least once every 12 months; this date may or may not coincide with the member's zero-balance date for feeder heifer and steer loans (when chosen).
- 3) The total loan, in the name of the association, should be entered on the lender's loan administration system with sub-accounts for advances on behalf of each member.

G. Purchasing Cattle

PROCEDURES FOR PURCHASING

When the association purchases cattle on behalf of its members, the following procedures are followed:

- 1) No further advances may be taken by the association on behalf of any member when an outstanding advance on behalf of that member, or any member who shares the same farm operation, is overdue; or when the member's loan is extended.
- 2) The local supervisor ensures that all new purchases by the association are made through a licensed livestock dealer.
 - The board of directors, in consultation with the lender, must decide whether or not the licensed dealer is required to physically inspect the cattle.
 - i) If a licensed dealer is not required to physically inspect the cattle, a board member should accompany the local supervisor to confirm that the weights and prices used in the transaction are acceptable.
- 3) The local supervisor ensures that all cattle being transferred from the feeder option to the breeder option are processed through a licensed dealer.
- 4) The local supervisor inspects the cattle to ensure that the inventory is correct, the cattle are of acceptable quality, and the cattle are priced fairly within the purchase limits established by the board of directors.
- 5) The local supervisor verifies that all cattle purchased by the association are branded with the association's registered brand prior to completing the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*.
 - The member's own brand may also be applied, if desired.
 - Refer to pages H-1 to H-2 for branding requirements, including procedures to follow when two or more members feed association cattle at the same location.
- 6) The local supervisor obtains a purchase invoice from the livestock dealer because the association, not the member, pays for the cattle.
 - The invoice must be made out to the association on behalf of the member and must clearly describe the cattle and itemize any costs and other charges.

- 7) The local supervisor obtains a certificate of pregnancy for the purchase of any breeding stock:
 - If the cattle are purchased from an auction market, a statement is required from the auction market operator indicating that the animals were purchased from a bred cow or bred heifer sale and were pregnancy checked by a veterinarian.
 - If the cattle are purchased from the member or another producer, a certificate of pregnancy signed by a veterinarian is required.
 - If the cattle are in advanced pregnancy and a pregnancy examination may cause harm or undue stress, a certificate of pregnancy is not required, provided the local supervisor confirms on the purchase invoice and purchase agreement that the cattle were visibly pregnant.

- 8) The local supervisor completes a *Schedule A Feeder Agreement* (see form CF15) or *Schedule B Breeder Agreement* (see form CF16), depending if feeder or breeder cattle are being purchased, and has it signed by the member.
 - *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements* must be completed as described on pages G-4 to G-6: Completing Feeder/Breeder Agreements (Schedules A and B) and pages G-7 to G-8: Signing Feeder/Breeder Agreements (Schedules A and B).
 - The local supervisor must explain to the member that the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is a personal covenant whereby the member promises to repay the association the advance amount and any interest that accrues, regardless of the returns from the sale of the cattle or if a guarantee payment is made to the lender, and agrees to abide by all program policies and procedures and the by-laws of the association.
 - Feeder cows may not be combined on the same *Schedule A Feeder Agreement* as feeder heifers or steers—a separate *Schedule A Feeder Agreement* is required.

- 9) The local supervisor collects the 5% feeder deposit or 10% breeder deposit required for the association's assurance fund and arranges to have the funds deposited by the secretary-treasurer.
 - The local supervisor must verify that the member's required assurance fund deposit is in place before signing the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*.
 - As an advance is repaid, any amount standing to the credit of the member in the association's assurance fund in excess of 5% of the outstanding feeder advances or

10% of the outstanding breeder advances on behalf of the member, including interest, may be applied to the assurance fund deposit required for a new purchase.

- 10) The local supervisor submits all five copies of the completed *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* to the secretary-treasurer, along with any supporting documentation.
- 11) The secretary-treasurer reviews the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*, has it signed by a board member with signing authority, and forwards the lender and provincial supervisor copies, along with any supporting documentation, to the lender for approval.
- 12) The lender reviews the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* and, if the advance is approved, transfers the required funds to the association's sales or operating account, and forwards the provincial supervisor copy to the provincial supervisor.
- 13) The secretary-treasurer writes a cheque to pay for the cattle.
 - The association must pay for the cattle within one week from the date of purchase. However, some auction marts may apply late payment fees for payments not received within three business days.
 - The member must pay all costs associated with the purchase other than those described on page E-13: Loan Purpose.
- 14) When the advance has been approved, the secretary-treasurer distributes the member and local supervisor copies of the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* to the appropriate party, and files the association's copy of the agreement.
 - There are five copies of the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*. These are to be distributed to the individual or organization shown on each copy, including the feeder or breeder member; local supervisor; association; lender; and provincial supervisor.

COMPLETING FEEDER/BREEDER AGREEMENTS (SCHEDULES A AND B)

The local supervisor is responsible for ensuring that all *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* are correctly completed, including the:

- 1) date the form is completed;
- 2) full legal name of the association;
- 3) full legal name of the member (first, middle and last);
- 4) number and kind of animals:
 - *Schedule A Feeder Agreements* can include feeder steers, feeder heifers and feeder cows.
 - i) Feeder cows cannot be purchased on the same *Schedule A Feeder Agreement* as feeder heifers and steers—a separate *Schedule A Feeder Agreement* is required.
 - *Schedule B Breeder Agreements* can include pregnant females under five years of age and non-pregnant females under five years of age with a calf at foot.
- 5) weights for feeder steers and feeder heifers;
- 6) association's brand and brand location(s); and the date when the cattle were branded;
- 7) invoice date and number (if applicable);
- 8) licensed dealer name and/or dealer number;
- 9) cost of the cattle;
 - Loans to the association are for the purchase of cattle on behalf of individual members. In addition to covering the purchase price of the cattle, eligible costs include:
 - i) buying commissions
 - ii) branding costs, if the cattle are branded at the market
 - iii) any yardage incurred after the purchase (that is, any costs to cover the care and feeding of cattle at the auction market for a reasonable period of time)
 - iv) trucking costs to the feeding location
 - v) the Goods and Services Tax (GST)

- All other feeding and care expenses are the responsibility of the member. For example, loans are not to be used for the purchase of feed, custom feeding charges or for the construction or maintenance of facilities.
 - The local supervisor, secretary-treasurer, and board of directors should review the price paid for the cattle, as the lender and the provincial supervisor depend on the association to ensure that cattle are purchased at fair market value.
 - i) When evaluating purchase prices, the association should consider the member's ability to repay the association for loans taken on the member's behalf.
 - ii) If the Association does not agree with the purchase price, the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* does not have to be approved.
- 10) location of the cattle, whether they are being fed at home, at a custom feedlot, or at a community pasture;
- The land location of the member's residence or home quarter should not be entered unless that is where the cattle will be located.
- 11) source of the cattle (Section 6);
- The purpose of Section 6 of the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is to identify the source of the cattle being purchased by the association. This information is necessary to ensure that purchases are being made within program regulations.
 - When completing Section 6, the local supervisor must select one of the following options:

THE FEEDER/BREEDER HEREBY CERTIFIES THE CATTLE WERE PURCHASED FROM:

 - a) # _____ head from the Feeder/Breeder, their company, or a person who shares the same farm operation.
 - Option a) states that the association is purchasing non-association feeder heifers, feeder steers, feeder cows or pregnant heifers that were owned by the member, the member's company, or any person who shares the same farm operation. This option can be selected using a checkmark or by indicating the number of head being purchased by the association from the member. For details, refer to page G-9.
 - b) # _____ head from the Association and Feeder/Breeder (transfer from Feeder/Breeder option).

- Option b) states that the association is transferring cattle owned by the association on behalf of a member in one option to the account of the same member in the other option. This option can be selected using a checkmark or by indicating the number of cattle transferred between options. For details, refer to pages G-10 to G-11.
 - c) # _____ head from the Association and _____ (an Association member other than the Feeder/Breeder). Selection of this option requires the name of the member from whom the cattle are being purchased.
 - Option c) states that the association is transferring cattle owned by the association on behalf of one member to the account of a second member of the same association.
 - i) *Transfers Between Different Options* – Pregnant heifers being transferred from the feeder option to the breeder option or calves being transferred from the breeder option to the feeder option can be transferred for 100% of the fair market value of the cattle. For details, refer to pages G-10 to G-11.
 - ii) *Transfers Within the Same Option* – Cattle cannot be transferred within the same option between members who share the same farm operation. For details, refer to page G-12.
 - d) # _____ head from a Public Auction located at _____ (city, town, or RM).
 - Option d) states that the association is purchasing cattle from a public auction. Selection of this option requires the location of the public auction.
 - e) # _____ head from the above licensed dealer, who purchased the cattle from _____ (previous owner).
 - Option e) states that the association is purchasing cattle from a producer who is not a member of the association. Selection of this option requires the name of the contributor (that is, the producer who previously owned the cattle), not the name of the licensed dealer. The local supervisor must ensure that the licensed dealer includes the name of the previous owner of the cattle on the invoice to the association.
- 12) signatures of the feeder/breeder member (or an enduring power of attorney), the local supervisor, and a board member with signing authority and/or an association signing officer.
- Policies and procedures concerning the proper signing of *Schedule A Feeder Agreements* or *Schedule Breeder Agreements* are detailed in the following section.

SIGNING FEEDER/BREEDER AGREEMENTS (SCHEDULES A AND B)

Procedures relating to the signing of *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements* include:

- 1) The local supervisor must ensure that all information on the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is complete and correct before anyone signs the document.
- 2) *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements* must not be pre-signed since the practice of pre-signing documents can place the association at risk of potential liability.
- 3) Four signatures are normally required on all *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements*, although associations may require three signatures (see point 4 on the following page). The required signatures include:
 - signature of the feeder or breeder member:
 - i) The member, whose name appears at the top of the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*, or an enduring power of attorney, must personally sign the document.
 - (a) If an enduring power of attorney is used, a copy of the *Enduring Power of Attorney* form (CF13) along with a copy of the *Legal Advice and Witness Certificate* form (CF13.1) or a copy of the *Non-Lawyer Witness Certificate* form (CF13.2) must be supplied to the association, the lender, and the provincial supervisor.
 - signature of the local supervisor:
 - i) The local supervisor must sign the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* at the time the member signs.
 - ii) In signing a *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*, the local supervisor certifies that all information on the document is complete and, to the best of the local supervisor's knowledge, correct.
 - iii) Local supervisors must not sign *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements* relating to the purchase of cattle by the association on their own behalf, or on behalf of their immediate family. In these cases, another board member must perform the duties of the local supervisor and sign the agreement accordingly.
 - signature of a board member with signing authority:

- i) A board member must sign on behalf of the association, unless the board chooses to approve *Schedule A Feeder Agreements* and *Schedule B Breeder Agreement* as outlined in point 4 below.
 - ii) Board members must not sign *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements* on behalf of the association relating to the purchase of cattle by the association on their own behalf, or on behalf of their immediate family.
- signature of an association signing officer:

Definition – Association Signing Officer

☞ *An association signing officer may be any board member, and/or the secretary-treasurer, who has been authorized by the board to sign such a document.*

- 4) If the association prefers not to include a board member’s signature on *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements*, the board must instead:
- hold a minimum of six board meetings annually, with each meeting no more than three months apart, for the purpose of reviewing all transactions that occurred since the last meeting.
 - i) The board may choose to review the actual transaction documents, such as feeder and breeder agreements, purchase invoices, and cheques, or may instruct the secretary-treasurer to provide a *Summary of Transactions*, including both purchases and sales (see form CF19).
- 5) When the association purchases cattle on behalf of the local supervisor, or on behalf of the local supervisor’s family members, a board member must carry out the duties of the local supervisor and sign the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* accordingly.

Rules of Thumb

☞ *The same signature should never appear on a Schedule A Feeder Agreement or Schedule B Breeder Agreement more than once.*

☞ *Signing blank documents, such as feeder or breeder agreements, membership applications or cheques, is strictly forbidden.*

PURCHASING A MEMBER'S OWN CATTLE

Purchasing Cattle Owned for More Than 30 Days

An association may purchase non-association cattle from a member, a member's company, or any person who shares the same farm operation that have been owned by that person or company, provided the following conditions are met:

- 1) Eligible cattle include non-association feeder heifers, feeder steers, feeder cows and pregnant heifers only. **Pregnant cows and cow-calf pairs are not eligible.**
- 2) A licensed livestock dealer is required in this transaction.
- 3) The purchase price must not exceed 100% of the fair market value of the cattle.
 - The local supervisor must ensure that the licensed dealer includes on the invoice the name of the contributor (that is, the previous owner of the cattle being purchased by the association) and that the cattle value did not exceed 100% of fair market value.

TRANSFERRING PREGNANT HEIFERS FROM THE FEEDER OPTION TO THE BREEDER OPTION

An association may transfer pregnant heifers owned on behalf of a member in the feeder option to the account of the same member, or another member, in the breeder option, provided that the following conditions are met:

- 1) A licensed livestock dealer is required in this transaction.
- 2) The heifers may be transferred for 100% of their fair market value, as determined by the licensed dealer.
- 3) The heifers must be confirmed pregnant prior to being transferred to the breeder option.
- 4) The heifers must be transferred to the breeder option prior to calving.
- 5) The local supervisor and secretary-treasurer must ensure that the member has the required 10% breeder assurance fund on deposit with the association before the transaction can proceed.
 - For information about reusing excess assurance fund deposits, refer to page F-4.

TRANSFERRING CALVES FROM THE BREEDER OPTION TO THE FEEDER OPTION

An association may transfer calves owned on behalf of a member in the breeder option to the account of the same member, or another member, in the feeder option, provided that the following conditions are met:

- 1) A licensed dealer is not required, provided that the association and the lender agree.
 - If the association and lender agree that a licensed livestock dealer is not required, a board member should accompany the local supervisor to confirm that the weights and prices used in the transaction are acceptable.
- 2) Calves may be transferred to the feeder option for 100% of their fair market value.
- 3) Calves must be weaned prior to being transferred to the feeder option.
- 4) The local supervisor and/or the secretary-treasurer must ensure that the member has the required 5% feeder assurance fund on deposit with the association before the transfer can proceed
- 5) The local supervisor must ensure that the calves being transferred are currently on the *Local Supervisor's Monthly Report* for the breeder option.
 - For example, if the association owns 30 calves in the breeder option on behalf of a member, as confirmed by the *Local Supervisor's Monthly Report*, the association may transfer only those 30 calves to the feeder option on behalf of that member for 100% of the fair market value of the cattle.
 - i) Any calves beyond the number confirmed by the *Local Supervisor's Monthly Report* are deemed to be owned by the member and may be purchased by the association only if the purchase price does not exceed 100% of the fair market value of the calves as determined by a licensed dealer. (For more information, refer to page G-9: Purchasing a Member's Own Cattle.)

TRANSFERRING CATTLE BETWEEN MEMBERS WITHIN THE SAME OPTION

An association may purchase cattle owned on behalf of a member in the feeder or breeder option to the account of a second member in the **same** option provided the following conditions are met:

- 1) A licensed livestock dealer is required in this transaction.
- 2) The cattle may be transferred for 100% of their fair market value.
- 3) The two members involved in the transaction must have separate farm operations, as transactions between members of the same operation within the same option are not allowed.
- 4) The licensed dealer establishes the value of the cattle, in conjunction with the local supervisor and the members involved in the transaction.
- 5) The local supervisor completes a new *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*.
- 6) The licensed dealer purchases the cattle by writing a cheque to the association for the value of the cattle.
- 7) The secretary-treasurer pays out the advance taken on behalf of the original purchaser.
- 8) The lender advances funds to the association for the loan on behalf of the new purchaser.
- 9) The secretary-treasurer writes a cheque to the licensed livestock dealer for the cattle purchased on behalf of the second member to complete the transaction.

