

WRITTEN RESPONSES TO QUESTIONS RAISED AT THE  
STANDING COMMITTEE ON PUBLIC ACCOUNTS  
Alberta Hansard (Transcript No. 29-3-4)  
May 9, 2017

**PA-406**

**Mr. Gotfried:** How do you manage and mitigate the inherent risk involved with lending to those individuals and companies that are not being serviced, often for good reason, by the traditional financial institutions?

**ANSWER:**

- AFSC has a standard due diligence process for all loan applicants to determine an applicant's viability and potential for default.
- Depending on the level of perceived risk, AFSC outlines the level of security required directly from the business enterprises and/or indirectly from the shareholders to mitigate AFSC's exposure to an acceptable level.
- AFSC's not-for-profit financial model has greater capacity for loan risk as they are not expected to deliver dividends to shareholders like other financial institutions.

**PA-407**

**Mr. Schneider:** On pages 73 and 74 of the Auditor General's report he stated that the government's review of its ABCs was almost complete, but the AG had been "unable to obtain the results of that review." Will the government table a copy of that review even if it's incomplete so that we could have a look at it and review it?

**ANSWER:**

- The statement that the Office of the Auditor General (OAG) had been "unable to obtain the results of that [ABCs] review" was published in the Report of the Auditor General of Alberta October 2016 (p.74).
- In fall 2014, the OAG decided to postpone its audit oversight processes at AFSC pending completion of government's review of its ABCs, with AFSC selected as one of the first for review.
- Regarding the review report in question, the department does not have a copy of this review report.
- The ABC review is ongoing and being led by Treasury Board and Finance
- Results of the review will be released when concluded.

**PA-407**

**Mr. Schneider:** So what is the default rate and the delinquency rate on the loans? [AFSC loans which go to agriculture, agrifood, and commercial loans]

**ANSWER:**

- The default rate (or delinquency rate) is the percent of loans in the portfolio that are currently in arrears on their payment requirements.
- The default rate on farm loans are driven by both seasonal and cyclical factors (i.e., vary depending upon the overall health in the industry). They typically fluctuate in the range of 0.3 per cent – 1.2 per cent. The current default rate is 0.4 per cent.  
The default rate on loans under the Value Added Agribusiness Program and the Commercial Loan Program generally has a higher level of delinquency due to the inherent level of risk in the programs, but also reflect the overall health of the economy.

They typically fluctuate in the range of 5 per cent – 12 percent. The current default rate is 9.8 per cent.

**PA-409**

**Mrs. Littlewood:** As noted in the AG report, AFSC provides “financial and management assistance to qualified small and medium-sized Alberta businesses that were unable to borrow with reasonable terms from other commercial lenders.” Has this lending led to rural economic diversification in Alberta, and do you have any examples of stories that have come from the synthesis of AFSC and rural Alberta?

**ANSWER:**

- Measuring the impact of lending programs on rural economic development or diversification has historically been challenging.
- As part of the current review on the Mandate and Programs, AFSC is establishing Strategic Objectives for the lending line of business. The review will also identify performance measures for tracking progress.
- Every year AFSC helps over 1,800 primary producers, value-added agriculture processors, and commercial enterprises support and generate economic activity in rural Alberta. Here are three such examples:
  - AFSC assisted a beginning farmer in southern Alberta with purchasing their parents’ cow-calf farming operation, as well as some neighboring lands, which enabled this multi-generation farm to grow and expand production by 200 per cent.
  - AFSC assisted a fourth generation processor and a third generation pork producer to form a joint venture to build a facility to produce European style cured meats in a small, rural Alberta town that will export their products across North America and Asia.
  - AFSC assisted a northern Alberta enterprise to manufacture an Alberta-developed mobile heating technology that is used throughout western Canada, Alaska, and across the western United States.

**PA-410**

**Mr. Schneider:** Of those defaulted loans what percentage aren’t agri-related?

**ANSWER:**

- For the entire AFSC loan portfolio (commercial, farm, VAAP combined), 52 per cent are non-agriculture arrears and 48 per cent are agriculture related arrears.

