
NOVA SCOTIA FARM LOAN BOARD
Business Plan
2005/2006

Nova Scotia Farm Loan Board - Business Plan

Table of Contents

Introduction	2
Mission	3
Planning Context	3
External Context	3
Ongoing Planning Focus	5
Strategic Goals	5
Core Business Areas	6
Priorities	7
Lending	7
Program Administration	8
Budget Context	9
Lending	9
Operational Income Statement (10)	
Capital Funds (11)	
Program Administration	12
Performance Measures	13

Nova Scotia Farm Loan Board - Business Plan

Introduction

The Board operates as a Corporation of the Crown under the authority of *The Agriculture and Rural Credit Act, Revised Statutes, Nova Scotia 1989, Chapter 7*. This Act emphasises rural development and the effective use of credit to develop rural Nova Scotia.

The Timber Loan Board's authority is from regulations made pursuant to the *Revised Statutes of Nova Scotia, 1989, The Forest Act* in Section 20 of Chapter 179. This act provides for credit to acquire forested land for forest product mills.

Five Board members, with successful careers in agriculture and business, govern policies, receive reports on operations and clients, and provide strategic direction for the Board. Board members are appointed for terms of up to 5 years by Governor-In-Council and are accountable to the Minister of the Department of Agriculture and Fisheries. Day to day loan operations are delegated to staff who are responsible to ensure that conduct, management, and operations meet Board and Provincial requirements.

Active for more than 72 years, the Nova Scotia Farm Loan Board is an agricultural development agency acting to build greater prosperity by supporting agricultural and rural business development by providing long-term loans at fixed interest rates and through financial counselling services. A Corporation of the Crown, the Board collaborates with the Nova Scotia Department of Agriculture and Fisheries and also operates as the Timber Loan Board.

Availability of credit with stable long-term rates, and understanding of the agricultural industry including cyclical swings in profitability are considered to be strengths of the Board in encouraging development of this industry.

Operations and interest rates are managed so as to cover all direct costs of operation and provide a modest net income which offsets indirect costs of services provided by government to the Board and provides resources for maintenance of systems and operations. At last year-end (March 31, 2004), the Board's net farm loan portfolio totalled \$162 million in 1,121 loans. Including lease property accounts, total lending to agriculture represents approximately 29% of the debt capital of Nova Scotia farmers. Timber loans provided to forest mills to ensure a sustainable wood supply totalled \$1.4 million to a total of 16 accounts.

Primary stakeholders in Board operations include individual and potential borrowers, and the Province, in particular the Departments of Agriculture and Fisheries, Natural Resources, and Finance. Other important stakeholders include the Nova Scotia Federation of Agriculture and the various commodity groups, commercial lenders, equipment and feed suppliers, the wholesale and retail sectors for products produced in Nova Scotia, and others concerned with economic development within rural areas.

Nova Scotia Farm Loan Board - Business Plan

A. Mission

The Nova Scotia Farm Loan Board's mission is to advance, encourage, and support the development of agricultural and timber businesses in Nova Scotia.

B. Planning Context

External Context

The agricultural industry is affected by local weather and other conditions affecting production, and by conditions in competing regions which may affect general price levels for commodities produced, as well as market conditions including the effects of branding, consolidation and national purchasing, and market access. For the most part, general climatic conditions were favourable in Nova Scotia during the past year. Weather conditions and any change in expected patterns present an obvious concern to agriculture.

Beef producers continue to deal with the impact of the US border closure as the result of the bovine spongiform encephalopathy (BSE) case in western Canada. Although insurance and government compensation has helped, some clients have arranged deferral of loan payments and others may need to pursue other options to refinance their operations.

Interest rates remain low since declines during the previous three fiscal years. The Bank of Canada overnight rate has remained relatively low during the year, beginning the year at 2.25% and ending at 2.50%. Lending rates remain low relative to historical rates. US rates remain low but have begun to move upwards from 1.00% beginning the year to 2.50% by March 31, 2005. The interest rate situation presents an opportunity for those requiring long-term financing, and will tend to support acceleration of capital investment and the trend towards greater reliance on technology. Rates for short term and variable rate loans remain significantly below long term rates such as those generally provided by the Board although the gap has narrowed somewhat.