CUSTOM FEEDING

Members may arrange for association cattle purchased on their behalf to be custom fed at a custom feedlot or custom pasture, provided the following policies and procedures are followed:

- 1) The local supervisor, backed by a resolution of the board of directors, must provide prior authorization for the member to have association cattle custom fed at a custom feedlot or pasture through completion of either a monthly or long-term custom feeding agreement.
 - A *Custom Feeding Receipt and Waiver (Monthly)* (see form CF17) allows the association to verify on a month-by-month basis that the member's custom feeding bills are being paid to ensure no hidden debts are accumulating, which could result in association cattle being held or seized by the custom feeder until the bills are paid.
 - As an option to paying custom feeding charges on a monthly basis, a *Custom Feeding Agreement (Long-Term)* (see form CF18) is used where the custom feeder agrees to carry the costs of custom feeding association cattle on behalf of a member for a pre-determined time period longer than a month.
- 2) Custom feeding agreements, whether monthly or long-term, must be signed by an authorized representative of the custom feedlot or pasture.
- 3) A custom feeding agreement is not required for cattle to be pastured in a provincial or Prairie Farm Rehabilitation Administration (PFRA) community pasture.
- 4) On completion of either a *Custom Feeding Receipt and Waiver (Monthly)* or a *Custom Feeding Agreement (Long-Term)*, the custom feeder waives his or her rights, under Section 15.1 of *The Animal Products Act*, to place a lien on the cattle being custom fed as a result of unpaid bills by the association member.
- 5) A custom feeder does not have any lien rights with respect to the cattle being custom fed unless, before beginning custom feeding, the custom feeder provides the association and the provincial supervisor with a copy of a statement of intent to custom feed signed by the custom feeder and the member on whose behalf the association cattle are to be fed.
- 6) The local supervisor must report the custom feeding location on the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* and on the *Local Supervisor's Monthly Report*.

For further information about custom feeding, refer to forms CF17 and/or CF18.

H. Branding

BRANDING REQUIREMENTS

All cattle purchased by an association must be branded with the association's registered brand. Brands provide the first proof of ownership should a dispute over the ownership of association cattle occur. The brand helps to ensure that proceeds from the sale of association cattle are directed to the association, especially where cattle are brand inspected prior to sale.

General branding requirements include:

- 1) The local supervisor must inspect all feeder and breeder cattle purchased by the association, prior to completing the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*, to ensure proper branding has been completed before the association pays for the cattle.
- 2) All offspring of breeding stock must be branded with the association's brand before reaching three months of age, or before going to pasture, **whichever comes first.**
 - In some cases, members have the option of not branding association calves, provided the member prepays the annual payment for the breeder loan. For more information, refer to pages K-4 to K-5: Breeder Inventory Confirmation Report.

BRAND REGISTRATION AND LOCATION

All brands used by the association must be registered as follows:

- 1) The brand for all feeder steers, feeder heifers, and breeding stock must consist of a shelter with numbers (except the numerals zero and one) and/or letters above it.
 - Numbers may also be applied beneath the shelter brand to identify cattle owned by the association on behalf of different members who share the same farm operation, or to identify different purchases by the association on behalf of the same member.
- 2) The brand for all feeder cows must consist of a shelter over C with numbers (except the numerals zero and one) and/or letters above the shelter.
- 3) There are six brand locations available for registration on an animal, any or all of which may be registered by an association.

For more information about registering an association brand, refer to the sample *Brand Application* provided as form CF1.

BRANDING IN MULTI-MEMBER HERDS

Where more than one member's herd is being fed at the same location, it is important for the association to be able to clearly identify which cattle are owned on behalf of each member.

This can be achieved by:

- assigning a different brand location to each member;
- assigning a number to each member to be branded underneath the shelter brand; **or**
- purchasing only steers on behalf of one member and only heifers on behalf of the other, in the case of two members.

Note

☞ Where cattle owned by the association on behalf of more than one member are being fed at the same location and are not uniquely identified, the cattle are to be treated as one herd, as outlined on pages J-2 to J-3, Application of Sale Proceeds / Release of Equity.

J. Selling Cattle

SELLING POLICIES AND PROCEDURES

Members are required to sell all association cattle in the name of the association on their behalf. This requirement provides security of ownership by the association and reduces risk to the members' assurance fund.

When selling association cattle, the following policies and procedures apply:

- 1) When planning to sell association cattle, members must notify the local supervisor and/or secretary-treasurer about when and where the cattle will be sold.
- 2) All cattle are to be sold in the name of the association on behalf of the member using a *Livestock Manifest* (see form CF22).
 - When completing a *Livestock Manifest*, members must:
 - i) ensure the association is listed as the payee of the cattle and the member is listed as the contributor—this will ensure that funds are directed to the association for distribution; **and**
 - ii) ensure that all association brands are listed on the manifest.
- 3) If association and privately owned cattle are sold together, the member must either:
 - complete two separate *Livestock Manifests*, one for the association cattle and one for the privately owned cattle; **or**
 - complete a single *Livestock Manifest*, with all cattle sold in the name of the association on behalf of the member.

Failure to Comply

Members who fail to comply with the selling procedures outlined above will be sent a letter from the provincial supervisor to identify the error or offense and outline the importance and method of completing the *Livestock Manifest* correctly. A copy of this letter will also be sent to the association. Repeat offences by a member may result in the suspension of borrowing privileges for future purchases.

APPLICATION OF SALE PROCEEDS / RELEASE OF EQUITY

The following policies and procedures relate to the application of sale proceeds and the release of equity to an association member(s) upon repayment of a feeder advance(s) or upon annual payment for a breeder advance(s):

Individual Members

- 1) A feeder advance must be paid out in full, or in the case of a breeder advance the annual payment must be made, prior to any equity arising from the feeder/breeder agreement associated with that feeder or breeder advance being released to the member.
- 2) If there is more than one advance outstanding on behalf of a member, and one of the advances is paid out (in the case of the feeder option) or the annual payment for the one of the advances is paid (in the case of the breeder option), the board of directors must be satisfied that the member possesses the correct number of animals required to fulfill any remaining feeder or breeder advances.
- 3) If the board of directors determines that the market value of any cattle remaining after an advance has been repaid is insufficient to secure the outstanding advances for those cattle, the association should not release any equity to the member.

Multi-Member Herds

- 1) Where association cattle owned on behalf of more than one member are being fed at the same location and **are** uniquely identified, the association may release equity to a member if that member's feeder advance has been repaid in full (for the feeder option) or if the member's annual breeder payment has been made (for the breeder option).
 - Association cattle owned on behalf of more than one member at the same location can be uniquely identified by using an assigned brand location or brand number for each member.
 - Where there are only two members feeding cattle at the same location, the association can also use the sex of the cattle to determine ownership by purchasing only steers on behalf of one member and only heifers on behalf of the other.
- 2) Where feeder or breeder cattle owned by the association on behalf of more than one member are being kept at the same location and **are not** uniquely identified, the association may release equity to a member when that member's feeder advance has been repaid in full, or if the member's annual breeder payment has been made, only if:

- the local supervisor conducts a complete physical inventory count to verify that the number of cattle remaining matches the number required to fulfill any remaining feeder or breeder advances for all members feeding at that location.
- the balance of the feeder advances or the annual breeder payments for all other members feeding at that location have already been paid; **or**
- the returns from the sale of any association cattle at that location are prorated to all of the advances for the members feeding cattle at that location.

TRANSFER OF OWNERSHIP

A *Transfer of Ownership* form (see form CF21) is used to transfer ownership of cattle from the association to a member upon repayment of a loan taken out by the association on the member's behalf. This is usually done when a member wants to:

- sell the cattle with the cheque coming directly to the member; **or**
- resign from the association once all loans have been paid.

Policies and Procedures

Policies and procedures relating to transfer of ownership of association cattle include:

- 1) Brand inspectors have been advised that cattle with an association brand are to be sold in the name of the association on behalf of the member, unless the member has an approved *Transfer of Ownership* or bill of sale.
- 2) A *Transfer of Ownership* is not to be completed until a member's loan has been paid in full and the receipts received by the association.
- 3) A *Transfer of Ownership* must not be provided to a member until a confirmation of inventory has been completed for any advances still outstanding on behalf of that member. The board should also be satisfied that the value of the inventory related to the remaining advances is sufficient to cover the outstanding loans.
- 4) Where a member has cattle at a sale and requires a *Transfer of Ownership*, the completed form may be faxed directly to the brand inspector, provided that the form is dated to expire that day.

For additional information, refer to form CF21.

K. Reports

LOCAL SUPERVISOR'S MONTHLY REPORT

At the end of each month, the local supervisor must submit a monthly inventory report on the association to the provincial supervisor, with a copy sent to the lender. The report is due by the tenth day of the month following the month being reported. For example, the February report is due by March 10.

The report is an inventory for each member showing the:

- name of the association;
- date of the report, including month and year;
- name of each member, in alphabetical order by last name, who has association cattle on hand;
- location where the association cattle held by each member are being fed, indicating H for home or C for custom fed;
- opening inventory at the beginning of the month, the number purchased, born (breeder option only), replaced (requires *Replacement of Breeding Stock*, see form CF20), sold, died, released or paid out, and the end of month inventory;
- estimated market value (feeder option only);
- assurance fund deposit for each member;
- name and signature of the local supervisor; **and**
- totals for each member and an association total for each column.

Policies and procedures relating to the *Local Supervisor's Monthly Report* include:

- 1) *Custom Feeding* - If association cattle are being custom fed, the local supervisor must indicate the custom feedlot or pasture where the cattle are being fed and ensure that proper custom feeding waivers are in place to protect the association.
 - For more information about custom feeding, refer to page G-12, Custom Feeding, and forms CF17 (monthly) and CF18 (long-term).
- 2) *Sale of Cattle* – When feeder or breeder cattle are sold, the cattle must be reported in the “Sold” column of the *Local Supervisor's Monthly Report*.
- 3) *Release of Cattle* – If all feeder advances are paid in full, or the annual breeder payment has been made, and the association is satisfied that the remaining inventory held by the member is sufficient to secure any remaining breeder agreements, any inventory remaining from a feeder agreement, or calves in the case of a breeder agreement, should be reported under the “Released” column of the *Local Supervisor's Monthly Report*.

Example

☞ *If the association purchases 20 feeder calves on behalf of a member for \$10,000, and later sells 12 feeders, the proceeds from which are sufficient to repay the entire advance, the remaining eight feeders should be removed from the Local Supervisor's Monthly Inventory Report using the "Released" column.*

- If a feeder advance is paid out in full, or the member's annual breeder payment is made, and the member wants to sell the remaining inventory from that advance in his or her own name, the association may transfer ownership of the remaining cattle to the member using a *Transfer of Ownership* (see form CF21).
 - i) Any cattle transferred to the member using a *Transfer of Ownership* should be indicated on the *Local Supervisor's Monthly Report* as being released to the member.
- 4) *Discrepancies* – The local supervisor must report any discrepancies such as deaths, losses, or inventory shortfalls to the board of directors and to the provincial supervisor.

Rules of Thumb

☞ *A member's beginning inventory for the current month should equal the same member's ending inventory for the previous month.*

☞ *If a member's month ending inventory differs from the month opening inventory, the reason for the change must be reflected on the report, either through a purchase, birth, replacement, sale, loss, release, or special note.*

For additional information about the *Local Supervisor's Monthly Report*, refer to form CF26 for the feeder option and form CF27 for the breeder option.

FEEDER INVENTORY CONFIRMATION REPORT

For those members who choose the option to repay each feeder advance on its own anniversary date, the local supervisor is required to conduct a feeder inventory inspection of all feeder cattle in the feeder option. This inspection must be conducted at a minimum of once per year. The association can request more frequent inspections. Results of the inventory inspections are to be documented on the *Feeder Inventory Confirmation Report* (CF 25.1) and submitted to the provincial supervisor and the lender each time one is completed.

Policies and procedures relating to the *Feeder Inventory Confirmation Report* include:

- 1) The feeder inventory inspection is normally conducted by the local supervisor. Where this is not possible, a board member or an alternate local supervisor must complete the inventory.
 - An alternate local supervisor must be approved by the board of directors and the provincial supervisor.
 - If more than one person conducts inspections for the association, each person must complete and sign a separate *Feeder Inventory Confirmation Report*.
- 2) The local supervisor must complete an inventory inspection for each member who has an outstanding feeder account with the association, and who does not zero out all feeder advances on an annual basis. The inspection must be completed at a minimum of once per year.

Note: For efficiency purposes it may be prudent to complete the feeder inventory at the same time as the annual breeder inventory.
- 3) The association may request additional inspections as required. eg. prior to release of equity upon sale of other feeders.
- 4) All feeders in the feeder option must be inventoried.
- 5) All feeders must be branded. The local supervisor must be satisfied with the quality of the brand and must require that poorly branded animals be re-branded.
- 6) Where the majority of the brands are not visible, a random sample of these animals should be clipped to determine if they are branded.
- 7) Cattle owned by the association on behalf of the local supervisor or the local supervisor's immediate family must be inventoried by a board member (or an approved alternate local supervisor).

BREEDER INVENTORY CONFIRMATION REPORT

The local supervisor is required to conduct an annual inventory and inspection of all cattle in the breeder option to confirm the number of cows and calves held by each member, and to confirm that calves have been properly branded with the association's registered brand. Results of the inventory inspections are to be documented on the *Breeder Inventory Confirmation Report* (CF 25) and submitted to the provincial supervisor and the lender by June 30 of each year.

Policies and procedures relating to the *Breeder Inventory Confirmation Report* include:

- 1) The annual breeder inventory is normally conducted by the local supervisor. Where this is not possible, a board member or an alternate local supervisor must complete the inventory.
 - An alternate local supervisor must be approved by the board of directors and the provincial supervisor.
 - If more than one person conducts inspections for the association, each person must complete and sign a separate *Breeder Inventory Confirmation Report*.
- 2) All cows in the breeder option must be inventoried regardless of whether the calves are branded or the annual payment(s) for the corresponding breeder loans are prepaid.
- 3) All calves held as security under a *Schedule B Breeder Agreement*, for the term of the loan, must be branded before three months of age or before they go to pasture, whichever comes first.
 - The only option not to brand calves would be for the member to prepay the annual breeder payment before the calves are three months of age, or before they go to pasture, whichever comes first.
- 4) A member may choose to prepay the annual payment for one or more *Schedule B Breeder Agreements* and brand calves related to the remaining agreement(s).
- 5) Branding or prepayment of the annual breeder payment must occur by June 30 of each year. Post-dated cheques are not acceptable.
- 6) The local supervisor must be satisfied with the quality of the brand and must require that poorly branded animals be re-branded.
- 7) Cattle owned by the association on behalf of the local supervisor or the local supervisor's immediate family must be inventoried by a board member (or an approved alternate local supervisor).

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- 8) When the inventory and/or branding is not completed by June 30 because calving was not completed, or due to other extenuating circumstances, the local supervisor must provide an explanation in the comments section of the *Breeder Inventory Confirmation Report*.
 - The provincial supervisor will provide subsequent direction on the extent of follow-up required in these cases.
 - 9) All sections of the report are to be completed for each member, with the comments section used to indicate late calves, prepayments, brand quality, discrepancies in the member's inventory, or other details resulting from the inspection.
 - 10) Each member must sign the *Breeder Inventory Confirmation Report* once the inspection has been completed.
 - If a member wishes to have another person sign on his or her behalf, such as a spouse or business partner, an *Enduring Power of Attorney* must be in place (see form CF13).
 - 11) The local supervisor must provide a copy of the completed *Breeder Inventory Confirmation Report* to the provincial supervisor and the lender by June 30 of each year. A copy should also be provided to the association's president and secretary-treasurer.
 - 12) As part of the Livestock Loan Guarantee Program's ongoing audit process, the provincial supervisor may request to accompany the local supervisor on one or more inspection.
 - 13) Where a member does not brand or prepay the annual payment for calves in the breeder option, or does not co-operate in completing the annual *Breeder Inventory Confirmation Report*, the following policies and procedures apply:
 - The local supervisor must immediately advise the board of directors and the provincial supervisor and document any details in the comments section of the *Breeder Inventory Confirmation Report*.
 - The board should suspend the member from borrowing for one year from the date of payment or branding.

