

Interest rates & loan structuring strategies.

Ag Ex Conference

November 28th, 2018

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Interest rates – Bank of Canada rate

- High of 21.08% in August 1981
- Low of 0.25% in April 2009
- Today: 1.75%
- Projections...

	2019				2020			
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rate	2.00%	2.25%	2.50%	2.50%	2.50%	2.75%	2.75%	2.75%

Source: BMO Economics

- This means Prime rate would be 4.70% by the end of 2019 and 4.95% by the end of 2020

Interest rates – Prime rate

- Pre-recession – July 2007: 6.25%
- Low of 2.25% in April 2009
- Today: 3.95%
- Long-term average of +/- 6.5%
- Projections...

	2019				2020			
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rate	4.20%	4.20%	4.45%	4.45%	4.45%	4.95%	4.95%	4.95%

- We've come a long way!

Loan options – what do they mean?

- Variable rate loans
 - Based on Prime
 - Interest rate varies over the life of the loan
 - “Open” facilities that allow pay-downs
- Fixed rate loans
 - Based on the bank’s cost of capital
 - Interest rates are locked in for the term of the loan
 - Limited ability to pay-down principal outside of scheduled payments
- Bankers Acceptances
- Interest Rate Swaps

Loan options – the basics

- Variable rate loans
 - Based on Prime
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Loan options – what does it mean? An example...

- Variable interest rate loans will get more costly over the next two years

	Last Year	Today	2020
Prime + 0.50%	3.45%	4.45%	5.45%

- There was, and still is, incentive to lock in interest rates for a longer period of time

	Last Year	Today
1-Year term	3.14%	4.35%
3-Year term	3.45%	4.60%
5-Year term	3.71%	4.85%

For illustrative purposes

What it all means...

- Moving forward we will continue to see interest rate increases; it is beneficial to have the discussions with respect to locking in longer terms for loans
- Locking-in rates for different time periods brings certainty to cash flows and helps manage interest rate risk
 - This could be a portion for 1 Year, 3 Years, and 5 Years
- The world around us continues to change – agricultural producers are experts at adapting and will manage increases in borrowing costs

Questions and Comments

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