

Feeder Associations

New Regulations and
Documents

SESSION 4

SUPPLYING LIVESTOCK AND
EQUITY ADVANCES

4. Supplying Livestock and Equity Advances

4. Supplying Livestock & Equity Advances

- Purchase Orders
- Livestock Supply Forms
- Promissory Notes
- Equity Loan Promissory Notes
- Security Interest Waivers
- Statement of Disclosure
- Custom Feeding Agreements

4.1 Purchase Orders (Form 11)

- ◎ **Purpose:** To allow the Association to control the purchase of their livestock.
- ◎ Establishes the “paper trail” in dealing with the member
 - Strengthens ownership of the livestock to the feeder association at the time of purchase.
- ◎ Sound business practice and highly recommended by legal counsel

4.2 Livestock Supply Form (Form 12)

- ⦿ invoice/bill of sale to be attached to the form
- ⦿ describes/identifies the type of livestock supplied
- ⦿ shows the total cost of livestock supplied
- ⦿ provides legal land location for feeding livestock

Manual – 5.1, 5.2, 5.5, 5.7

Member Agreement – 1.2, 2.9

4.3 Promissory Note (Form 12)

- ⦿ Part of Livestock Supply Form (Form 12)
- ⦿ Creates legal obligation to re-pay the cost of the livestock plus interest
- ⦿ May be **pre-signed** by members if they wish
- ⦿ May be **faxed**

Manual – 5.1 Member Agreement – 1.2, 2.10, 2.11

4.3 Promissory Note Due Dates and Contracts

- ⦿ Due Date - creates a “supply period” or a “contract”
- ⦿ Due Date – maximum 1 year from date of signing contract
- ⦿ Multiple Livestock Supply Forms/Promissory Notes can have the same due date (i.e. the due date on the first Form)
- ⦿ Up to 4 Due Dates or Supply Periods (“Contracts”) allowed per member

Manual – 5.7, 6.7

Member Agreement - 2.9, 2.10, 2.11

4.3 Promissory Note

Supervisor's & Administrator's Certificate

- ⦿ Final Step in completing the Livestock Supply Form.
- ⦿ Both the Administrator and the Supervisor must sign the certificate.
- ⦿ Livestock Supply Form must be completed and signed before any payment is made for the livestock supplied.

4.4 Clear Title

- ⦿ No livestock shall be purchased without clear title (*Manual 6.1 b*)
- ⦿ For livestock purchased from licensed auction marts or licensed dealers,
 - responsibility for clear title is legally assumed
 - Very little possibility of being sued by holder of security interest i.e. “conversion” (see LICA) – Bank Act security may be the exception

4.5 Clear Title & Third Party Purchases

- ◎ For private treaty purchases or purchases from members (“self purchases”)
 - Feeder Association is responsible for clear title
 - Seller’s declaration on manifest is not sufficient to be certain of a clear title – association may still end up in a dispute
 - Brand inspection is not required under the new regulation however it is highly recommended.

4.5 Clear Title & Third Party Purchases

Procedure:

Conduct search of Personal Property Registry and Bank Act Registry

- FAA office in Barrhead can do this for a fee (Form 19)

1. If no security interest detected, association pays seller for the livestock
2. If security interest is detected, send Security Interest Waiver (Form 13) to holder(s) of security interest
3. Pay for livestock as per response from holder of security interest

• *Manual – 6.1 b, 8.14, 8.15*

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4.6 Statement of Disclosure (Form 15 a, b)

- ⦿ required under the *Fair Trading Act*
- ⦿ discloses the total cost of “borrowing the cattle” from the feeder association
- ⦿ specific to fixed (a) or floating (b) rates
- ⦿ specific to the given Promissory Note
- ⦿ Equity Loan Promissory Notes as well as
- ⦿ Livestock Supply Promissory Notes

4.6 Statement of Disclosure (Form 15 a, b)

- ⦿ required under the *Fair Trading Act*
- ⦿ Not a requirement under the *Feeder Associations Guarantee Act or Regulation*
- ⦿ “Collection of interest may be at risk if this is not provided to the member” - *Kaliel*

4.7 Custom Feeding Agreement (Form 16)

- ⦿ New form **must** be used exclusively
- ⦿ Must be signed (by all 3 parties) and on file with feeder association (member, custom feedlot and association)
- ⦿ before cattle are placed in the feedlot or paid for
- ⦿ Protects both the Custom Feedlot and Feeder Association

4.7 Custom Feeding Agreements

- ◎ Custom Feeder retains *Animal Keepers Act* rights for 45 day period;
 - **IF** they notify the Association when the monthly feed bill is not paid within 7 days of tendering.
- ◎ The Association has the right to seize the livestock from the feedlot for failure to pay a feeding invoice.

Manual -5.4, 8.10, 8.11, 8.12, 8.13

4.8 Equity Advances or Loans

New regulation gives the association the **option** of paying out 50% of the equity created by the member, after 60 or 90 days on feed.

4.8 Equity Advances or Loans

- ⦿ Equity Loan is in addition to the Member's Supply or Contract Limit
- ⦿ Board approval is required for each member
- ⦿ If approved member is eligible to receive up to 50% of equity created
- ⦿ after a pre-determined amount of time on feed (if the sale price is contracted) or after pre-determined amount of time if there is no contracted sale price

Manual – 6.12

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4.8 Equity Loan Promissory Note (Form 14)

- ⦿ Different than the Livestock Supply Promissory Notes
- ⦿ Equity Loan is added to the “Total Member’s Obligation”

Equity Loan Example

400 head contract

- \$750 head average cost per head
- \$300,000 total loan balance

After 4 months on feed

- cattle now worth \$1,050 average per head

Equity Loan Example

Equity Calculation:

Current Value \$1,050 per head

Original Cost \$ 750 per head

Equity \$ 300 per head

Equity Loan Example

Equity Payout

\$ 300 per head

X 50%

= \$150 per head

Equity Loan Example

Equity Loan and Promissory Note

$$400 \text{ head} \times \$150 = \$60,000$$

Equity Loan Example

New Loan Balance

Original Loan	\$300,000
Equity Loan	<u>\$ 60,000</u>
Total	\$ 360,000

Note: requires additional \$3,000 of security deposit

4.8 Equity Loans or “Advances” Summary

- Are above or in addition to the member’s “loan limit”
- Must be covered by additional 5% security deposit
- Require a separate Promissory Note

① **Questions or comments?**