For additional information about the *Breeder Inventory Confirmation Report*, refer to form CF25.

LENDER'S MONTHLY REPORT

At the end of each month, the lender must submit a monthly report on the association's loans to the provincial supervisor, with a copy sent to the association. The report is due by the tenth day of the month following the month being reported. For example, the February report is due by March 10.

Policies and procedures relating to the *Lender's Monthly Report* include:

- 1) Where an association operates both the feeder option and the breeder option, a separate report is required for each option.
- 2) The report must include the following information:
 - name of the association;
 - members' names (in alphabetical order by last name);
 - date of each advance;
 - in the case of feeder cows, the payment due date (deleted when the member's entire loan account is zero-balanced);
 - amount of each advance;
 - principal balance of each advance;
 - accrued interest on each advance;
 - total of all advances on behalf of each member;
 - loan due date for each advance;
 - authorized borrowing limit on behalf of each member; **and**
 - total amount of the accessible association's assurance fund.

For additional information about the *Lender's Monthly Report*, refer to page X-2 and form CF28.

L. Members in Default

DEFINITION OF DEFAULT

An association member is considered to be in default when:

- there are unresolved arrears;
- part or all of the inventory is missing and no payment is made; **or**
- inventory is sold and there will be a shortfall in payment.

GUIDELINES FOR DEALING WITH MEMBERS IN DEFAULT

When an association member (hereafter referred to as “the member”) is identified to be in default, the following guidelines should be followed:

Verifying the Default

- 1) The association should not allow any further advances to the member or any other members of the same farm operation.
- 2) Assurance fund deposits for any member in the option concerned must not be refunded as long as any member in that option is deemed to be in default.
- 3) The association should immediately complete an inventory of all association cattle in possession of the member and any other members within the same farm operation.
 - Section 54 of *The Farm Financial Stability Act* and Section 3 of the *Schedule A Feeder Agreement* and *Schedule B Breeder Agreement* require the member to permit the local supervisor and/or board members of the association to inspect and count the cattle, and to remove the cattle from the member’s possession if deemed necessary.

Notifying Stakeholders

- 4) The association should immediately notify the provincial supervisor and the lender of any default, the results of the inventory confirmation, and the association’s proposed course of action to resolve the situation.
- 5) Where the association is concerned that the member might sell association cattle in his or her own name, the association should notify the Inspection and Regulatory Management Branch (brand inspection) of Saskatchewan Agriculture and Food,

Livestock Inspection Services of Alberta Agriculture, Food and Rural Development, and local livestock dealers to:

- advise of a question of ownership of cattle being offered for sale by the member(s);
and
- where applicable, request withholds on proceeds from the sale of cattle by the member which may be branded with the association's brand and/or the member's brand, or may carry no visible brands.

Resolving the Default

- 6) The association should immediately advise the member in writing of the reason he or she is deemed to be in default and discuss options for resolution.
- 7) The association should take reasonable steps to resolve the default. Further action might include making arrangements with the member for repayment, branding the cattle, mediation, taking possession of and selling all association cattle in the member's possession, taking legal action against the member, or other action.
- 8) The association should seek legal advice prior to the removal and/or sale of any association cattle held by the member, including whether or not the association should serve notice to the member under Farm Debt Mediation.
- 9) If it appears that the association may require the assistance to gain access to the member's premises to count, inspect and/or remove the cattle, the association should contact the provincial supervisor to obtain a warrant.
 - For additional information on requesting a warrant, refer to form CF30.
- 10) Where more than one association member is feeding at the same location and the association cattle held by the member in default are not uniquely identified from the non-defaulting member(s), the association should consider selling all the cattle and applying the sale returns to the loans on a pro-rata basis using the total number of cattle for each member as a proportion of all cattle at that location.

Applying and Replenishing the Assurance Fund

- 11) If the sale of all association cattle held by the member fails to end the default, and the member has refused to make up the shortfall, the association should contact the lender about debiting the assurance fund to pay the shortfall.

- 12) If the assurance fund has been applied to the shortfall and the association wants to continue operating, the association must first bring the assurance fund back up to the required level. This might involve collecting from the member who was in default or, if the loss is greater than the assurance fund deposit for the individual member concerned, collecting the pro rata share of the shortfall from the other members of the association.
- 13) Where the amount debited from the assurance fund exceeds the individual assurance fund for the member in default, no further advances may be taken by the association on behalf of any member until the assurance fund is brought back up to the required 5% (feeder) or 10% (breeder) level of the current outstanding loan amounts for all members of the association.

Payment of the Government Guarantee to the Lender

- 14) When all the cattle related to the account(s) in default have been sold and the assurance fund is depleted during repayment of an account(s) that is in default and there are still arrears owing, the lender is to take all reasonable steps to recover the debt from the association, without having to commence legal action. However, the lender may take any legal action it chooses.
- 15) If the lender has exhausted all avenues of collection, including stopping any legal action it has decided to proceed with, a formal request for payment under the government guarantee may be submitted by the lender.
- 16) The provincial supervisor will advise the lender of the actions to be taken to ensure the rights to the security and assets held by the lender are subordinated to the government.
 - Once a payment is made under the government guarantee, the association and the lender's ability to recover any shortfall is forfeited. However, the member(s) continues to be responsible for repayment of the loan(s) should a guarantee payment be made to the lender.

M. Members in Bankruptcy

NEW MEMBER APPLICATIONS

- 1) Applicants who are undischarged bankrupts (that is, applicants who are still in bankruptcy) are not eligible to participate in the Livestock Loan Guarantee Program.
- 2) If the bankrupt individual has been discharged by the bankruptcy trustee, an application for membership may be considered, provided the applicant provides formal documentation to verify the discharge.
- 3) The association should advise the lender that the applicant is a discharged bankrupt.
- 4) A discharged bankrupt may face extra restrictions to borrowing for up to seven years.

DEALING WITH MEMBERS IN BANKRUPTCY

In the event a member declares bankruptcy, the following procedures apply:

- 1) Immediately upon learning that a member is in bankruptcy, the association should notify the bankruptcy trustee that any cattle acquired by the member under the feeder or breeder option, and for which the association remains indebted to the lender, are owned by the association.
 - The association should provide the trustee with copies of any outstanding *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements* and complete any forms required by the trustee, relative to the association's claim to property in the possession of the bankrupt member.
- 2) Notify the provincial supervisor and the lender of the bankruptcy.
- 3) Members are not eligible for new advances or increases to borrowing limits for the purchase of cattle while the member is an undischarged bankrupt, or for any member who has livestock held in common facilities or pasturage with the bankrupt member.
- 4) Complete an inventory of all association cattle in the possession of the bankrupt member.
 - Section 54 of *The Farm Financial Stability Act* and Section 3 of the *Schedule A Feeder Agreement* and *Schedule B Breeder Agreement* require the member to permit the local supervisor or a board member(s) of the association to inspect and count the cattle, and to remove the cattle if deemed necessary.

- If the member refuses to permit access to his premises for this purpose, the association should contact the provincial supervisor.
- 5) Details of the inventory of association cattle and all loans related to the bankrupt member should be immediately reported to the provincial supervisor and the lender, along with the association's proposed course of action given the situation.
 - 6) The association should determine, in consultation with the lender and the provincial supervisor, whether the association cattle should be removed from or left in the possession of the bankrupt member.
 - If the member agrees to continue with the care and feeding of association cattle, and the association is confident in the intentions of the member to retain the cattle, the cattle may be left in the care of the bankrupt member.
 - 7) If association cattle are left with the member, the sale of the cattle and disposition of any sale proceeds may be dealt with according to standard procedures. However, it is prudent to increase the level of inspection of the cattle.
 - 8) If there is any indication that the bankrupt member or the trustee is disputing any aspect of the association's position on ownership of the cattle, refund of the member's assurance fund deposit, or ability to confirm inventory, the association should seek legal advice and have its solicitor pursue the appropriate remedies on behalf of the association.
 - The association should also notify the provincial supervisor.
 - 9) The association should not sign any proof of claim, which may be sent out by the bankruptcy trustee. Instead, the association should request and complete a statement or claim of ownership. This is a formal document available from the trustee.
 - If the trustee disputes the claim of ownership, the association should present the trustee with the related *Schedule A Feeder Agreement(s)* and/or *Schedule B Breeder Agreement(s)* and other documentation, as necessary.
 - The supervisor of trustees can also be consulted for information, if necessary.
 - 10) Where a member is a principal in a corporation that declares bankruptcy, the association should follow steps 1, 2, and 3 above, and continue to monitor the situation.

Rule of Thumb

☞ In all bankruptcy cases, it is important to keep the provincial supervisor and the lender advised of the situation.

DEALING WITH FAMILY AND BUSINESS PARTNERS OF A BANKRUPT MEMBER

The association should consider the following in dealing with other members connected with a bankrupt member by either family or business ties.

- In most cases, the association should suspend further advances for any member who has livestock held in common facilities or pasturage with a bankrupt member, until the matter has been resolved.
- In situations where there is no firm business or management connection between a bankrupt member and another association member(s) of the same family, such as father and daughter with separate facilities and resources, there is no requirement to suspend further advances for the non-bankrupt member(s).

DEALING WITH A DISCHARGED BANKRUPT MEMBER

The member should provide formal documentation to prove discharge before being eligible for a loan increase or new advances. Following a member's discharge from bankruptcy, if the member still has association cattle in his or her possession or has outstanding advances with respect to pre-bankruptcy *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements*, the association should require the member to enter into new agreements for the remaining term with respect to those cattle, in order to avoid any possible argument that the member's discharge has had the effect of terminating his or her obligations under the pre-bankruptcy agreements.

Credit Restrictions

A discharged bankrupt faces restricted credit for an extended period of time. This means that the member's credit reports may list the bankruptcy for that period. However, the member may apply to resume activity in the association immediately upon discharge from bankruptcy. It is then the responsibility of the association and the lender to decide whether or not the member can be active in the association.

Questions that the association should consider include:

- Has the member's financial situation stabilized?
- Has the member retained sufficient assets to successfully assume the care and feeding of association livestock?
- Were there any indications that the member acted in an illegal or fraudulent manner during the bankruptcy period?
- Were any restrictions placed on the member by the trustee and, if so, were the conditions met?
- Has a full disclosure and farm plan been provided to the lender as part of the member's application?

N. Members Under Review

NEW MEMBER APPLICATIONS

- 1) Producers who are before the Farm Debt Mediation Service or the Farm Land Security Board are not eligible to participate in the Livestock Loan Guarantee Program.
- 2) If a prospective member's review process has been resolved, an application for membership may be considered.
 - The applicant should provide formal documentation to verify completion of the review before an application for membership is considered by the association.
- 3) The association should advise the lender that the applicant has been under review.
- 4) A producer involved in a review may face extra restrictions to borrowing for the next several years.

DEALING WITH MEMBERS UNDER REVIEW

In the event a member is under review by the Farm Debt Mediation Service or the Farm Land Security Board, the following procedures apply:

- 1) Immediately upon learning that a member is under review, the association should notify the reviewing agency that any cattle acquired by the member under the feeder or breeder option, for which the association remains indebted to the lender, are owned by the association.
 - The association should provide the reviewing agency with copies of any outstanding *Schedule A Feeder Agreements* or *Schedule B Breeder Agreements* and complete any forms required by the agency, relative to the association's claim to property in the possession of the member.
 - The association should also notify the provincial supervisor and the lender of the review process.
- 2) No new advances or increases in loans for the purchase of cattle should be taken by the association on behalf of the member while he or she is under review.
- 3) The association should complete an inventory of all association cattle in the possession of the member under review.

- Section 54 of *The Farm Financial Stability Act* and Section 3 of the *Schedule A Feeder Agreement* and *Schedule B Breeder Agreement* require the member to permit the local supervisor or board members of the association to inspect and count the cattle, and to remove the cattle if deemed necessary.
 - If the member refuses to permit access to his premises for this purpose, the association should contact the provincial supervisor.
- 4) Details of the inventory of association cattle and all loans related to the member under review should be immediately reported to the provincial supervisor and the lender, along with the association's proposed course of action given the situation.
- 5) The association should determine, in consultation with the lender and the provincial supervisor, whether the association cattle should be removed from or left in the possession of the member under review.
- If the member agrees to continue with the care and feeding of association cattle, and the association is confident in the intentions of the member to retain the cattle, the cattle may be left in the care of the member.
 - If the member has obtained a stay under the *Farm Debt Mediation Act*, the association consults with legal counsel before seizing the cattle.
 - i) If there are concerns about the member's intentions to retain the cattle, there is a provision in the *Farm Debt Mediation Act* for appointment of an independent guardian of the producer's assets.
- 6) If association cattle are left with the member, their sale and the disposition of any sale proceeds may be dealt with according to standard procedures. However, it is prudent to increase the level of inspection of the cattle.
- 7) If there is any indication that the member or the reviewing agency is disputing any aspect of the association's position on ownership of the cattle, refund of the member's assurance fund deposit, or the ability to confirm inventory, the association should seek legal advice and have its solicitor pursue the appropriate remedies on behalf of the association.
- The association should also notify the provincial supervisor.
- 8) The association should not sign proof of claim, which may be sent out by the reviewing agency. If the trustee disputes the claim of ownership, the association should present the reviewing agency with the related *Schedule A Feeder Agreements* and/or *Schedule B Breeder Agreements* and other documentation, as necessary.

Rule of Thumb

☞ *In all review cases, it is important to keep the provincial supervisor and the lender advised of the situation.*

DEALING WITH FAMILY AND BUSINESS PARTNERS OF A MEMBER UNDER REVIEW

The association should consider the following in dealing with other members connected with a member under review by either family or business ties.

- In most cases, the association should suspend the borrowing privileges for any member who has livestock held in common facilities or pasturage with a member under review, until the matter has been resolved.
- In situations where there is no firm business or management connection between a member under review and another association member(s) of the same family, such as father and daughter with separate facilities and resources, there is no requirement for restriction to borrowing for the member(s) not under review.

DEALING WITH MEMBERS UPON COMPLETION OF THE REVIEW

The member should provide formal documentation to verify completion of the review process before an application for resuming activities is considered. A member may apply to resume activity in the association immediately upon completion of the review process. It is then the responsibility of the association and the lender to decide whether or not the member can be active in the association.

Questions that the association should consider include:

- Has the member's financial situation stabilized?
- Has the member retained sufficient assets to successfully assume the care and feeding of association livestock?
- Were there any indications that the member acted in an illegal or fraudulent manner during the review period?
- Were any restrictions placed on the member by other creditors and, if so, were the condition met?
- Has a full disclosure and farm plan been provided to the lender as part of the member's application?

P. Financial Audits

AUDIT REQUIREMENTS

The *Farm Financial Stability Act* requires that the books and records of the association be audited annually and be open and available for inspection by the provincial supervisor or an auditor appointed by the minister.

- Financial records must be maintained for both the feeder and breeder sections.
- Full audits of the association's financial records are required.
- No other type of reports are acceptable (e.g. Review engagement or financial statements only)

APPOINTMENT OF AN AUDITOR

There are two general requirements when appointing an auditor:

- 1) *Qualifications* - The person must be a member of a recognized professional accounting organization. The three recognized professional accounting organizations in Saskatchewan are: Chartered Accountants (C.A.); Certified Management Accountants (C.M.A.); and Certified General Accountants (C.G.A.).
- 2) *Letter of Engagement* - An engagement letter should be provided to the auditor prior to the commencement of the audit. The terms of the engagement should include:
 - the terms of the assignment including reference to the audit procedures, a sample audit report, the fees for the engagement and, if additional services are required, the basis of the additional charges.
 - responsibilities of the association; **and**
 - provision for a management letter.