**PA-412**

**Mr. Barnes:** During the time the interim board was in charge, a constituent of mine was denied coverage because a strip of hail-damaged crop was supposedly done incorrectly. She appealed but was denied. Will the new board be examining appeals heard by the interim board to ensure they were done correctly?

**ANSWER:**

- AFSC is confident in the decisions made by the Appeal Committees during the time of the interim board.

- The interim board members who were on the appeals committees have extensive experience in administrative law. AFSC is satisfied that the appeals were handled correctly.

**PA-412**

**Mr. Barnes:** A constituent had been using the same seed for many years and never had a problem with Fusarium, so he did not test. When the crop insurance claim was processed, AFSC said that he was not eligible for reimbursement as he did not have his seeds pretested for Fusarium. He did sign an affidavit and sent his original seed to AFSC, verifying that this was the same seed he planted with. How long do cases like this take to process?

**ANSWER:**

- The Minister and AFSC staff met with Mr. Barnes to discuss this issue on May 16, 2017.
- The individual had already been informed of AFSC's decision.
- There is an appeal process that can be followed for situations related to insurance claims.

**Supplementary Question:**

When will my constituent hear back if he is eligible for a crop insurance payout?

**ANSWER:**

- There is no further follow up planned, as AFSC's decision has already been communicated.

**PA-412**

**Mr. Barnes:** What is AFSC doing to ensure that farm innovators such as my constituent who grew red lentils are not penalized by inadequate crop insurance options?

**ANSWER:**

- AFSC works with commodity groups, including the Alberta Pulse Growers, to ensure AFSC's products maintain their relevance with producers.
- In the past, green lentils were used as the basis for lentil pricing for insurance programs as they were the dominant type of lentil. Historically, there were few lentil acreages in Alberta, which meant it was necessary to group all types of lentils together to have enough data to administer an insurance program.
- AFSC has been working with the Alberta Pulse Growers over the past 18 months to develop a strategy to resolve the issue around lentil pricing.
- As a result, starting in 2017 producers will be able to insure green and red lentils separately with pricing that reflects the type of lentil insured.

**PA-412**

**Mr. Barnes:** AFSC had a memorandum of understanding with the Minister of Municipal Affairs that was signed on April 29, 1975. What is the purpose of this memorandum?

**ANSWER:**

- There was a Memorandum of Agreement (MOA), which deals with securing loans in the Special Areas. Public Lands in the Special Areas are administered by the province under the *Special Areas Act*. Certain rights to lands in the Special Areas are held in leases. The

MOA deals with enforcing rights in loans against the leases, as this is a different circumstance than a typical ownership situation.

**Supplementary Question:**

Have both sides dutifully abided by it?

**ANSWER:**

- As far as AFSC is aware, it has complied with the terms of the MOA.

**PA-412**

**Mr. Schneider:** What does AFSC do to ensure that it has adequate crop insurance adjusters in place?

**ANSWER:**

- AFSC has a set number of insurance adjusters on a year-over-year basis. Most positions are seasonal (May to February/March), depending on the year.
- Each spring a full recruitment process takes place to fill vacant positions. Vacancies are also filled through-out the year on a one-off basis.
- AFSC mobilizes adjusters to areas where they are needed, depending on the situation. When there are extenuating circumstances, procedures are expedited to ensure claims are processed in a timely manner.
- This year, because of the unharvested crop situation, many adjusters were retained through the year.

**PA-412**

**Mrs. Littlewood:** On page 23 of the AG's report recommendation 1 states that there is a need to "clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities." Given that over \$1.7 billion was provided via farm loans and almost \$400 million in commercial loans, can you discuss the steps the department has taken to make sure that lending needs are made clear?

**ANSWER:**

- As part of the OAG's October 2016 recommendations regarding AFSC's Systems to Manage the Lending Program, AFSC is currently undergoing a lending mandate review to ensure that the lending programs are focused and provide the most value for stakeholders.
- Through this review, AFSC will ensure that the needs of the agricultural sector and Alberta's rural economy are well understood.
- With this understanding, AFSC will be in a position to objectively determine how its lending programs align with the *Agriculture Financial Services Act* and the specific and evolving credit needs of the agricultural industry and Alberta's rural economy.

