

Legislative Costing Note

Announcement date:	2020-03-25 (C-13)
Publication date:	2020-04-09
Short title:	Additional Lending Capacity for Farm Credit Canada (FCC)
Description:	Increasing the lending capacity of Farm Credit Canada by an additional \$5 billion.
Data sources:	Financial Data from the FCC's Annual Reports Consolidated Balance Sheet and Statement of Income:
Estimation and projection method:	<p>The fiscal impact of this cost estimate reflects the net interest income from issuing these additional loans, while accounting for provisions for credit losses and additional administration expenses.</p> <p>To complete this cost estimate, PBO used financial data from FCC's recent annual reports (2015-16 to 2018-19). PBO calculated the average net interest income, less provisions for credit losses and additional administration expenses, as a percentage of outstanding loans receivables, averaged over 4 years.</p> <p>PBO used this average profitability ratio to calculate the incremental income on the additional \$5 billion. PBO assumed that the entire loan amount would be distributed in 2020-21.</p>
Aggregate Results:	<p>PBO estimates total net income generated by this measure to be \$96 million in 2020-21.</p> <p>The time horizon for this costing is aligned to the Economic and Fiscal Scenario PBO published on March 27, 2020, which only extends to 2020-21. There are likely fiscal impacts from this measure for subsequent years.</p>
Source of Uncertainty:	<p>PBO assumes that the entire \$5 billion in additional lending capacity will be issued in 2020-21. Should this not be the case, PBO's cost estimate will overstate the annual income amount.</p> <p>PBO also assumes that these additional loans will be issued at market rates. During this period of uncertainty, the additional risk will be reflected in a higher interest rate. However, PBO assumes that this additional risk will also increase the provisions for credit loss. Given the uncertainty of the specifications of these loans, PBO assumes that the additional interest income will be offset by the credit loss provisions. Should this not be the case, it would impact the cost estimate.</p>

Another source of uncertainty arises from the assumption that the average profitability of FCC's lending program over the past four years would be similar to that of the additional lending capacity created through this policy.

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Cost of proposed measure

\$ millions	2019-2020	2020-2021
Total cost	-	-96

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost