

13 Financing Your Farm Operation

Resource Kit for Nova Scotia Farmers

Getting Money for Your New Farm Enterprise

With any new farm venture, the importance of starting out with personal savings cannot be understated. Whether they're used to completely finance a small farm business as a supplement to your day job, or to put a substantial down payment into a million-dollar farm purchase, those savings can make a big difference to the success of your operation. It is worth the wait to build your own farm start-up account.

If you are starting a new business, set aside the personal cash you have available for your farm in a separate bank account called your "farm account." Use this money judiciously for start-up expenses. When you earn income from the sale of farm goods, replenish this farm account and continue what you can afford for your farm. Chances are you will be inspired and creative with your purchasing knowing you have to stretch those dollars. (Note: enrolling in the AgrilInvest program can help you grow those savings faster through government contributions. For more information, see [Fact Sheet #17: Farm Risk Management](#).)

Once your products have a clear demand and you are not able to keep up with sales, then it is time to consider a loan or financing to allow for more rapid expansion of the profitable aspects of your farm.

If you reach the stage where you're ready for a loan to expand your start-up or to purchase a farm as a going concern, you will need to present potential lenders with a solid business plan that exhibits a realistic strategy for paying it off (see [Fact Sheet #14: Business Plans](#)). Here are a few loan options:

Agricultural Lenders in Nova Scotia

Nova Scotia Farm Loan Board

The [Nova Scotia Farm Loan Board](#) is an agricultural development agency serving the needs of the agriculture and forestry industries through the provision of long-term credit at fixed interest rates. By investing in Nova Scotians and creating opportunities within the province, the board helps to build stronger futures for rural Nova Scotians. The board also administers

the [FarmNext](#) program, which offers an interest rebate to beginning farmers with eligible loans. The Farm Loan Board's [interest rates are available online](#). Board staff are located in:

Western Nova Scotia Region

Kentville Agriculture Centre
32 Main St., Kentville, NS B4N 1J5
Phone: 902-679-6009; Fax: 902-679-4997

Central & Eastern Nova Scotia Regions

MacRae Library Building, NSAC
P.O. Box 550, Truro, NS B2N 5E3
Phone: 902-893-6506; Fax: 902-895-7693

Farm Credit Canada

Farm Credit Canada is Canada's largest provider of business and financial services to farms and agribusiness. Operating out of 100 offices located primarily in rural Canada, its employees are passionate about the business of agriculture.

Farm Credit Canada Office Locations:

Kentville

101-49 Cornwallis St., Kentville, NS B4N 2E3
Phone: 902-679-5722; Fax: 902-679-5756

Truro

101-332 Willow St., Truro, NS B2N 5A5
Phone: 902-893-6867; Fax: 902-893-6880

Commercial Banks

Some commercial banks and credit unions in Nova Scotia have dedicated staff for agricultural lending. Check with your bank to see if it writes agricultural loans. See the websites below to find a branch near you:

Royal Bank of Canada <http://maps.rbc.com/>

Scotia Bank <http://maps.scotiabank.com/en/index.php>

Canadian Imperial Bank of Commerce <http://www.cibc.com/ca/contact-cibc.html>

Bank of Montreal <https://locator.bmo.com/Default.aspx?t=bb>

TD Bank <http://www.tdcanadatrust.com/locator/>

Community Credit Unions www.atlanticcreditunions.ca

Commercial banks may also participate in the Canadian Agricultural Loans Act Program, in which the federal government guarantees 95% of the loan up to \$500,000. For more information on the program, contact your bank or credit union, or visit: <http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1288035482429&lang=eng#I4>

Unsecured Loans

The Farm Loan Board, Farm Credit Canada and commercial banks generally require property as security against their loans. This can be a major challenge for new farmers using rented land or who need a loan for an equipment or infrastructure purchase (e.g. new barn, greenhouse) but have all their security tied up in their mortgage.

There are some non-traditional options you can turn to in this case but, for your own sake, make sure you have a really strong business case for how this purchase will pay for itself so that you don't overload your farm with debt. Unsecured loans generally charge a higher interest rate than a secured loan. However, one important advantage of these support organizations over commercial banks is that business counseling and support is always packaged with the loan.