AUDITOR'S REPORT

The auditor's report must be in a format acceptable to the Canadian Institute of Chartered Accountants. A sample of an unqualified report is attached (see example on page P-5). The actual audit report will depend upon the results of the auditor's examination.

FINANCIAL STATEMENTS

The association's executive is responsible for the preparation of the financial statements on a comparative basis - balance sheet, statement of income and retained earnings, statement of cash flows and notes to the financial statements (see example on pages P-6 to P-11). This format is recommended, however, it is only a guide. The actual presentation should be determined by the association's executive in consultation with the auditor.

Because of the alternatives available to the association regarding income taxes, the association should determine the basis of recording income taxes in consultation with the association's auditor. The selected alternative should be set out in the association's by-laws.

Balance Sheet

- 1) For those associations where individual members make the decisions on the purchase, care, feeding and sale of animals, a *Members' Account of Contracts* (see example on page P-10, Note 3) is acceptable presentation. This should provide detail of the loans taken out on behalf of the members relative to cattle purchases. When this presentation is used, an accompanying note (see example on page P-11, Note 7) should be prepared. The information for Note 7 can be obtained from the *Local Supervisor's Monthly Report* or declarations made by individual members at year end.
- 2) For those associations where decisions on the purchase, care, feeding and sale of animals is made through Power of Attorney, the *Members' Account of Contracts* must be replaced with *Cattle Inventory*, supported by the appropriate note. The value should be the lower of the original cost or market value.

Income Statement

- The statement of income and retained earnings must be prepared on a comparative basis.

Statement of Cash Flows

- This statement must be prepared even though changes may be nominal.

Notes to the Financial Statements

- Notes are required for all financial statements to clarify or provide additional detail to the presentation in the financial statements.
- The notes will be modified to reflect the presentation in the balance sheet – see point 1 and 2 on previous page.

MANAGEMENT LETTER

The auditor should be requested to provide a management letter outlining the results of the audit. This letter should include findings with respect to compliance with the Act, compliance with bylaws and the general administration of the association.

MANAGEMENT APPROVAL OF FINANCIAL STATEMENTS

- The association executive should review a draft copy of the financial statements with the auditor to clarify the information presented in the financial statements.
- The audited financial statements must be approved by the Board of Directors and signed by the president and one other director.
- Copies of the signed, audited financial statements must be mailed to all association members prior to the annual meeting or be distributed at the annual meeting.
- A copy of the signed, audited financial statements must be provided to the provincial supervisor prior to the annual meeting.

AUDIT REQUIREMENTS FOR CORPORATIONS

- *Section 154 of the Business Corporations Act* states that any corporation that makes a public offering of securities must complete financial statements as specified in *Section 149 of the Act*.
- When an association consists of members of a community and is not deemed to have made a public offering, an *Exemption Form* (form 19) may be filed with Securities Commission. This form exempts the corporation from the requirements in Section 149 of *The Business Corporations Act*.
- If an association incorporated as a corporation solicits memberships from the general public that corporation is required to fulfil Section 149 of the Act.

ABC FEEDER CO-OPERATIVE LTD.
FINANCIAL STATEMENTS
AUGUST 31, 20XX

AUDITOR'S REPORT

To the Members of
ABC Feeders Association Ltd:

I have audited the balance sheet of ABC Feeders Association Ltd. as at *August 31, 20XX* and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of management. My responsibility is to express my opinion on these financial statements based on the results of my audit.

I conducted my audit in accordance with generally accepted auditing standards in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of ABC Feeders Association Ltd. as at *August 31, 20XX* and the results of its operations and changes in its cash flows for the year then ended in accordance with generally accepted accounting principles in Canada.

Anytown, Saskatchewan

Month Day, 20XX

**ABC FEEDERS ASSOCIATION LTD.
BALANCE SHEET
AUGUST 31, 20XX**

ASSETS

CURRENT	2004	2003
Cash and short-term investments	\$ 50,500	\$ 52,500
Accounts receivable	4,500	1,500
Assurance Fund - feeder (note 2)	80,000	90,500
- breeder (note 2)	22,000	19,000
Members' accounts for contracts - feeder (note 3)	500,000	750,000
- breeder (note 3)	1,250,000	1,075,000
Members' accounts for accrued interest - feeder	11,500	26,000
- breeder	57,500	81,500
	<u>1,976,000</u>	<u>2,096,000</u>
OFFICE EQUIPMENT (Note 4)	<u>1,500</u>	<u>2,000</u>
	<u><u>\$1,977,500</u></u>	<u><u>\$2,098,000</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT		
Accounts payable and accrued expenses	\$ 2,250	\$ 3,750
Assurance Fund payable - feeder (note 2)	80,000	90,500
- breeder (note 2)	22,000	19,000
Members' bank loans - feeder (note 5)	500,000	750,000
- breeder (note 5)	1,250,000	1,075,000
Members' accrued interest payable - feeder	11,500	26,000
- breeder	57,500	81,500
Income taxes	750	2,000
	<u>1,924,000</u>	<u>2,047,750</u>
SHAREHOLDERS' EQUITY		
Share capital (note 6)	5,750	5,650
Retained earnings	47,750	44,600
	<u>53,500</u>	<u>50,250</u>
	<u><u>\$1,977,500</u></u>	<u><u>\$2,098,000</u></u>

Approved by the Board:

_____ President

_____ Director

ABC FEEDERS ASSOCIATION LTD.
STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED AUGUST 31, 20XX

INCOME	2004	2003
Interest earned on assurance fund deposits	\$ 4,750	\$ 2,800
Interest earned on members' accounts	5,250	7,100
Handling and inspection fees	15,250	16,200
Membership fees	1,800	2,700
Other income	950	2,200
	<u>\$28,000</u>	<u>\$31,000</u>
 EXPENSES		
Amortization	\$ 500	\$ 500
Interest and bank charges	4,500	1,750
Supervisor	5,500	5,200
Professional fees	8,000	8,700
Meetings, membership and conference	1,750	1,300
Office	2,150	2,050
Per diems and mileage	2,200	2,500
	<u>\$24,600</u>	<u>\$22,000</u>
 INCOME BEFORE INCOME TAXES	 \$ 3,900	 \$ 9,500
 INCOME TAXES	 <u>750</u>	 <u>2,000</u>
 NET INCOME	 3,150	 7,500
 RETAINED EARNINGS, BEGINNING OF YEAR	 <u>44,600</u>	 <u>37,100</u>
 RETAINED EARNINGS, END OF YEAR	 <u>\$ 47,750</u>	 <u>\$ 44,600</u>

ABC FEEDERS ASSOCIATION LTD.**STATEMENT OF CASH FLOWS****YEAR ENDED AUGUST 31, 20XX**

OPERATING ACTIVITIES	2004	2003
Net income	\$ 3,150	\$ 7,500
Amortization, not affecting cash	500	500
	<u>3,650</u>	<u>8,000</u>
Changes in non-cash working capital components		
Accounts receivable	(3,000)	1,000
Assurance fund deposits	7,500	4,500
Members' accounts for contracts including accrued interest	113,500	102,500
Accounts payable and accrued expenses	(1,500)	(100)
Assurance funds payable	(7,500)	(4,500)
Members' bank loans and accrued interest	(113,500)	(102,500)
Income taxes	(1,250)	1,100
	<u>\$ (2,100)</u>	<u>\$ 10,000</u>
 FINANCING ACTIVITIES		
Issuance of shares	200	300
Redemption of shares	(100)	(350)
	<u>100</u>	<u>(50)</u>
 INCREASE (DECREASE) IN CASH	 (2,000)	 9,950
 CASH, BEGINNING OF YEAR	 <u>52,500</u>	 <u>42,550</u>
 CASH, END OF YEAR	 <u>\$ 50,500</u>	 <u>\$ 52,500</u>

**ABC FEEDERS ASSOCIATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 20XX**

1. ACCOUNTING POLICIES

ABC Feeder Association Ltd. was incorporated and registered under *the Farm Stability Act* in the Province of Saskatchewan on *April 01, 1995* and commenced operations in *June, 1995*.

(a) Nature of Business

The primary purpose of the association is to provide financial and supervisory services to enable members of the association to feed or arrange for custom feeding of livestock under provisions of Part VI of *The Farm Financial Stability Act* and to do whatever is of assistance in the purchasing, feeding, general care and marketing of livestock. The care, feeding and marketing are the responsibility of the individual member, therefore, the intended profit on the sale of the livestock remains with the individual member. The Association borrows funds from (Lender) under a guarantee from the Province of Saskatchewan, and in turn, purchases cattle on behalf of the individual members subject to the restrictions and limitations specified under *The Cattle Feeder and Breeder Associations Loan Guarantee Regulations*. Notwithstanding that legal ownership of the livestock remains with the association, the association treats the cattle as security for the contracts receivable from members. For accounting purposes, the livestock are the inventory of the members.

(b) Accrual Accounting

Assets, liabilities, income and expenses are recorded using the accrual basis of accounting.

(c) Capital Assets

Office equipment is recorded at cost. Amortization is recorded at 20% per annum on the straight line basis.

(d) Income Taxes

The method of determining income taxes (as per the resolutions or bylaws of the association) should be outlined here.

(e) Memberships

Each person eligible to use the services of the association must pay an entrance fee of \$100. This fee entitles the member to one common share for \$10 and the balance of \$90 is a membership fee. The membership fee is non-refundable and recorded as income in the year received.

2. ASSURANCE FUND AND ACCRUED INTEREST

A security deposit is required for each feeder and breeder contract - 5% for feeders and 10% for breeders. The deposits may be refunded on request, 90 days after repayment of the loan, providing the association has no overdue loans.

Pursuant to the provisions of *The Farm Stability Act*, the principal amount of all funds held as a result of members' assurance fund deposits are restricted and unavailable to the association for use as operating funds. Interest generated from these funds is available to the association for use as deemed appropriate.

3. MEMBERS' ACCOUNT OF CONTRACTS

	2004		2003	
	Feeder	Breeder	Feeder	Breeder
Contracts' receivable, beginning of year	\$ 750,000	\$1,075,000	\$ 650,000	\$ 650,000
Add (deduct):				
Additional loans during the year	1,000,000	650,000	450,000	625,000
Loans repaid during the year	(1,250,000)	(475,000)	(350,000)	(200,000)
Contracts' receivable, end of year	<u>\$ 500,000</u>	<u>\$1,250,000</u>	<u>\$ 750,000</u>	<u>\$1,075,000</u>

4. OFFICE EQUIPMENT

	2004	2003
Computer equipment	\$ 2,500	\$ 2,500
Accumulated amortization	<u>1,000</u>	<u>500</u>
	<u>\$ 1,500</u>	<u>\$ 2,000</u>

5. MEMBERS' BANK LOANS

Members' bank loans, payable to (*lender*), are for the purpose of allowing members of the association to purchase cattle. Security pledged for the loans includes a registered general assignment of book debts, all livestock purchased with the proceeds of the loans, hypothecation of all relative association contracts, all monies held in assurance funds and a guarantee from the Province of Saskatchewan.

The province's guarantee for advances to the association is limited to the least of the following:

- (a) the outstanding balance on the loan at the time of a first default on any advance following the issuance of the guarantee with respect to the loan plus accrued interest as of the date that the payment is made on the guarantee;
- (b) \$_____ for feeder loans, being the maximum the association is authorized to borrow, calculated in accordance with subsection 4(4) of *The Cattle Feeder Association Loan*

Guarantee Regulations, 1989, as amended, or \$_____ for breeder loans, being the maximum amount the association is authorized to borrow in accordance with subsection 5(4) of *The Cattle Breeder Associations Loan Guarantee Regulations, 1991*, as amended;

and

(c) the maximum amount the association is authorized to borrow as established by the association's Board of Directors.

6. SHARE CAPITAL

	<u>2004</u>	<u>2003</u>
Authorized - an unlimited number of common shares with a \$ 10 par value		
Issued and fully paid - 575 shares (2003 - 565 shares)	<u>\$ 5,750</u>	<u>\$ 5,650</u>

7. MEMBERS' CATTLE INVENTORY

The records of the association show the following numbers of cattle processed during the year. These numbers have not been subject to audit.

	Feeder Division		Breeder Division			
	2004 Cattle	2003 Cattle	2004		2003	
			Cows	Calves	Cows	Calves
On hand, beginning of year	1,384	143	61	-	10	-
Add (deduct)						
Purchased	460	1,935	5	5	61	61
Born	-	-	-	61	-	19
Sold	(680)	(683)	(3)	(64)	(10)	(80)
Other losses	(9)	(11)	(1)	(2)	-	-
On hand, end of year	<u>1,155</u>	<u>1,384</u>	<u>62</u>	<u>-</u>	<u>61</u>	<u>-</u>

8. FINANCIAL INSTRUMENTS

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Unless otherwise indicated, the fair value of financial instruments approximate their recorded amounts.

The fair value of cash, members accounts, accrued interest and members' loans and accrued interest payable approximate recorded amounts because of the short period receipt or payment of cash.

Q. Annual Meetings

ANNUAL MEETING REQUIREMENTS

Policies and procedures relating to the annual general meeting include:

- 1) For co-operatives (see Section 105 of *The Co-operatives Act, 1996*), an annual membership meeting must be held within six months of the associations fiscal year end. Members must be notified of the time and place of any annual or special meeting not less than 10 and not more than 50 days before the meeting by:
 - sending a notice by mail; **or**
 - inserting a notice at least two issues of a newspaper circulated in the area served by the co-operative and posting a notice in a place that, in the opinion of the directors, is prominent and accessible to members.
- 2) For corporations (see Section 129 of *The Business Corporations Act*), an annual meeting of shareholders must be held within fifteen months after holding the last preceding annual meeting. Notice of the time and place of a meeting of shareholders must be sent not less than 21 days nor more than 50 days before the meeting to:
 - each shareholder entitled to vote at the meeting;
 - each director; **and**
 - the auditor of the corporation.
- 3) Since the provincial supervisor is required to attend the association's annual meeting, the president or secretary-treasurer must contact the provincial supervisor prior to setting a date for the annual meeting to avoid conflicting with the meeting date for another association.
- 4) The association should also consider inviting their lender and local Producer Advisory Committee representative to provide updates of their activities.
- 5) The audit report must be completed and reviewed by the board of directors in advance of the annual meeting and a copy provided to the provincial supervisor at least one week prior to the annual meeting.
- 6) Audited financial statements for the association must be presented at the annual meeting.
- 7) At least once per year, usually at the annual meeting or the first board meeting following the annual meeting, the board of directors must pass a resolution(s) to determine which directors and/or staff will be authorized to sign association cheques and/or documents.
 - For a list of detailed policies and procedures relating to signing authority, refer to page D-3: Designating Signing Authority).

- 8) The secretary-treasurer must record and send a copy of the minutes from the annual meeting to the provincial supervisor and the lender within two weeks of the meeting.

For more information about annual meeting requirements, refer to *The Co-operatives Act, 1996* (for co-operatives) or *The Business Corporations Act* (for corporations), or contact Saskatchewan Industry and Resources at 1-866-727-5427.

SAMPLE ANNUAL MEETING AGENDA

A suggested agenda for an annual general meeting includes the following:

- 1) Call to order
- 2) Reading and acceptance of minutes of last annual meeting
- 3) Call for errors and/or omissions
- 4) Business arising from the minutes
- 5) Financial report, including auditor's comments (if present)
- 6) Discussion and acceptance of the auditor's report
- 7) Appointment of an auditor for the upcoming year
- 8) Reports:
 - president
 - local supervisor
 - secretary-treasurer*
 - lender (if present)*

*If requested by the board
- 9) Discussion and acceptance of reports
- 10) Amendments to by-laws, policies, and procedures
- 11) Election of officers
- 12) Assignment of signing officers
 - The board of directors may opt to assign signing officers at the first board meeting following the annual general meeting.
- 13) Report from the provincial supervisor
- 14) New or unfinished business
- 15) Adjournment

R. Producer Advisory Committee

PURPOSE

The main roles and responsibilities of the Producer Advisory Committee include:

- representing associations regionally, in the case of the cattle sector, or provincially in the case of bison or sheep sectors or the lending institutions, in discussions with government on program policy and general operating guidelines to ensure producers and lenders needs and concerns are brought forward
- recommending program changes to government
- participating in regional meetings
- providing a forum for general discussion of the livestock industry

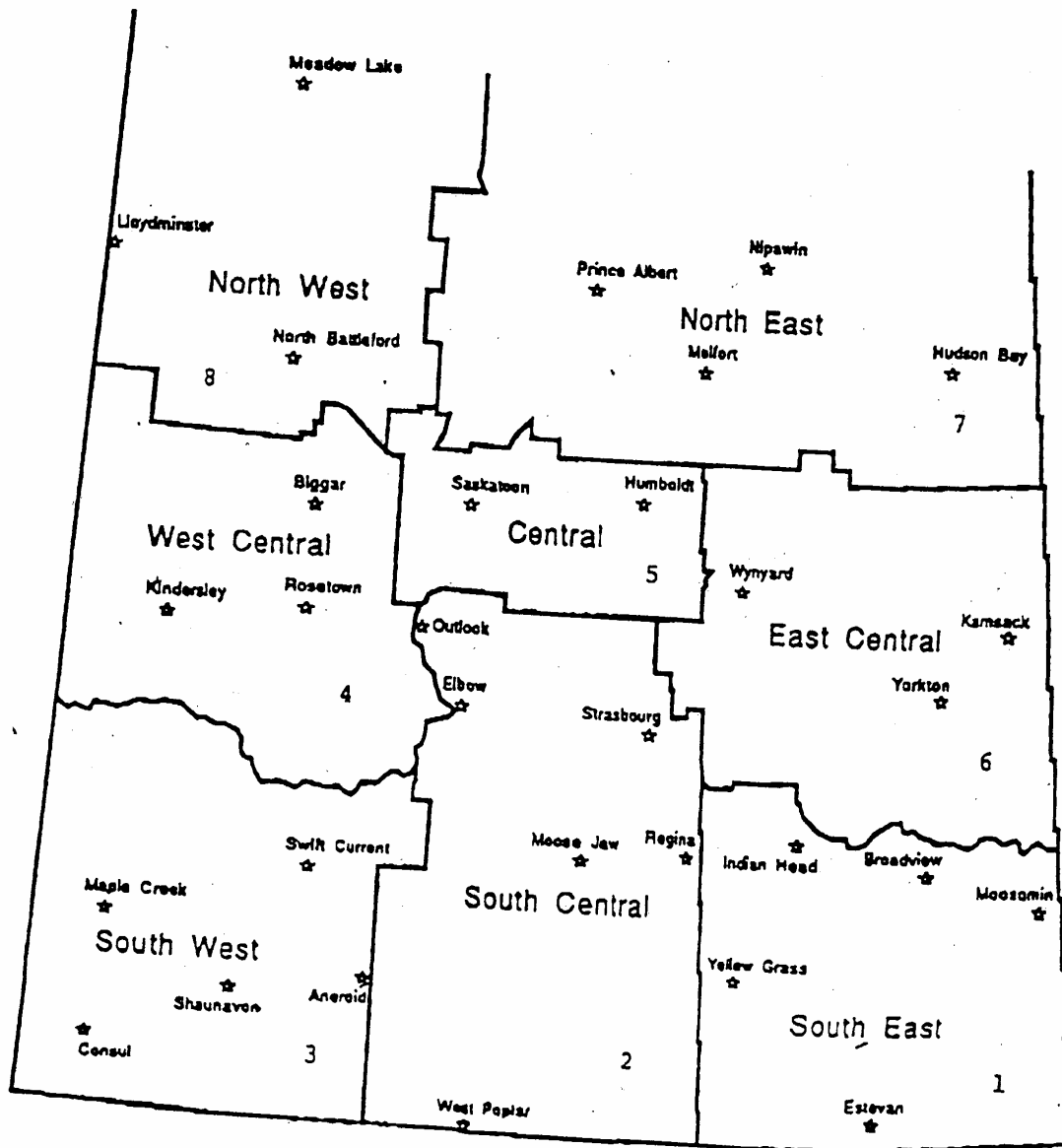
SELECTION PROCESS

The Producer Advisory Committee is established through an election process:

- For the cattle sector, regional representatives are elected for two-year terms by the associations in each region.
- For the sheep and bison sectors, representatives are appointed by the sector concerned.
- The lender representative is recommended by the Lender Working Group.

REGIONAL MAP

The map below outlines the regional boundaries for the cattle producer representatives of the Producer Advisory Committee.



COMMITTEE REPRESENTATIVES

Representatives on the Producer Advisory Committee include:

North West

David Stuart
Box 236
Edam, SK S0M 0V0
P: 397-2727
F: 397-2727
E: jessie02@sasktel.net

Central

Gordon Ross
RR#1, Box 17
Delisle, SK S0L 0P0
P: 493-2612
F: 493-3211

North East

Richard Petersen
Box 249
Rose Valley, SK S0E 1M0
P: 322-4511
F:

West Central

Les Kroschinski
Box 928
Wilkie, SK S0K 4W0
P: 843-2271
F: 843-2899

South Central

Ron Gleim
Box 298
Chaplin, SK S0H 0V0
P: 395-2543
F: 395-2569

East Central

Malcolm Bains, Chair
Box 115
Semans, SK S0A 3S0
P: 524-2181
F: 524-4331

South West

Vacant

South East

Debra Florek
Box 84
Glenavon, SK S0G 1Y0
P: 429-2774
F: 429-2815

Lender Representative

Rodney Weber
Bank of Nova Scotia
Box 1448
Saskatoon, SK S7K 3R1
P: 668-1639
F: 668-1649

Sheep Representative

Lester Whittingham
Box 36
Qu'Appelle, SK S0L 0P0
P: 699-2493
F: 699-2506

Bison Representative

Ron Hawkins
Box 152
Biggar, SK S0K 0M0
P: 948-2736
F: 948-2918

S. Lender Representatives

Bank of Montreal (BMO)

Glen Snyder
Agriculture Department
Mezzanine Level
1800 Scarth Street
Regina SK S4P 2G3
P: 569-5612
F: 569-5621
E: glen.snyder@bmo.com

Bank of Nova Scotia (BNS)

Rodney Weber
Agriculture Department
Box 1448
Saskatoon SK S7K 3R1
P: 668-1639
F: 668-1649
E: rodney.weber@scotiabank.com

Canadian Imperial Bank of Commerce (CIBC)

David Beckie
Agriculture Manager - North
701-201 21st Street East
Saskatoon SK S7K 0B8
P: 668-3484
F: 668-3437
C: 230-3185
E: david.beckie@cibc.com

Canadian Imperial Bank of Commerce (CIBC)

Stephen Kurtz
Agriculture Manager - South
1463 Albert Street
Regina SK S4R 2R8
P: 359-8347
F: 359-536-2819-3185
E: stephen.kurtz@cibc.com

Credit Union Central (CUC)

Lyle Frick
Product Manager, Lending
Services
Box 3030
2055 Albert Street
Regina SK S4P 3G8
P: 566-1310
F: 566-1580
E: lyle.frick@cucs.com

Credit Union Central (CUC) 1st Alternate

Art Timm
Associate Manager, Lending
Box 3030
2055 Albert Street
Regina SK S4P 3G8
P: 566-1375
F: 566-1580
E: art.timm@cucs.com

TD Bank Financial Group (TD)

Troy Packet
Manager, Commercial Credit
Home Oil Tower
324 – 8 Avenue S.W. 9th Floor
Calgary AB T2P 2Z2
P: (403) 292-1072
F: (403) 292-1085
E: troy.packet@td.com

T. Establishing an Association

Under the Livestock Loan Guarantee Program, Saskatchewan residents establish production associations for the purpose of borrowing funds to purchase feeder cattle and/or female breeder cattle. It normally takes about four to six months to establish an association.

ESTABLISHING AN ASSOCIATION

The following guidelines outline the process for establishing an association:

- 1) Ten or more Saskatchewan residents incorporate an association as either a co-operative or corporation.
- 2) The association members elect a board of directors.
- 3) The board of directors elects an executive that includes a president, the secretary-treasurer and any other officers the association requires.
 - When electing the executive, the board must be careful to avoid conflict of interest situations such as those outlined on page D-19 to D-20: Conflict of Interest Guidelines.
- 4) The board of directors decides which board members will have signing authority for the association.
 - At least once per year, the board **must** pass a resolution to designate which board members are authorized to sign association cheques and/or documents.
 - i) At least two of the executive members should be granted signing authority.
 - ii) At least one board member must sign all association documents, with the exception of *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements*, where the board may choose to follow additional procedures in place of a board member's signature. For details, refer to page G-7 to G-8: Signing Feeder/Breeder Agreements.
 - The board **may** pass a resolution granting authority to the secretary-treasurer to sign routine association documents as the association signing officer and/or to sign association cheques.
 - i) Separate resolutions are required to grant authority for the secretary-treasurer to sign both documents and cheques.

Definition – Association Signing Officer

☞ An association signing officer may be any board member, and/or the secretary-treasurer, who has been authorized by the board to sign such a document.

- The board of directors may establish additional requirements for signing. For example, some associations restrict persons with the same last name from signing the same document.
 - Signing authorities for the association must be renewed annually, usually at the association's annual general meeting or at the first board of director's meeting following the annual general meeting.
 - The lender must maintain a record of the association's current signing authorities.
- 5) The board of directors appoints a local supervisor and secretary-treasurer:
- The board appoints a local supervisor to be responsible for confirming cattle are branded, monitoring cattle purchases and sales, ensuring loans are properly advanced and repaid, providing the provincial supervisor and lender with a monthly report (see forms CF26 and CF27), completing an annual breeder inventory and inspection, and handling other duties as outlined on pages D-7 to D-13: Duties of the Local Supervisor, or as directed by the board.
 - The board appoints a secretary-treasurer to be responsible for providing bookkeeping and accounting, maintaining a current membership list, working with the local supervisor to prepare reports, ensuring the association receives the original cattle invoices, providing support to the board of directors, and handling other duties outlined on pages D-14 to D-18: Duties of the Secretary-Treasurer, or as directed by the board.
 - i) Both the local supervisor and the secretary-treasurer must be approved by the provincial supervisor (see form CF3).

NOTE

☞ The lender may want to review the association's selection for local supervisor and secretary-treasurer, as these positions are critical to the success of the association.

- 6) The board of directors registers an association brand.

- 7) The association negotiates with a lender for loans to purchase cattle on behalf of its members:
- Lenders may use a standard package of offer to potential associations, which could include:
 - i) rights of refusal for certain membership and/or loan increase applications
 - ii) interest rates and repayment options
 - iii) administration charges; charges per *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*; or a monthly membership charge
 - iv) other terms and conditions
 - Ownership of the cattle remains with the association.
 - Other requirements for financing by the association or its members are not covered by the government guarantee. For a list of eligible costs, refer to page E-13: Loan Purpose.
- 8) The association members and the amount the association is permitted to borrow on behalf of each member must be approved by the board of directors, the lender and the provincial supervisor.
- Producers wishing to participate in the association must complete a *Membership Application* (see form CF9).
 - i) The board of directors should consult with the lender before approving a new member.
 - ii) For a new member, the maximum amount that can be borrowed by the association on behalf of a member is \$50,000 per option, unless the member has previously earned loan eligibility from another association, in which case the member may apply for membership at the increased level.
 - For detailed information about the membership application process, refer to pages V-7 to V-9, Membership Applications.

- The lender determines the extent of the credit check to be carried out for each member or potential member in order to determine the level of financing offered, subject to the following minimum guidelines:
 - i) An applicant is ineligible for membership if he or she:
 - (a) is an undischarged bankrupt;
 - (b) is in litigation with any lender;
 - (c) has any unsatisfied judgments against him or her; **or**
 - (d) is under review with the Farm Debt Mediation Service
 - ii) A current member is ineligible for new advances or loan increases if he or she:
 - (a) is an undischarged bankrupt
 - (b) is in litigation with any lender
 - (c) has any unsatisfied judgments against him or her; **or**
 - (d) is under review with the Farm Debt Mediation Service.
- Lenders should review each member on a regular basis, especially after periods of inactivity, to identify potential problems.

DEFINITION – UNSATISFIED JUDGMENT

☞ An unsatisfied judgment is deemed to be a present judgment of material amount for which a repayment agreement with the judgment creditor has not been reached. Members may be eligible for advances if the lender determines the judgment is not of significant amount and/or reason, provided a repayment agreement with the judgment creditor is in place and is up-to-date.

- 9) When providing financing for an association, lenders typically obtain the following security:
- a credit agreement, loan agreement and/or promissory note;
 - all cattle owned by the association through a charge under Section 427 of *The Bank Act* and/or a blanket charge under *The Personal Property Security Act* (PPSA) on all assets of the association;
 - hypothecation of the association's assurance fund(s); **and**
 - a general assignment of all book debts (accounts receivable) of the association.
- 10) After negotiating a financing package and agreeing upon the initial membership list, the association and lender sign a *Three Party Agreement*, which stipulates the

responsibilities of each party under the Livestock Loan Guarantee Program (see forms CF7 and CF8).

- If the Association plans to offer both the feeder option and the breeder option, a separate *Three Party Agreement* must be completed for each option.
- 11) The association and lender complete an application for a guarantee from the Government of Saskatchewan.
- Where an association plans to offer both the feeder option and the breeder option, a separate *Guarantee Application* is required for each option (see forms CF5 and CF6).
- 12) For each option, the lender must then submit an application package to the provincial supervisor for approval. The package must contain the following documents:
- i) *Guarantee Application* and *Membership List* (see forms CF5 and CF6)
 - ii) *Three Party Agreement* (see forms CF7 and CF8)
 - iii) Copy of the Incorporation Certificate
 - iv) *Management Information* form (see form CF2)
 - v) *Local Supervisor and Secretary-Treasurer Confirmation* (see form CF3).
 - vi) *All Membership Applications* (see form CF9)
- 13) The government guarantee is usually finalized within two weeks of the provincial supervisor's receipt of the application package.
- Once the application is approved, the Government of Saskatchewan issues a letter of guarantee to the lender which states the maximum loan amount covered by the government guarantee and the amount of the guarantee. A copy of the letter is also sent to the association.
- 14) After the government guarantee has been issued and the required accounts have been created, arrangements can be made for the association to start purchasing cattle and drawing funds.
- 15) The association's board of directors, through the local supervisor and the secretary-treasurer, is responsible for administering the purchase and sale of cattle by the association.

U. Accounts

SUMMARY OF ACCOUNTS

The lender and the association work together to set up all or some of the following accounts, subject to the minimum requirements outlined below: Minimum Number of Bank Accounts:

Assurance Fund Account(s) – This is an interest bearing account into which all assurance funds are deposited. Interest from this account(s) is often used by the association to fund its day-to-day operations. Where an association offers the feeder option and the breeder option, a separate assurance fund is required for each option.

Operating Account(s) – This account is used to deposit and withdraw operating funds used in the day-to-day operations of the association. Where an association offers the feeder option and the breeder option, the association is permitted to use a single operating account for both options, provided the association's lender agrees.

Sales Account(s) for Loan Transactions – Often referred to as a chequing or current account, the sales account is used to deposit and pay out loan advances and sale returns. The board and lender may agree to combine the operating account and the sales account.