Requirements for Board financing are influenced by levels of investment in agriculture and timber businesses, rates of capitalization, general economic conditions, and the availability of funding from commercial lenders. The Board offers only fixed interest loans with rates fixed for the full amortization period of the loan. Variable rates or term lengths of less than the amortization period are not offered because it is felt that those alternatives increase the risk that clients will be unable to meet future loan payments if rates increase. Rates are generally established on a quarterly basis for 1 - 5, 6 - 14, 15 - 19, and 20 - 24 year periods.

Short term rates did not rise as much as expected during the past fiscal year. Some clients

Nova Scotia Farm Loan Board - Business Plan

still show a preference for short-term or variable rates offered by commercial lenders. It is anticipated that the Board will advance \$20 million in the current fiscal year for a net decrease in the loan portfolio of \$1 million. It is felt that demand for the Board's type of long-term funding has been deferred as a result of the interest rate situation and that this demand will build quickly when short term rates rise. Lending system changes being implemented during 2004-05 have limited the Board's flexibility in this fiscal year but will tend to increase it in future. Requirement for Board funding is expected to increase to approximately \$30 million in 2005-06.

Interest Rates offered by the Board during the year				
Term	April 1, 2004 to June 30, 2004	July 1, 2004 to Sept. 30, 2004	Oct 1, 2004 to Dec 31, 2004	Jan 1, 2005 to Mar 31, 2005
1 to 5 years	4.65 %	5.65 %	5.45 %	5.10 %
6 to 14 years	5.55 %	6.20 %	6.20 %	6.85 %
15 to 19 years	6.15 %	6.70 %	6.55 %	6.40 %
20 to 24 years	6.60 %	6.90 %	6.85 %	6.80 %

Technology is providing for increased mechanization and automation and is being felt in a wide range of applications. This trend is supporting a broader trend toward consolidation of agricultural operations into larger units in attempts to gain efficiency through economies of scale. Larger operations present greater difficulties in providing for inter-generational transfer of family businesses which must be addressed.

Requirement for loan capital by the forestry sector continues to be of interest to the Board, both in response to need of the industry itself, but also because of the relationship between forestry and agriculture. Many farms include woodland as part of the overall operation, and forestry management parallels crop management in many aspects including some equipment.

The Board will seek to operate on a cost-effective basis and present a positive net income on lending operations.

Nova Scotia Farm Loan Board - Business Plan

Ongoing Planning Focus

Through its ongoing operations the Board will continue to counsel clients and assess new proposals by applicants as part of the service provided by loan officers during contact with clients and potential clients.

The Board recognizes that training and development is an ongoing requirement in order to understand client issues, identify and use best lending and administrative practices, and maintain a professional staff. Organizational practices must be maintained to operate as efficiently as possible, and must provide a level of service comparable with industry standards.

Sound environmental and business planning practices and procedures will continue to be recognized as basic criteria for funding proposals and in general recommendations to clients, in order to support industry and individual growth and sustainability.

Professional staff, knowledgeable about the industry will provide business counselling services to clients, especially new entrants, to ensure that support is maintained, learning continues, and stronger businesses are developed. Additional options to reduce risk for beginning farmers will be investigated as identified during this process.

A new loan management and accounting module (SAP) has been adapted to Board requirements in concert with the Fisheries and Aquaculture Loan Board and will be implemented March 2005. Client service gains and improved efficiencies are intended benefits beginning in the 2005-06 fiscal year.