**PA-412**

**Mrs. Littlewood:** How does AFSC support agricultural producers when Alberta's producers experience challenging growing seasons like we saw just last year or hailstorms or market fluctuations?

**ANSWER:**

- AFSC supports agricultural producers by providing customized insurance products to producers to offset the risks of agriculture production, based on the type of crop, risk area, and coverage level selected.
- For example, Production Insurance (AgrilInsurance) provides protection against losses caused by designated natural peril on annual and perennial crops. AFSC's Hail Endorsement provides spot-loss coverage for crop damage caused by hail, accidental fire, or fire by lightning.
- Another example includes AFSC's Spring Price Endorsement, which provides price protection and triggers when an eligible commodity's fall-market price decreases by more than 10 per cent below the spring insurance price. The AgriStability program provides compensation and support for participating producers whose whole farm operation experiences a margin decline.
- On an individual basis, AFSC has adjusted or deferred loan payments for producers that have been impacted by the extraordinary circumstances of the last growing season.

**PA-412**

**Mrs. Littlewood:** I understand that AFSC provides loans through their value-added and agribusiness program. Will growing the value-added and agribusiness industry be a goal of the new board?

**ANSWER:**

- The new Board will take some time to determine its goals and priorities.

**Supplementary Question:**

If so, how will the goal be supported?

**ANSWER:**

- The new Board will take some time to determine its goals and priorities and how they will be supported.

**PA-412**

**Mrs. Littlewood:** The AG's report highlighted the fact that AFSC's lending portfolio grew "from \$1.01 billion in 2007 to \$2.16 billion in 2016." Given that AFSC offers loans for farms, commercial operations, agribusiness, and value-added enterprise, can the deputy minister discuss the criteria used to determine loan approval?

**ANSWER:**

- AFSC has a separate, dedicated group of trained professionals that review and approve all loans. AFSC loan criteria is similar to all other financial institutions. It begins with review of information and completion of a due diligence process based on the five C's of credit (i.e., capacity, capital, collateral, conditions, and character).
- Each applicant is reviewed to ensure compliance with respect to eligibility, purpose and other requirements, as well as a complete analysis of the industry, market, and the applicant's viability and capacity to repay a loan.
- AFSC also reviews the applicant's prior business experience, credit history, and overall security position.

**PA-412-13**

**Mr. Gotfried:** ...back to the idea around Economic Development and your relationship with them. We've got some coal mining areas – Hanna, Forestburg, Grande Cache, and others – that are going to be facing serious loss of employment and economic sustainability. Many of the farmers in the area, from what we hear anecdotally, actually have part-time employment in the coal mines which are there, and it concerns me that we don't have a concerted effort between yourselves and Economic Development to reinvest in those communities to try and flatten out the impact of the shutdown of the coal plants. Can you explain to me whether those are ongoing and whether there are any thoughts to bringing that into the lack of strategic direction as pointed out by the Auditor General?

**ANSWER:**

- We understand the coal transition creates a lot of uncertainty and difficulty for many Alberta families. The Advisory Panel on Coal Communities is consulting with local leaders and community members to listen and understand their challenges and ideas for the long-term economic security and sustainability of communities.
- The Advisory Panel is currently finalizing its report.

**PA-413**

**Mr. Drysdale:** Strategically, going forward, how do you see that you differ from ATB?

**ANSWER:**

- Historically, commercial banks move in and out of the markets depending on their level of risk and profitability. The continuous presence of AFSC is crucial to protecting Alberta's agriculture and manufacturing industries.
- From 2009-11, when commercial banks retracted, AFSC saw one of its largest growth periods. New loan approvals increased by 45 per cent from 2008 levels, resulting in AFSC growing by 30 per cent to over \$1.4 billion by 2011.
- AFSC is unlike traditional lenders, such as ATB, whose primary motivation is a financial return for their shareholders. AFSC's primary purpose is to serve as a delivery agent for government policy and priorities by:
  - Supporting and fostering economic growth and employment for Albertans.
  - Ensuring Alberta farmers and enterprises have access to capital to stimulate investment and economic diversification, especially in rural Alberta.
  - Supporting Albertans in times of disaster, like AFSC did during the wildfire in Slave Lake, the floods in Southern Alberta, and 2007-08 financial crisis.