FarmWorks Investment Fund

FarmWorks is a Community Economic Development Investment Fund that has sold shares to Nova Scotian investors with the stated intention of investing those funds in Nova Scotia's agri-food industry. FarmWorks will currently lend up to \$25,000 for farm start-ups or expansions. For more information, visit: www.farmworks.ca

Community Business Development Corporations

Community Business Development Corporations have offices located throughout Atlantic Canada. They offer several loan products to support new and young entrepreneurs, general business needs, innovation, and social enterprises. For more information, or to find the office nearest you, visit: www.cbdc.ca

Loans for Special Demographic Groups

Similar loan products are also available to certain groups. For example, the Canadian Youth Business Foundation offers loans to young people aged 18-39: www.cybf.ca

The Black Business Initiative offers loans to African Nova Scotians: www.bbi.ns.ca

Individuals of aboriginal ancestry may qualify for up to \$99,999 in non-repayable funding from Aboriginal Business Canada: <http://www.aadnc-aandc.gc.ca/eng/1100100033404/1100100033406>

Creative Ways to Get Started with Less Money

Renting or Leasing Land

Besides allowing you to save money on land purchase costs, leasing land also provides a tax benefit, as leasing costs can be written off as an expenses while the principal on farm mortgage payments cannot be. (You can write off the interest portion of the payment.) For more information on land leasing considerations, see Fact Sheet #1: Finding Farm Land to Buy or Lease.

Custom Hiring

Instead of purchasing machinery or specialized buildings, beginning farmers should evaluate options for local custom hire opportunities. It is better to hire someone to provide a service than to buy expensive equipment.

For example, would a neighbouring farmer be willing to work in your fields? This would avoid the time and expense of purchasing and maintaining machinery. Is there a commercial kitchen available for processing? This would avoid the expense and regulation of building a commercial kitchen.

Vendor Financing

If purchasing equipment or supplies (machinery dealers, a farmer selling animals, etc.), ask the vendor about their credit options and terms. They will be more liberal than a commercial bank because they can easily seize and make use of the asset if payment is not made. Again, be sure you know the interest rates and terms.

If you are purchasing a farm property or business, the current owner may also be willing to assist you with the purchase. This can be done in a variety of ways, including staggered purchases and staggered payments, and can also have tax benefits for the vendor by spreading out their capital gains over a number of years. Any such arrangement made with the vendor should be done in careful consultation with lawyers and accountants to ensure that the arrangement complies with business and tax regulations and is favourable for both parties.

Equity Tax Credit

[The Equity Tax Credit](#) is a provincial program available to any business that is structured as a corporation or cooperative. The program offers a 35% tax credit for investment in an eligible business of up to \$17,500/person (this would represent a \$50,000 investment). The shares in the business have to be newly issued and the program cannot be used to purchase the assets of an existing business.

There must be at least three investors (but they can all be related to each other; e.g. a husband, wife, and child over the age of 19) and the shares must be common voting shares, not preferred shares. Pre-approval by the Department of Finance is required before the issued shares are eligible for the tax credit. For more information, contact Phillip Hathaway at (902)424-8369, hathewp@gov.ns.ca.

Don't Forget About Cash Flow

There can be a significant time lag between when you have to spend a lot of money on your farm and when you actually start to receive income from it, from the length of a growing season for annual crops, to a year or more for livestock, to several years for perennial crops. If you don't have enough personal savings to pay your expenses until you start receiving income from the farm, the following programs and products may be of interest to you:

Self-Employment Benefit

If you are unemployed and want to start a farm business, you may be eligible for the self-employment benefit. This benefit allows you to receive Employment Insurance benefits for your first year in business. For more information, visit:

<http://www.gov.ns.ca/employmentnovascotia/programs/self-employment.asp>

Advanced Payment Program

The Advanced Payment Program is a federal program for farmers administered through local farmer organizations. You can receive a cash advance on up to 50% of the value of your eligible crops or livestock, and up to \$400,000. The federal government pays the interest on the first \$100,000 of the loan. The loan must be repaid as the crops or livestock are sold.

For crop producers, these loans are not secured with property but rather with crop insurance, so you need to be producing at a large enough scale to

qualify for crop insurance (usually *at least* an acre of a single crop). You can also receive an advance on a harvested storage crop with the crop itself acting as security. This means that if you place a large amount of harvested potatoes, carrots, apples or another such crop in cold storage with the intention of marketing them throughout the winter and spring, you could apply to the Advanced Payment Program using the stored crop as security for the loan.

For livestock, the animals themselves are used as security but you must be enrolled in the AgriStability program to be eligible for the Advanced Payment Program. For more information, or to find the farmer organization administering the program for the crop or livestock you are planning to produce, visit: <http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1290176119212&lang=eng>

[Written by Rebecca Sooksom, THINKFARM Resource Coordinator, and reviewed by Maria McCurdy, Senior Loan Officer, Nova Scotia Farm Loan Board. September 2012.]