Association Loan Account and Member Sub-Accounts – All loan documentation must be made in the name of the association on behalf of its individual members. Because there may be more than one advance for each member of the association, lenders usually maintain separate sub-accounts for each member and separate loan numbers (for example, #01-99) for each advance.

Minimum Number of Bank Accounts

Where an association offers both the feeder option and the breeder option, the minimum number of bank accounts required is three: 1) a feeder assurance fund; 2) a breeder assurance fund; and 3) a single operating account for both options. However, the association should consider the limitations of using a single operating account before choosing such an account structure. For example, with a single operating account, it's possible that an issue or loss in one option would restrict activity in both options, since the lender may freeze the operating account. As such, the board of directors and/or lender may require the association to have a separate operating account for each option.

ASSURANCE FUND ACCOUNTS

Establishing and Managing Assurance Funds

One of the central components of the Livestock Loan Guarantee Program is the development of an association assurance fund consisting of deposits from individual members. The assurance fund is part of the security held by the lender for the association's loans. General policies and procedures relating to establishing and managing the assurance fund(s) include:

- 1) In the feeder option, members must maintain an assurance fund deposit equal to at least 5% of the original amount of the outstanding advances taken by the association on their behalf, except where new advances have been taken where excess assurance funds were used, as outlined on page F-4: Reusing Excess Assurance Funds.
- 2) In the breeder option, members must maintain an assurance fund deposit equal to at least 10% of the original amount of the outstanding advances taken by the association on their behalf, except where new advances have been taken where excess assurance funds were used, as outlined on page F-4: Reusing Excess Assurance Funds.
- 3) Assurance funds must be kept separate from all other association funds or accounts.
- 4) The assurance fund is used solely to pay off association loans for the purchase of cattle which are due and cannot otherwise be repaid to the lender.
- 5) The association must maintain separate assurance fund accounts for the feeder and breeder options.
- 6) The assurance fund for one option must not be used to repay a default in the other option.
 - For example, an association's feeder assurance fund cannot be used to repay a default in the association's breeder option.
- 7) Where the association transfers pregnant heifers from the feeder option to the breeder option on behalf of a member:
 - the member must have the required 10% breeder assurance fund on deposit to cover the transfer; **and**
 - the member's 5% deposit in the feeder assurance fund must remain in place for at least 90 days before it may be refunded to the member, and may be refunded only if all accounts for all members in the feeder option are up-to-date.
- 8) Where the association transfers calves from the breeder option to the feeder option on behalf of a member:

- the member must have the required 5% feeder assurance fund on deposit to cover the transfer; **and**
 - the member's 10% deposit in the breeder assurance fund must remain in place for at least 90 days after the breeder agreement(s) has been repaid in full, provided any accounts for any other member(s) in the breeder option are not in arrears.
- 9) Where a member has repaid either **All** his or her breeder advances in full and chooses not to withdraw his or her assurance fund deposits after 90 days, and there are no defaults during these 90 days, these deposits are not at risk of being utilized for future losses.

Collecting Assurance Funds

Associations must collect assurance funds in one of two ways:

- 1) *By Member* – The association may collect the assurance fund deposit up front, before any funds are advanced, based on the maximum that the association is authorized to borrow on behalf of the member.
 - For example, if the association was authorized to borrow up to a maximum of \$25,000 on behalf of a member in the feeder option, that member would be required to deposit \$1,250 ($\$25,000 \times 5\%$) into the association's feeder assurance fund upon approval to the \$25,000 level.
- 2) *By Individual Advance* – The association may collect the assurance fund deposit based on each individual advance.
 - For example, if the association is authorized to borrow \$25,000 on behalf of a member in the breeder option, but at this time is purchasing only \$10,000 worth of cattle, the member would be required to deposit \$1,000 ($\$10,000 \times 10\%$) into the association's breeder assurance fund at the time the *Schedule B Breeder Agreement* is completed.

Investing Assurance Funds

For investment purposes, the association's assurance fund(s) must be:

- kept liquid;
- covered by the Canadian Deposit Insurance Corporation, the Credit Union Deposit Guarantee Corporation, or invested in government investments; **and**
- invested only in investments where the principal cannot be lost.

Reusing Excess Assurance Fund Deposits

As an advance is repaid, any amount standing to the credit of the member in the association's assurance fund in excess of 5% of the outstanding feeder advances or 10% of the outstanding breeder advances on behalf of the member, including interest, may be applied to the assurance fund deposit required for a new purchase.

Example

☞ *If a member in the feeder option has \$500 on deposit in the feeder assurance fund, yet the association's outstanding advances on behalf of the member, including interest, total only \$4,000 [requiring an assurance fund deposit of \$200 ($\$4,000 \times 5\%$)], the member is deemed to have an excess assurance fund deposit of \$300. This excess may be applied towards the assurance fund deposit required for a new purchase.*

Refunding Assurance Fund Deposits

The following policies and procedures relate to the refund of assurance fund deposits.

- 1) Provided the association is not in default with respect to the account of any member:
 - Under the breeder option, and the feeder option where a member does not zero-out all advances annually, and where a member has paid out an advance in full, the association **may** refund the member's assurance fund deposit related to that advance at any time following the expiration of a 90 day waiting period from the date the advance was paid out, less any excess that has been re-used for any new advances.
 - Under the feeder option, where a member zeros out all advances annually, and where a member has paid out all advances in full, the association **may** refund the member's assurance fund deposit at any time following the expiration of a 90 day waiting period from the date the advance(s) was paid out.
 - Where a member has paid out all advances and subsequently resigns from the association, the association **must** refund the member's assurance fund deposit within 15 days of resignation, but no sooner than 90 days from the date the member paid out all advances in full.
- 2) If the association is in default with respect to the account of any member, the association must not refund any portion of the assurance fund to any member until the default has been resolved.

Applying and Replenishing Assurance Funds

Policies and procedures relating to the application of assurance funds include:

- 1) The assurance fund must not be used to repay any advance(s) taken by the association on behalf of a member unless the advance(s) is in default. The rationale for this requirement is as follows:
 - *The Cattle Feeder and Breeder Associations Loan Guarantee Regulations* require the association to retain a member's assurance fund deposit for at least 90 days after the member has paid out an advance so these funds cannot be used to repay advances before the 90 days has expired.
 - The assurance fund is a common fund for the protection of all members. Should more than one member fall into default, it should not be seen or treated as a source of last payment by individual members.
- 2) In the event of a default, the lender must not apply the assurance fund until all association cattle held by the defaulting member have been sold and the proceeds have been applied to the outstanding advance(s) for the cattle.
- 3) If the assurance fund is used to repay an advance that is in default, no further advances may be made to the association until the feeder assurance fund is replenished to the required 5% and/or the breeder assurance fund is replenished to the required 10%, of current balances of all outstanding advances for all members.

OPERATING ACCOUNTS

The operating account is used for the deposit and withdrawal of operating funds used in the day-to-day operations of the association. Typical deposits might include handling charges, inspection fees, interest from the assurance funds, and other income generated from the operation of the association. Typical expenses would include the auditor's fee, compensation for the local supervisor and secretary-treasurer, and other general expenses required to operate the association.

Note

☞ *Where the association and lender agree to use only three accounts for both options (feeder assurance fund, breeder assurance fund and operating account), the operating account is also used to facilitate the flow of loan advances for the purchase of cattle and proceeds from the sale of association cattle.*

SALES ACCOUNTS FOR LOAN TRANSACTIONS

The purpose of the sales account(s) is to facilitate the flow of loan advances for the purchase of cattle and of proceeds from the sale of association cattle. In some cases, the board and lender may agree to combine the sales account and the operating account.

Policies and procedures relating to the sales account(s) include:

- 1) The lender assists the association in establishing a chequing account.
- 2) When a *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is approved, the lender transfers the appropriate funds into the association's sales account. The secretary-treasurer then writes a cheque to pay for the cattle.
- 3) When association cattle are sold, proceeds from the sale are deposited into the association's sales account and are applied to the appropriate member's account, as directed by the secretary-treasurer.
- 4) After the required principal and interest payment(s) is made on the member's account, any surplus funds may be returned to the association's operating account. The secretary-treasurer returns any excess sale proceeds to the member.

ASSOCIATION LOAN ACCOUNTS AND MEMBER SUB-ACCOUNTS

Policies and suggested procedures relating to the association loan account and member sub-accounts include:

- 1) All loan documentation must be made in the name of the association, with appropriate sub-accounts for each member.
 - Attached to the loan application should be a complete listing of all members and the maximum amount that the association is entitled to borrow on behalf of each member.
- 2) A sub-account for each member should be established in the association's loan account.
 - As there may be several advances on behalf of a member, the lender usually maintains a separate loan number or record (for example, #01-99) for each advance.
 - The accrued monthly interest should be recorded for the appropriate sub-account.
 - For feeder steers and heifer loans, the member's sub-account must show the date of each advance.
 - i) Each member's entire feeder heifer and steer account must be zero-balanced at least once every 12 months; or
 - ii) If an association chooses not to zero balance, then an inventory check must be carried out at least once annually.
 - For feeder cow loans, the member's sub-account must show the date of each advance and the repayment date for each advance.
 - i) Each member's entire feeder cow account must be zero balanced at least once every 12 months; this date may or may not coincide with the member's zero-balance date for feeder heifer and steer loans.
- 3) The total loan, in the name of the association, should be entered on the lender's loan administration system with sub-accounts for advances on behalf of each member.

V. Membership and Loan Administration

REDUCING OR INCREASING AN ASSOCIATION'S LOAN LIMITS

Maximum Association Loan Limits

The maximum loan limits for an association are:

- \$6 million for the feeder option
- \$6 million for the breeder option

Reducing an Association's Loan Limits

The following policies and procedures relate to the reduction of an association's loan limits:

- 1) The provincial supervisor will review an association's loan limits on an annual basis.
- 2) If an association uses less than 75% of its authorized loan limit during the previous year, the provincial supervisor may reduce the association's authorized limit and the corresponding guarantee to the lender.
 - The amount of the reduction will be based on the maximum amount used during the year plus a margin to allow for any potential increase in purchases or new members.
- 3) If an association requires additional funds after a reduction, the association may apply for a guarantee increase.

Increasing an Association Loan Limits

If an association is nearing its maximum authorized loan limit(s) as a result of increased borrowing, the association may apply for an increase to its authorized limit(s) by completing and submitting a *Guarantee Application* (see forms CF5 and/or CF6).

MEMBERSHIP ELIGIBILITY

Basic Membership Requirements

Residents of Saskatchewan who are at least 18 years of age can participate in the Cattle Feeder/Breeder Option, subject to association, lender and provincial supervisor approval. Associations and lenders may establish additional criteria.

Undischarged Bankrupts

Applicants who are undischarged bankrupts (that is, the applicant is still in bankruptcy) are not eligible to join feeder/breeder associations. Once the bankrupt has been discharged by the bankruptcy trustee, an application for membership may be considered. The member should provide formal documentation to prove discharge before an application for membership is considered. In addition, the association should advise the lender that the member is a discharged bankrupt, since a discharged bankrupt may face restrictions to borrowing for several years.

Applicants under Review

Producers who are before the Farm Debt Mediation Services or the Farm Land Security Board are not eligible to join feeder/breeder associations. Once the process with either or both review agencies has been completed, an application for membership may be considered, provided the member provides formal documentation to verify the process has been completed. In addition, the association should advise the lender that the applicant has been under review, since a producer involved in a review may face restrictions to borrowing for the next several years.

Membership in Multiple Associations

Participation in multiple associations or Livestock Loan Guarantee Program options while a member of the Cattle Feeder/Breeder Option is subject to the following conditions:

- 1) Members may participate in the feeder option of one association and the breeder option of a second association, but may not belong to the same option, whether feeder or breeder, in two associations at the same time.
- 2) Members in the Cattle Feeder Option may not participate concurrently in the Individual Cattle Feeder Option.
- 3) Members may participate concurrently in the Cattle Feeder Option and the Enhanced Cattle Feeder Option, subject to association, lender and provincial supervisor approval. In this case, members are required to allocate a portion of their current maximum feeder loan limit between the two options.
- 4) Members may participate concurrently in the Cattle Feeder/Breeder Option, the Sheep Feeder/Breeder Option and/or the Bison Feeder Option, subject to association, lender and provincial supervisor approval.

MEMBER LOAN LIMITS

General Policies and Procedures

- 1) Members may participate in both the feeder and the breeder option of an association and are eligible for up to the maximum member loan limit offered for each option.
- 2) The maximum amount the association can borrow on behalf of a member under both options is \$225,000.
- 3) Member loan limits are determined separately for each option and are based on the member's history of activity in each option.
 - For example, a member who has been active at the \$50,000 loan limit for four years is eligible to apply for a loan increase directly to the maximum \$200,000 loan limit. The member is not required to proceed sequentially through each of the four levels.
- 4) Member loan limits are subject to association, lender and provincial supervisor approval:
 - The board of directors, in consultation with the lender, is responsible for setting the maximum amount that can be borrowed by the association on a member's behalf. For example, a member may be eligible for a \$50,000 limit according to the regulations, but the association and lender may agree to limit the member to a lesser amount, such as \$30,000.
- 5) When determining the length of time that a member has been active, the first year begins on the date of the association's first loan on behalf of the member and ends 12 months later.
- 6) When dealing with a farm operation that involves more than one association member, the board of directors and the lender must consider the ability of the operation to repay the association in the event of a shortfall.
- 7) The local supervisor and secretary-treasurer must work together to ensure that loans taken out by the association on behalf of its members do not exceed the limits allowed by the regulations for the option concerned, or the limits approved by the board of directors and the lender.

Member Loan Limits – Feeder Option

A feeder association's maximum loan limit on behalf of each member is based on the member's history of activity in the feeder option, as outlined in the table below:

History of Member Activity in the Feeder Option	Maximum Loan Limit
1 st year	\$50,000
2 nd year	\$100,000
3 rd year	\$150,000
4 th and following years	\$200,000

Note: The maximum amount the association can borrow on behalf of a member under both options is \$225,000.

Member Loan Limits - Breeder Option

A breeder association's maximum loan limit on behalf of each member is based on the member's history of activity in the breeder option, as outlined in the table below:

History of Member Activity in the Breeder Option	Maximum Loan Limit
1 st year	\$50,000
2 nd year	\$75,000
3 rd and following years	\$125,000

Note: The maximum amount the association can borrow on behalf of a member under both options is \$225,000.

Retention of Loan Limits while Inactive

When a member has had no outstanding advances for an extended period of time, the association's ability to resume borrowing on behalf of the member up to the previously approved loan limits is subject to association, lender and provincial supervisor approval.

Note

☞ *Active means having an outstanding feeder or breeder account with the association at any time during the fiscal year of the association. A member's activity is considered separately for each option.*

☞ *The member loan limits provided are maximum limits. The association, lender or provincial supervisor may restrict a member to less than the maximum limit.*

ASSOCIATION/MEMBER APPROVAL FOR THE FEEDER COW OPTION

Association Approval for the Feeder Cow Option

If an Association wishes to purchase feeder cows on behalf of a member(s), the association must provide approval for the feeder cow option for that member(s) using a Membership Application (see form CF9).

- Once approved by the board, lender and provincial supervisor, the association may purchase feeder cows on behalf of a member within that member's existing loan limits for the feeder option (i.e. the purchase of feeder cows on behalf of a member offsets the feeder loan limits available to the association for the purchase of feeder heifers and steers).

Member Applications for the Feeder Cow Option

Members in the feeder option may apply to have the association purchase feeder cows on their behalf, within their existing loan limits in the feeder option, provided the association and the lender have agreed to offer the feeder cow option, as described above.

Policies and procedures relating to member participation in the feeder cow option include:

The applicant must complete and submit a *Membership Application* (see form CF9) requesting to participate in the feeder cow option. This application must be approved by the association, lender and provincial supervisor.