C. Strategic Goals

The goals of the Department of Agriculture and Fisheries are:

1. Sustainable and environmentally responsible development of Nova Scotia's agriculture and fishing industries.
2. A competitive business climate that encourages economic growth and increases jobs in Nova Scotia's rural and coastal communities.
3. Orderly development of agriculture, aquaculture and fisheries through a regulatory regime which supports business and sector growth and development, and which ensures consumer confidence and food safety.
4. Globally competitive Nova Scotian workforce through education, training, research and community services.

Nova Scotia Farm Loan Board - Business Plan

5. Public services that are accountable and serve to meet identified industry needs.

The Nova Scotia Farm Loan Board goals directly contribute to achievement of Departmental goals as follows:

1. Ensure industry access to stable, cost-effective, long-term developmental credit.

To create conditions that help the rural economy grow, support sustainable and environmentally responsible development of agricultural industries, and support development of a competitive business climate to support economic growth and increase jobs in rural communities.

2. Assist in identification and analysis of growth opportunities for rural industries by promoting the use of financially sound business principles.

To meet industry needs through provision of training and counselling to clients and sponsoring and promoting learning opportunities within the agricultural community.

3. Demonstrate sound financial administration, efficiency, responsibility in administration of public funds, and accountability in the Board's own operations.

Generate a positive net income as reported in published audited financial statements. Administer programs within guidelines and budgets. Measure and report on key success factors.

D. Core Business Areas

1. Lending: Providing long-term credit for development of agricultural and timber businesses is the primary mandate of the Farm Loan Board. This includes loan service development, client service and administration, efficient and responsible financial management and also includes the distinct but closely integrated area of financial counselling.

The financial counselling function is provided by loan officers in conjunction with meetings with clients and potential clients and includes assessment of projects under consideration. Loan officers assist in sourcing the best available credit, as well as promoting and participating in industry seminars and workshops.

By providing a reliable source of long-term credit the Board directly provides for development and growth of the agricultural and timber industries, and indirectly

Nova Scotia Farm Loan Board - Business Plan

influences credit availability at reasonable rates through influence on, and partnership with, other participants in the lending industry.

2. Programs Administration: Programs administration involves the development and implementation of Departmental loan-based assistance programs in areas related to the Board's financial operations and expertise such as the New Entrants to Agriculture Program and the Ruminant Loan Support Program and Ruminant Support Interest Grant.

E. Priorities

1. Lending

- Provide \$30 million of new loan capital to the agricultural and timber industries in the 2005/2006 fiscal year.

The focus is on development and long-term stability. Projections indicate that loans advanced will total \$20 million and principal repayments \$21 million in 2004/2005. It is expected that demand will increase when short term interest rates rise. In addition, development of the new lending system, which consumed considerable staff resources during the 2004/2005 fiscal year will provide flexibility for new loan products and improve client service.

While mortgage rates of similar terms are comparable, commercial lenders continue to offer short term and variable rate loans at rates significantly below Board loan rates. It is believed that the financing requirements met temporarily by short-term loans have simply deferred demand rather than eliminated the need for long-term financing. Increases in short term rates had been anticipated during the past fiscal year, but for the most part substantial increase has been delayed. High requirements are expected as short-term rates move closer to long-term rates in the future.

Total farm debt required by Nova Scotia farms grew by more than 50% between 1998 and 2003. Given the historical rates of growth in agricultural capital requirements, \$30 million of new loans will result in the Board providing approximately 28% of total agricultural lending in Nova Scotia.

- Continue to work with the Department of Natural Resources to enhance services to modify products and services to meet needs for growth and development within this industry.
- Enhance client service and administrative efficiency by implementing new technology and systems.

Nova Scotia Farm Loan Board - Business Plan

Beginning in the new fiscal year, clients will see the impact of a new loan management system which replaces the existing network of DOS-based applications, spreadsheets, manual functions, and in-house database applications now required. This will improve service to clients and increase efficiency and reliability and provide flexibility for the Board to offer new loan products over the course of the year.

- Manage accounts such that write-offs and arrears remain stable in relation to the portfolio size while maintaining a 'patient lender' approach by supporting industries through cyclical downturns.

This approach includes accurate and appropriate appraisal and evaluation of security arrangements for loans, monitoring arrears and financial counselling, particularly for new clients, and clients identified as having financial difficulty.

Lending will continue to be directed toward viable enterprises and projects which are able to provide acceptable security to support the loan. During financially difficult times the Board is committed to assisting those operations which appear to have a long-term future and a commitment to meet their obligations. This may include deferral of payments, restructuring of debt, financial counselling or referral to other relevant services.

- Red tape reduction priorities

Board regulations are in place to permit the activities of the Board rather than to regulate businesses. Clients have been encouraged to make payment by pre-authorized payment in order to facilitate electronic processing. System changes noted above will give the Board greater capacity to provide clients direct access to their own information. Direct access will be a future development.

2. Program Administration

- Administer a New Entrants Program in concert with the Nova Scotia Department of Agriculture and Fisheries.

This program, now in its fourth year, provides assistance with loan interest. It is intended to assist approximately 50 new entrants to agriculture, including approximately 25 inter-generational transfers in order to provide long-term stability and renewal of farm ownership. 40-50 applications are projected to be approved for the 2004/2005 year.

- Explore flexible loan programs and continue to review the needs and potential for expansion and development of industry sectors in collaboration with the

Nova Scotia Farm Loan Board - Business Plan

Department of Agriculture and Fisheries and Nova Scotia Federation of Agriculture.

This will require consultation with industry representatives as well as those of other departments. Additional avenues for support include further development of the New Opportunities Loan Program for other sectors (now available to beef producers), the Hog Loan Support Program, and the Ruminant Support Loan Program introduced during 2004/2005 to assist producers affected by the BSE situation. No additional budget funding would be required for this type of program as these loans can be managed through the existing process.

F. Budget Context

Core Business 1 - Lending:

The Board funds loans by arranging financing through the Department of Finance for terms similar to loans issued on a quarterly basis under an arrangement established in 1997. This arrangement allows the Board to track and report an interest cost that is directly related to the revenue generated, and to report a net income including interest margins.

The funding arrangement has allowed the Board to move from net losses prior to the arrangement, to a net income position. The Board reported a net income of \$3.3 million in the fiscal year 2003/2004. Forecasts indicate positive returns to the province for the current 2004/2005.

Significant portions of the Board's expenses, most notably insurance costs under the Board's life insurance program, and bad debt expense are somewhat unpredictable and beyond short-term control. Following the first known loss on the self-administered group life insurance program offered by the Board during 2003/2004 as the result of higher than usual death claims, a similar loss is projected for the 2004/2005 fiscal year. Actuarial advice is to expect variations in results of this program from year to year.

Nova Scotia Farm Loan Board - Business Plan

Operational Income Statement

2002-2003 Actual \$(000)	2003-2004 Actual \$(000)	2004-2005 Forecast \$(000)	Description	2005-2006 Budget/ Forecast \$(000)
\$12,203	\$11,874	\$11,174	Interest	\$11,100
159	(232)	(172)	Insurance Operations	190
<u>630</u>	<u>572</u>	<u>561</u>	Fee Revenue / Recoveries	<u>375</u>
<u>\$12,992</u>	<u>\$12,214</u>	<u>\$11,563</u>	Total Revenue	<u>\$11,665</u>
(\$10,420)	(\$9,914)	(\$9,309)	Interest	(\$9,800)
(1,105)	(1,161)	(1,264)	Operating Expenses	(1,207)
(595)	1,055	(950)	Bad Debt Expense	(530)
<u>(\$12,120)</u>	<u>(\$10,020)</u>	<u>(\$11,523)</u>	Total Expenses	<u>(\$11,537)</u>
<u>\$872</u>	<u>\$2,194</u>	<u>\$40</u>	Income before Govt. Contribution	<u>\$128</u>
<u>1,105</u>	<u>1,161</u>	<u>1,264</u>	Government Contribution	1,207
<u>\$1,977</u>	<u>\$3,355</u>	<u>\$1,304</u>	Net Income	<u>\$1,335</u>

Note: See Year-end Financial Statements for complete financial information and notes.

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

Nova Scotia Farm Loan Board - Business Plan

2002-2003 Actual \$(000)	2003-2004 Actual \$(000)	2004-2005 Forecast \$(000)	Description	2005-2006 Budget/ Forecast \$(000)
Capital Funds:				
\$172,782	\$171,307	\$174,674	Opening Principal	\$172,495
22,409	25,927	20,000	Add Loan Advances	30,000
(23,690)	(22,238)	(21,000)	Less Repayments	(18,000)
<u>(194)</u>	<u>(322)</u>	<u>(1,179)</u>	Less Accounts Written Off	<u>(500)</u>
<u>\$171,307</u>	<u>\$174,674</u>	<u>\$172,495</u>	Closing Principal	<u>\$183,995</u>
 Allowance for Doubtful Accounts				
\$7,506	\$7,893	\$6,543	Opening Allowance	\$6,314
(194)	(322)	(1,179)	Less Accounts Written Off	(500)
<u>581</u>	<u>(1,028)</u>	<u>950</u>	Additions (Bad Debt Expense)	<u>530</u>
<u>\$7,893</u>	<u>\$6,543</u>	<u>\$6,314</u>	Closing Allowance	<u>\$6,344</u>
 <u>\$163,414</u>	 <u>\$168,131</u>	 <u>\$166,181</u>	 <u>Net Portfolio at Year End</u>	 <u>\$177,651</u>

Core Business 2 - Program Administration:

Nova Scotia Farm Loan Board - Business Plan

2002-2003 Actual \$(000)	2003-2004 Actual \$(000)	2004-2005 Forecast \$(000)	Description	2005-2006 Budget/ Forecast \$(000)
\$872	\$617	\$555	New Entrants to Agriculture Program	\$600
Total Staff				
19.3	19.3	19.3	Staff - FTEs	19.3

Nova Scotia Farm Loan Board - Business Plan

G. Performance Measures

Core Business Area: Lending					
Outcome	Measure	Data	Target - 2004/05	Target - 2005/06	Strategies to achieve Target
Efficient program delivery	Net Income (bef. gov. contrib.) as a % of the avg. active loan balance	Base: 98/99: 0.1% 99/00: 0.9% 00/01: 1.1% 01/02: 0.7% 02/03: 0.5% 03/04: 0.6%* Forecast 04/05: 0.2%	0.5% or above	0.5% or above	Maintain interest rate margins in accordance with regulations while matching draws used to fund loans as closely as possible to loans issued in term and amount. Minimize operating expenses by efficient operating structure, practices, training, and electronic systems. Income has been affected by uncontrollable changes in life insurance recoveries, and adjustments to the provision for impairment resulting in unusual changes in this measure. * 03/04 of 0.6% is after adjustment to remove unusual items (recovery on impairment provision, and life insurance adjustments). Before adjustment it would be 1.3%

Nova Scotia Farm Loan Board - Business Plan

Core Business Area: Lending					
Outcome	Measure	Data	Target - 2004/05	Target - 2005/06	Strategies to achieve Target
Stable, Long-term credit available	FLB Loans as a percentage of total NS Farm Debt (Based on calendar year data)	Base: 2000: 37.5% 2001: 34.8% ¹ 2002: 31.8% 2003: 29.0% Projected 2004: 27.7%	Original: 37% 2004 Adj: 30.0% ²	Original: 37% 2004 Adj: 30.0% ²	Reasonable long-term interest rates. Trained professional staff available to identify meet needs for financial counselling and loan assistance. \$30 million in new capital support to the industry. Explore additional opportunities and loan products (ie. New Market Opportunity Loans). Facilitate transfer of Landbank and ARDA lease program properties to industry ownership. Long-term approach. As short-term interest rates become less attractive Farm Loan Board funding is expected become more in demand.