Once approved, the association may begin to purchase feeder cows on behalf of the member within that member's existing loan limit for the feeder option (that is, the purchase of feeder cows on behalf of a member offsets the feeder loan limits available to the association for the purchase of feeder heifers and steers).

MEMBERSHIP APPLICATIONS

Purpose

A Membership Application (see form CF9) is to be completed when:

- an existing member in the feeder option or the breeder option wants to apply for membership in the other option;
- an existing member in the feeder option wants to be approved for the purchase of feeder cows; **or**
- a prospective member wants to join the association.

The Membership Application must be approved by the association, the lender and the provincial supervisor prior to any loan(s) being advanced to the association on the applicant's behalf.

Completing and Approving a Membership Application

The process for approving a Membership Application is as follows:

- 1) The secretary-treasurer provides the prospective member with a Membership Application and any documents required by the lender.
 - Along with the Membership Application, the association should provide the applicant with a copy of the Basic Rules for Members (see form CF10).
- 2) The prospective member completes the application, signs and dates the application and submits it to the association for approval.
- 3) The board of directors reviews the application using the Board of Directors' Application Review Checklist as a guide (see form CF12). As part of their review, the board is responsible for:
 - verifying the applicant's Saskatchewan residency and age
 - verifying the applicant's past or current membership with another association(s)
 - i) If not completed on the Membership Application, the board should contact the member to confirm any past or current involvement with another association(s).

- ii) For further confirmation of a member's past or current involvement in the Livestock Loan Guarantee Program, the board may contact the provincial supervisor.
 - confirming that the association has sufficient authorized loan limit to handle any loans taken on behalf of the new member
 - considering, through discussions with the lender, the ability of the applicant to repay the loan in the event of a shortfall
 - considering the ability of a farm operation to repay the association in the event of a shortfall where more than one member of a farm operation is a member of the association
 - working with the lender to determine a member's eligibility and set the maximum amount that can be borrowed by the association on the member's behalf
 - i) For example, although a member may be entitled to a \$50,000 limit according to the program regulations, the association and lender may agree to limit purchases made on behalf of the member to a lesser amount such as \$30,000.
- 4) After considering the above items, the board either approves or rejects the application:
- If approved, a board member with signing authority signs and dates the application, indicates any special limitations applying to the member, and the secretary-treasurer forwards it to the lender for approval.
 - If rejected, the secretary-treasurer or a member of the board of directors advises the applicant of the board's decision.
- 5) The lender reviews the application, performs the normal credit checks, and either approves or rejects the application:
- If approved, the lender signs and dates the application, indicates any special limitations applying to the member, and forwards it to the provincial supervisor for final approval.
 - If rejected, the lender either contacts the applicant directly or advises the association.

- 6) The provincial supervisor reviews the application to confirm the applicant's eligibility for the Cattle Feeder/Breeder Option, and a review of the applicant's past history with the Livestock Loan Guarantee Program:
 - If approved, the provincial supervisor signs and dates the application and returns the original to the association and a copy to the lender.
 - If rejected, the provincial supervisor sends a letter to the applicant and a copy to the association and lender to explain why the application was denied.
- 7) Upon receipt of the application approved by the provincial supervisor, the lender may provide loans to the association on behalf of the new member.
- 8) If not already provided with the Membership Application, the secretary-treasurer should immediately provide the new member with a copy of the Basic Rules for Members (see form CF10).
- 9) The local supervisor and secretary-treasurer must work together on an ongoing basis to ensure that loans taken out on behalf of association members do not exceed the limits set out in the program regulations or those authorized by the board of directors and the lender.

MEMBERS TRANSFERRING BETWEEN ASSOCIATIONS

A member may transfer from one association to another, provided the following policies and procedures are followed:

- 1) The member must complete a *Membership Application* (see form CF9) for the new association. While the application is reviewed using the normal credit check and approval process for new members, the board of directors may want to contact the member's current association before approving the application.
- 2) The member's loan experience (that is, the member's loan history and current maximum loan limit) specific to each option may be transferred to the same option of the new association for purposes of determining the maximum loan limit(s) for the member.
- 3) The member's assurance fund deposit with the original association must remain with that association for 90 days from the date the member's account(s) is paid out, unless the association's loans on behalf of all other members have already been paid out.
 - If the original association has any outstanding or impending issues at the time the loan(s) is paid off or before expiry of the 90 day period, then the assurance fund for the transferring member must remain with the association until all the issues have been resolved.
- 4) Inventory for outstanding loan(s) on behalf of the member concerned must be transferred to the new association and branded with the new association's registered brand. If the remaining members transfer to another association as well, or pay out the remaining advances, a brand transfer form may be used.
- 5) The member must deposit into the new association's assurance fund 5% (feeder) and/or 10% (breeder) of the total loan amount(s) being transferred to the new association before any cattle may be transferred to the new association on the member's behalf. The amount of assurance fund required is based on the amount of the new loan.
- 6) A new *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* is required for any cattle being transferred to the new association.
 - The term for the new loan is the same as the remaining term on the loan to the original association.
 - The new lender releases funds to the new association to pay the original association for the cattle. The original association, in turn, issues a receipt for the cattle to the new association.

CREDIT CHECKS AND MEMBER REVIEWS

Lenders are expected to check on the credit worthiness of each potential member, which should include a credit check, a review of the applicant's current financial statement or income tax statements, a *Personal Property Security Act* (PPSA) search, and/or other measures.

The lender determines the extent of the credit check to be carried out for each member or potential member in order to determine the level of financing offered, subject to the following minimum guidelines:

- 1) An applicant for membership is ineligible if he/she:
 - is an undischarged bankrupt;
 - is in litigation with any Lender;
 - has any unsatisfied judgments against him/her; **or**
 - is under review with the Farm Debt Mediation Service.
- 2) A current member is ineligible for new advances or loan increases if he/she:
 - is an undischarged bankrupt;
 - is in litigation with any Lender;
 - has any unsatisfied judgments against him/her; **or**
 - is under review with the Farm Debt Mediation Service.

Lenders should review the credit worthiness of each member on a regular basis, especially after periods of inactivity, to identify potential problems.

Definition – Unsatisfied Judgment

☞ An unsatisfied judgment is deemed to be a present judgment of material amount for which a repayment agreement with the judgment creditor has not been reached. Members may be eligible for advances if the lender determines the judgment is not of significant amount and/or reason, provided a repayment agreement with the judgment creditor is in place and is up-to-date.

SECURITY

When providing financing for an association, lenders typically obtain the following security:

- all cattle owned by the association through a charge under Section 427 of *The Bank Act* and/or a blanket charge under the *Personal Property Security Act* on all assets of the association;
- a credit agreement, loan agreement and/or promissory note from the association;
- hypothecation of the association's assurance(s) fund; **and**
- a general assignment of all book debts (accounts receivable) of the association.

BRANDING

All cattle owned by the association must carry a registered association brand. *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements* submitted for cattle purchases must confirm that the cattle have been branded with the association's brand before the lender advances funds to the association to pay for the cattle.

INTEREST RATES

The act and regulations that govern the Livestock Loan Guarantee Program do not specify a maximum rate of interest which may be charged. The rate is determined by the lender based on the lender's normal lending criteria, the level of competition, and the availability of the 25% government guarantee.

LOAN INCREASE APPLICATIONS

Eligibility Requirements

Members who want to increase the maximum limit for loans which can be taken by the association on their behalf may apply to the association for a loan increase.

Undischarged Bankrupts - Members who are undischarged bankrupts (that is, members who are still in bankruptcy) are not eligible for a loan limit increase until they have been discharged from bankruptcy. The member should provide formal documentation to prove discharge before a loan increase application is considered. In addition, the association should advise the lender that the member is a discharged bankrupt, since a discharged bankrupt may face restrictions to borrowing for the next several years.

Members under Review - Members who are before the Farm Debt Mediation Services or Farm Land Security Board are not eligible for a loan limit increase until the review process has been completed. This time frame is case dependent; some may be resolved more quickly than others. The member should provide formal documentation to verify that the process has been completed before a loan increase application is considered. In addition, the association should advise the lender that the member has been under review, since a producer involved in a review may face restrictions to borrowing for the next several years.

Applying for a Loan Increase

The process for approving a Loan Increase Application is as follows:

- 1) The secretary-treasurer provides the member with a Loan Increase Application (see form CF11).
- 2) The member completes the application, signs and dates the application, and submits it to the association for approval.
- 3) The board of directors reviews the application using the Board of Director's Application Review Checklist as a guide (see form CF12). As part of their review, the board is responsible for:
 - verifying the applicant's Saskatchewan residency
 - confirming that the association has sufficient authorized loan limits to handle any loans taken on behalf of the new member
 - considering the ability of a farm operation to repay the association in the event of a shortfall when more than one member of that farm operation applies for membership in the association

- working with the lender to determine a member's financial status and set the maximum amount that can be borrowed by the association on the member's behalf
 - i) For example, although a member may be entitled to a \$100,000 limit according to the program regulations, the association and lender may agree to limit purchases made on behalf of the member to a lesser amount such as \$70,000.
- 4) After considering the above items, the board either approves or rejects the application:
- If approved, a board member with signing authority signs and dates the application, indicates any special limitations applying to the member. The secretary-treasurer forwards it to the lender for approval.
 - If rejected, the secretary-treasurer or a member of the board of directors advises the applicant of the board's decision
- 5) The lender reviews the application, performs the normal credit checks, and either approves or rejects the application:
- If approved, the lender signs and dates the application, indicates any special limitations applying to the member, and forwards it to the provincial supervisor for final approval.
 - If rejected, the lender either contacts the applicant directly or advises the association.
- 6) The provincial supervisor reviews the application to confirm the applicant's eligibility for the loan increase and reviews the applicant's past history with the program.
- If approved, the provincial supervisor signs and dates the application and returns the original to the association and a copy to the lender.
 - If rejected, the provincial supervisor sends a letter to the applicant and a copy to the association and lender to explain why the application was denied.
- 7) Upon receipt of the application approved by the provincial supervisor, the lender may provide additional loans to the association on behalf of the member, up to the approved amount(s).
- 8) The local supervisor and secretary-treasurer must work together on an ongoing basis to ensure that loans taken out on behalf of association members do not exceed the limits set out in the program regulations or those authorized by the board of directors and the lender.

LOAN PURPOSE

Loans to the association are for the purchase of cattle on behalf of individual members. In addition to the purchase price of the cattle, other eligible costs, subject to association and lender approval, include:

- buying commissions
- branding costs, if the cattle are branded at the market
- any yardage incurred after the purchase (that is, any costs to cover the care and feeding of cattle at the auction market for a reasonable period of time)
- trucking costs to the feeding location
- the Goods and Services Tax (GST)

Members are responsible for all other feeding and care expenses, such as the purchase of feed outside the normal yardage feed, custom feeding charges, or the construction or maintenance of facilities.

ELIGIBLE LIVESTOCK

Feeder Option

Cattle purchased under the feeder option are subject to the following policies and procedures:

- 1) Livestock that are eligible for purchase under the feeder option include:
 - feeder heifers
 - feeder steers
 - feeder cows (see note below)
- 2) Livestock that are **not** eligible for purchase under the feeder option include:
 - bulls, recreation and rodeo stock
 - pregnant heifers
 - pregnant cows
 - unweaned calves
- 3) Bull calves must be castrated prior to purchasing.
- 4) Heifers are not permitted to calve while in the feeder option.
- 5) Feeder heifers that are bred while in the feeder option must be transferred to the breeder option or sold prior to calving.
- 6) Cattle owned by the association on behalf of one member cannot be refinanced in the same option on behalf of that member, the member's company, or any other member who shares the same farm operation.

Note

☞ Both the association and the member must be approved to participate in the feeder cow option before the association can purchase feeder cows on the member's behalf (see form CF9: Membership Application).

ELIGIBLE LIVESTOCK

Breeder Option

Cattle purchased under the breeder option are subject to the following policies and procedures:

- 1) Livestock that are eligible for purchase under the breeder option include:
 - pregnant females under five years of age (must be confirmed pregnant)
 - pregnant or non-pregnant females under five years of age with a calf at foot
 - a member's own pregnant heifers.
 - dairy cows (if permitted by the association's by-laws)
 - i) If dairy cows are financed, both the cows and their offspring must be branded with the association's registered brand.
 - (a) If a member would prefer not to brand heifer calves, the member has the option to make the annual payment for the cow.
 - ii) All proceeds from the sale of the offspring are to be applied to the loan.
- 2) Livestock that are **not** eligible for purchase under the breeder option include:
 - cows or cow-calf pairs that have been owned for more than 30 days by the member, the member's company, or any person who shares the same farm operation; **and**
 - feeder cows (branded with shelter over C).
- 3) Cattle owned by the association on behalf of one member cannot be refinanced in the same option on behalf of that member, that member's company, or any person who shares the same farm operation.

LOAN TERMS AND CONDITIONS OF REPAYMENT

Feeder Option

Feeder Heifers and Steers - Advances taken under the feeder option for the purchase of feeder heifers and steers have the following options:

- 1) Each member's entire feeder steer and heifer account must be zero-balanced at least once every 12 months. Under this option, feeder heifer and steer advances must be repaid within one year from the date of purchase; or on the anniversary date of the earliest advance taken since the member's account was last zero-balanced; or when the cattle are sold; **whichever comes first.** or;
- 2) Repay each advance on its own anniversary date (not zero-balanced) provided an inventory count is completed at least once yearly.

Feeder Cows - Advances taken under the feeder option for the purchase of feeder cows are subject to the following terms and conditions of repayment:

- 1) Feeder cow advances must be repaid within 180 days from the date of purchase; or when the cattle are sold; or on the anniversary date of the earliest advance taken since the member's account was last zero-balanced; **whichever comes first.**
- 2) Each member's entire feeder cow account must be zero-balanced at least once every 12 months.
- 3) The zero-balance date for a member's feeder cow account is not required to coincide with the member's zero-balance date for feeder heifers and steers, (if chosen) so close monitoring of loan repayment dates by the secretary-treasurer and local supervisor is essential.

Note

☞ Members are responsible for repayment of advances taken by the association to purchase cattle on their behalf, regardless of the returns from the sale of the cattle or if a guarantee payment is made to the lender.

LOAN TERMS AND CONDITIONS OF REPAYMENT

Breeder Option

Advances taken under the breeder option for the purchase of pregnant heifers, pregnant cows or cow-calf pairs are subject to the following terms and conditions of repayment:

Advances must be repaid within five years from the date of purchase.

- 1) Payments are to be made annually, with the first annual payment due one year from the date of purchase, or upon sale of the calf(s), **whichever comes first**.
- 2) Annual payments are to include 20% of the original advance amount plus interest to that date.
- 3) With lender approval, advances may be amalgamated within a four month period, with the amalgamated advance coming due on the earliest advance date.
- 4) With lender and association approval, payment dates for breeder advances may be consolidated so that all advances are due on the same date.
- 5) Dairy cow advances require monthly repayment based on $\frac{1}{60}$ of the original loan amount plus interest.

Note

☞ Members are responsible for repayment of advances taken by the association to purchase cattle on their behalf, regardless of the returns from the sale of the cattle or if a guarantee payment is made to the lender.

LOAN EXTENSIONS

Feeder Option

Loan extensions under the feeder option are subject to the following terms and conditions:

- 1) Loan repayment dates for feeder heifers and steers may be extended for up to three months, upon approval from the association, lender and the provincial supervisor (see form CF23).
- 2) Loan extensions must not be approved for heifers to calve in the feeder option.
- 3) When a feeder advance to the association on behalf of a member is extended, no further feeder advances may be taken on behalf of the member until the extended advance has been repaid in full.
- 4) Under the zero-balance option, where the association has more than one outstanding feeder advance on behalf of a member, the feeder loan extension, if approved, extends the zero-balance date for all of the outstanding feeder advances for that member.
- 5) Feeder cow loan repayment dates are not extendable.