¹ Revised downward from 37.0% to reflect corrections to data and exclusion of Timber loans.

² Originally targeted at 37% targets for this measure are now reduced from 34.5% and 36.5% respectively presented last year in light of continued low short-term interest rates and growth in loans provided by commercial lenders.

Nova Scotia Farm Loan Board - Business Plan

Core Business Area: Lending					
Outcome	Measure	Data	Target - 2004/05	Target - 2005/06	Strategies to achieve Target
Successful clients (As indicated by the proportion of accounts in difficulty)	Arrears (>\$100) as percent of value of all accounts	Base: 00/01: 2.1% 01/02: 2.5% 02/03: 2.4% 03/04: 2.8% Projected 04/05: 2.6%	2.5% or less	2.5% or less	Implement followup visit policies and track and monitor followup visits. Monitor arrears. Refer clients to other industry resources. Clear up existing accounts in process for recovery.
	Defaulted accounts held as Real Estate as % of total of all accounts	Base: 00/01: 2.2% 01/02: 3.3% 02/03: 3.5% 03/04: 3.7% Projected 04/05: 3.5%	Original: 2.5% or less 2004 Adj: 3.1% or less ³	Original: 2.5% or less 2004 Adj: 3.1% or less	

³ Increased from 2.5% or less in light of high current value now held as real estate for recovery.

Nova Scotia Farm Loan Board - Business Plan

Core Business Area: Lending					
Outcome	Measure	Data	Target - 2004/05	Target - 2005/06	Strategies to achieve Target
Client Satisfaction	Combined Courtesy, Promptness, Knowledge, Commitment on client survey	Base: 00/01: 92% 01/02: 92% 02/03: 96% 03/04: 94% Projected 04/05: 94%	90% or above	90% or above	Monitor survey results. Review procedures for efficiency gains. Compare service results with commercial lenders to identify priorities for improvement.

Nova Scotia Farm Loan Board - Business Plan

Core Business Area: Programs Administration - New Entrant's Program					
Outcome	Measure	Data	Target - 2003/04	Target - 2004/05	Strategies to achieve Target
Prudent financial management	Total program expenditures as compared to budget	(\$ 000) Base 00/01: Expended: 706 Budget: 600 + 106 = 706 01/02: Expended: 856 Budget: 600 + 256 = 856 02/03: Expended: 611 Budget: 600+11 03/04: Expend: \$398 Budget: \$600 04/05 Projection: Expend: \$550 Budget: \$600	(\$ 000) 600	(\$ 000) 600	Monitor programs in comparison to budget monthly. Identify additional funding sources through development and application of Federal/Provincial funding agreements.

Nova Scotia Farm Loan Board - Business Plan

Outcome	Measure	Data	Target - 2003/04	Target - 2004/05	Strategies to achieve Target
New entrances facilitated	Number of approved applications	Base: 00/01: 48 01/02: 55 02/03: 50 03/04: 30 Projected 03/04: 45	50	50	Counselling by professional loan officers. Industry awareness and monitoring suitability through consultation with industry organizations and representatives. Identify appropriate modifications to existing programs Identify additional funding and support mechanisms.
Increased interest in farm ownership	Number of new entrants' remaining in farming after 5 years as a percentage of those who started	N/A	N/A	80%	Program provides interest rate assistance for first two years on loans acceptable to a lending agency with expectation of repayment. Requirement for business plan

Nova Scotia Farm Loan Board - Business Plan

Outcome	Measure	Data	Target - 2003/04	Target - 2004/05	Strategies to achieve Target
More farms remain in family hands, succession planning is encouraged and pace of consolidation reduced	# of transfers to younger family members using this program	00/01: 29 01/02: 18 02/03: 18 03/04: Projected 04/05: 20	25	25	Counselling family farm enterprises. Support for industry succession management workshops. Economic conditions have reduced the number of new entrant applications. In the longer term, applications are expected to return to targeted levels.

April 21, 2004