Breeder Option

Loan extensions under the breeder option are subject to the following terms and conditions:

- 1) Loan repayment dates for the breeder option may be extended for up to six months, upon approval from the association, lender, and provincial supervisor (see form CF24).
- 2) A breeder loan extension does not change the due date for future annual payments.

Applying for a Loan Extension

When a member requests a loan extension, the following procedures apply:

- 1) The secretary-treasurer provides the member with a *Loan Extension Application* (see form CF23 for the feeder option and form CF24 for the breeder option).
- 2) The member completes the application, indicating the reason for the extension request, and submits it to the association for approval.
- 3) The local supervisor physically inspects and counts all association cattle held by the member in the option being extended (feeder or breeder), records the results of the inspection on the application, and signs and dates the application to certify the results of the inspection. If the inspection was completed within the last three months, those results may be used for this application for extension.
- 4) The board of directors reviews the application using the *Board of Director's Application Review Checklist* (see form CF12) as a guide and either approves or rejects the application.
 - If approved, a board member with signing authority signs and dates the application and the secretary-treasurer submits it to the lender for approval.
 - If rejected, the secretary-treasurer or a member of the board of directors advises the applicant of the board's decision.
- 5) The lender reviews and either approves or rejects the request for extension:
 - If approved, the lender signs and dates the application and forwards it to the provincial supervisor for approval.
 - If rejected, the lender either contacts the applicant directly or advises the association.
- 6) The provincial supervisor reviews and either approves or rejects the request for extension:
 - If approved, the provincial supervisor signs and dates the application and returns it to the association, with a copy sent to the lender.
 - If rejected, the provincial supervisor notifies the association of the decision.
- 7) Upon receipt of the application approved by the provincial supervisor, the lender may extend the loan repayment date to the approved date. The local supervisor and secretary-treasurer must work together to ensure that the appropriate payment is made on or before the approved repayment date.

ANNUAL ASSOCIATION REVIEW

Lenders normally review an association's account at least on an annual basis. When conducting the annual review, the lender may require a physical inventory count of the number of cattle held by a particular member, or by the entire association. The lender may conduct the inventory confirmation itself, with the co-operation of the association member(s) and the local supervisor.

ANNUAL AUDIT REQUIREMENTS

The financial records of the association must be audited annually by a member of a recognized professional accounting organization. The association is required to provide a copy of the audited financial statements to the lender to be retained in the association's file.

For more information about the audit requirements for the association refer to Section 2-P: Financial Audits.

CHANGE IN LENDERS

An association may apply to change its lender by completing a *Guarantee Application* (see forms CF5 and/or CF6) and a *Three Party Agreement* (see forms CF7 and/or CF8). If the association has unpaid loans with its present lender, the association must arrange for the new lender to pay out the outstanding loans. The new lender must ensure that all assurance fund deposits and other accounts are also transferred.

W. Transactions

PURCHASE OF CATTLE / ADVANCING FUNDS

Following are procedures to be followed when processing *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements* and advancing funds to an association for the purchase of cattle, preceded by a brief summary of the duties of the association's local supervisor.

Local Supervisor Procedures

When the association purchases cattle on behalf of a member, the local supervisor:

- 1) inspects the cattle to verify they meet the criteria of the program and are branded with the association's registered brand;
- 2) obtains a copy of the purchase invoice, which must clearly describe the livestock and itemize the costs and other charges;
- 3) obtains a certificate of pregnancy or other verification of pregnancy (for breeding stock);
- 4) completes a *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*;
- 5) verifies that the member has the required amount of funds on deposit in the association's assurance fund or collects the required deposit;
- 6) obtains the member's signature and signs and dates the agreement; **and**
- 7) submits all five copies of the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* to the secretary-treasurer for board approval and signing.
 - After the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* has been approved by the association, the secretary-treasurer will forward the lender and provincial supervisor copies to the lender for approval.

Note

☞ *A local supervisor or board member must not sign Schedule A Feeder Agreements or Schedule B Breeder Agreements relating to the association's purchase of cattle on his or her own behalf, or on behalf of immediate family members or any other member who share the same farm operation. In these cases, another member of the board with signing authority must sign the agreement.*

Lender Procedures

- 1) Upon receipt of the completed *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*, the lender must verify and/or be satisfied that:
 - all required information on the document has been completed in full and properly executed.
 - all supporting documentation has been submitted with the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement*
 - i) Where a certificate of pregnancy is provided to verify the eligibility of breeding stock, the certificate is acceptable for the entire term of the pregnancy, regardless of the time lapsed since the pregnancy test was carried out.
 - ii) If the cattle are purchased from an auction market, a statement is required from the auction market operator indicating that the animals were purchased from a bred cow or bred heifer sale and were pregnancy checked by a veterinarian.
 - iii) A certificate of pregnancy is not required when cattle are in advanced pregnancy and a pregnancy test may cause harm, provided the local supervisor confirms on the purchase invoice or the *Schedule B Breeder Agreement* that the cattle were visibly pregnant.
 - the information provided on the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* corresponds to the purchase invoice provided
 - i) Eligible costs, subject to association and lender approval, include the purchase price for the cattle, buying commissions, branding costs (if the cattle are branded at the market), any yardage incurred after the purchase, trucking costs to the feeding location, and the Goods and Services Tax (GST). For details, refer to page U-16: Loan Purpose.
 - the association has sufficient unused loan limit on behalf of the member to handle the purchase
 - the association has sufficient unused **total** loan limit to handle the new purchase.
- 2) When the above documentation has been provided, a credit agreement, loan agreement and/or promissory note signed by the association allows the lender to place the required funds into the association's sales or operating account to pay for the cattle.

- 3) Upon approval of the advance, the lender retains one copy of the *Schedule A Feeder Agreement* or *Schedule B Breeder Agreement* and submits the other copy to the provincial supervisor at the end of the month along with the *Lender's Monthly Report*.
 - New advances on the *Lender's Monthly Report* must match the information provided on the corresponding *Schedule A Feeder Agreements* and/or *Schedule B Breeder Agreements*.
- 4) The lender should attach all related documentation, such as the licensed dealer invoices and certificates of pregnancy, to the lender's copy of the *Schedule A Feeder Agreements* and/or *Schedule B Breeder Agreements*.

For detailed information about the association's policies and procedures for purchasing cattle, including the proper steps for completing and signing *Schedule A Feeder Agreements* and *Schedule B Breeder Agreements*, refer to pages G-1 to G-12.

SALE OF CATTLE / RELEASING EQUITY

The following policies and procedures relate to the sale of association cattle and the release of equity to the association:

- 1) All association cattle are to be sold in the name of the association on behalf of the member, with the sale proceeds sent directly to the association.
- 2) When received by the lender, sale proceeds are to be credited to the member's sub-account, with all accrued interest and the principal of the oldest advance to be repaid first.
- 3) When cattle relating to a member's feeder advance as documented by a *Schedule A Feeder Agreement* have been sold and the advance has been liquidated, the lender may release any subsequent sale proceeds from cattle pertaining to that advance to the association.
 - The lender should ensure that the inventory relating to other feeder advances to the association on the member's behalf will liquidate those advances within 12 months of the date of the first advance.
- 4) When calves relating to a member's breeder advance as documented by a *Schedule B Breeder Agreement* have been sold and the annual payment has been made, the lender may release any subsequent sale proceeds from the cattle pertaining to that advance to the association.
 - The lender should ensure that the inventory relating to other breeder advances to the association on the member's behalf will liquidate those advances within 12 months of the date of the first advance.

X. Reports

LOCAL SUPERVISOR'S MONTHLY REPORT

At the end of each month, the local supervisor must submit a monthly inventory report on the association to the provincial supervisor, with a copy sent to the lender. The report is due by the tenth day of the month following the month being reported. For example, the February report is due by March 10.

The report is an inventory for each member showing the:

- name of the association;
- date of the report, including month and year;
- name of each member, in alphabetical order by last name, who has association cattle on hand;
- location where the association cattle held by each member are being fed, indicating H for home or C for custom fed;
- opening inventory at the beginning of the month, the number purchased, born (breeder option only), replaced (requires *Replacement of Breeding Stock*, form CF20), sold, died, released or paid, and the end of month inventory;
- estimated market value (feeder option only);
- assurance fund deposit for each member;
- name and signature of the local supervisor; **and**
- totals for each member and an association total for each column.

For additional information about the *Local Supervisor Monthly Report*, refer to pages K-1 to K-2 and/or forms CF26 and CF27.

LENDER'S MONTHLY REPORT

At the end of each month, the lender must submit a monthly report on the association's loans to the provincial supervisor, with a copy sent to the association. The report is due by the tenth day of the month following the month being reported. For example, the February report is due by March 10.

Policies and procedures relating to the *Lender's Monthly Report* include:

- 1) Where an association operates both a feeder option and a breeder option, a separate report is required for each option.
- 2) The report must include the following information:
 - name of the association;
 - members' names (in alphabetical order by last name);
 - date of each advance;
 - in the case of feeder cows, the payment due date (deleted when the member's entire loan account is zero-balanced);
 - amount of each advance;
 - principal balance of each advance;
 - accrued interest on each advance;
 - total of all advances on behalf of each member;
 - loan due date for each advance;
 - authorized borrowing limit on behalf of each member; **and**
 - total amount of the association's accessible assurance fund.
- 3) Along with the report, the lender must submit to the provincial supervisor the white copy of all *Schedule A Feeder Agreements* and the yellow copy of all *Schedule B Breeder Agreements* processed during the month being reported.

For additional information about the *Lender's Monthly Report*, refer to page K-6 and/or form CF28.

FEEDER INVENTORY CONFIRMATION REPORT

Where a member chooses the option to repay each feeder advance on its own anniversary date, the local supervisor is required to conduct an inventory and inspection of all cattle in the feeder option at least once per year to confirm the number of feeders held by each member, and to confirm that the feeders have been properly branded with the association's registered brand. Results of the inventory inspections are to be documented on the *Feeder Inventory Confirmation Report* (CF 25.1) and submitted to the provincial supervisor and the lender when these are completed. It may be prudent for the local supervisor to complete these at the same time as the annual Breeder Inventory is completed.

For additional information about the *Feeder Inventory Confirmation Report*, refer to pages K-3 and/or form CF25.1.

INFORMATION ON LOANS

Where requested by the provincial supervisor, the Lender is to provide the following information related to the association:

- security documentation;
- credit agreements, loan agreements and/or promissory notes;
- loan records;
- deposit and cheque records; **and/or**

other information the provincial supervisor may require.

BREEDER INVENTORY CONFIRMATION REPORT

The local supervisor is required to conduct an annual inventory and inspection of all cattle in the breeder option to confirm the number of cows and calves held by each member, and to confirm that calves have been properly branded with the association's registered brand. Results of the inventory inspections are to be documented on the *Breeder Inventory Confirmation Report* (CF 25) and submitted to the provincial supervisor and the lender by June 30 of each year.

For additional information about the *Breeder Inventory Confirmation Report*, refer to pages K-4 to K-5 and/or form CF25.

INFORMATION ON LOANS

Where requested by the provincial supervisor, the Lender is to provide the following information related to the association:

- security documentation;
- credit agreements, loan agreements and/or promissory notes;
- loan records;
- deposit and cheque records; **and/or**
- other information the provincial supervisor may require.

Livestock Inspection Services of Alberta Agriculture, Food and Rural Development, and local livestock dealers to:

- advise of a question of ownership of cattle being offered for sale by the member(s);
and
- where applicable, request withholds on proceeds from the sale of cattle by the member which may be branded with the association's brand and/or the member's brand, or may carry no visible brands.

Resolving the Default

- 6) The association should immediately advise the member in writing of the reason he or she is deemed to be in default and discuss options for resolution.
- 7) The association should take reasonable steps to resolve the default. Further action might include making arrangements with the member for repayment, branding the cattle, mediation, taking possession of and selling all association cattle in the member's possession, taking legal action against the member, or other action.
- 8) The association should seek legal advice prior to the removal and/or sale of any association cattle held by the member, including whether or not the association should serve notice to the member under Farm Debt Mediation.
- 9) If it appears that the association may require the assistance to gain access to the member's premises to count, inspect and/or remove the cattle, the association should contact the provincial supervisor to obtain a warrant.
 - For additional information on requesting a warrant, refer to form CF30.
- 10) Where more than one association member is feeding at the same location and the association cattle held by the member in default are not uniquely identified from the non-defaulting member(s), the association should consider selling all the cattle and applying the sale returns to the loans on a pro-rata basis using the total number of cattle for each member as a proportion of all cattle at that location.

Applying and Replenishing the Assurance Fund

- 11) If the sale of all association cattle held by the member fails to end the default, and the member has refused to make up the shortfall, the association should contact the lender about debiting the assurance fund to pay the shortfall.

- 12) If the assurance fund has been applied to the shortfall and the association wants to continue operating, the association must first bring the assurance fund back up to the required level. This might involve collecting from the member who was in default or, if the loss is greater than the assurance fund deposit for the individual member concerned, collecting the pro rata share of the shortfall from the other members of the association.
- 13) Where the amount debited from the assurance fund exceeds the individual assurance fund for the member in default, no further advances may be taken by the association on behalf of any member until the assurance fund is brought back up to the required 5% (feeder) or 10% (breeder) level of the current outstanding loan amounts for all members of the association.

Payment of the Government Guarantee to the Lender

- 14) All cattle must be sold before the lender can request a payment on the government guarantee. When all the cattle related to the account(s) in default have been sold and the assurance fund is depleted during repayment of an account(s) that is in default and there are still arrears owing, the lender is to take all reasonable steps to recover the debt from the association, without having to commence legal action. However, the lender may take any legal action it chooses.
- 15) If the lender has exhausted all avenues of collection, including stopping any legal action it has decided to proceed with, a formal request for payment under the government guarantee may be submitted by the lender.
- 16) The provincial supervisor will advise the lender of the actions to be taken to ensure the rights to the security and assets held by the lender are subordinated to the government.
 - Once a payment is made under the government guarantee, the association and the lender's ability to recover any shortfall is forfeited. However, the member(s) continues to be responsible for repayment of the loan(s) should a guarantee payment be made to the lender.

LENDER PROCEDURES FOR MEMBERS IN DEFAULT

When a member is identified to be in default, the lender is to:

- 1) Contact the association to verify the nature of the situation.
- 2) Notify the provincial supervisor.
- 3) Stop advances to the association in either option on behalf of the individual member concerned, and any other members of the same farm operation until the account(s) is brought current.
 - The lender may use discretion in determining whether or not to stop advances on behalf of **all** members in that option.
- 4) Cease refunds from the association's assurance fund to any member.
- 5) Request that the association seize and/or sell cattle held by the member(s) in default.
- 6) Act on the remaining security provided for each advance in default:
 - If more than one member is feeding at the same location and the association cattle held by each member are not uniquely identified, it may be necessary for the association to sell all cattle and apply the returns on a pro rata basis using the total number of cattle for each member as a proportion of all cattle at that location.
- 7) All inventory must be sold and the proceeds applied to the member's account. If the account is still in arrears, the lender may debit the association's assurance fund. That is, all inventory related to the default must be disposed of before the assurance fund can be applied.
- 8) If the assurance fund has been applied and the lender has taken reasonable steps to recover the debt and there are still unresolved arrears, the lender may submit a request for payment under the government guarantee.
 - The request for payment under the government guarantee should include, for each option:
 - i) the name of the association;
 - ii) Option (feeder or breeder)
 - iii) the maximum loan amount authorized for the option;

- iv) the name and address of each member in arrears;
- v) inventory, if any, remaining for each member in arrears;
- vi) a summary of any collection action taken against each member in arrears and the results of such action;
- vii) the amount of the advances for each member at the time of loss and the amount currently outstanding for each member in arrears;
- viii) the amount of assurance funds applied to each member's account;
- ix) the balance in the assurance fund before applying to member(s) accounts and the balance remaining; **and**
- x) the amount of guarantee being claimed.