

# Title: The Tile Loan Program

**Division:** Agriculture and Rural

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## Introduction

The installation of tile drainage is a very common land improvement practice among farmers in Ontario. Corrugated plastic tubing, clay and concrete drain tile is installed beneath the surface of agricultural land to drain excess water from the crop root zone. The benefits of tile drainage for crop productivity, farm efficiency, and even for reducing environmental impacts, have been studied and are generally well known to farmers.

In Ontario, the *Tile Drainage Act* provides loans to agricultural property owners to assist them in financing these tile drainage projects. This is known as the Tile Loan Program.

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## The Program in a "Nutshell"

If you own agricultural land in a municipality in Ontario and plan to install a tile drainage system on this land, you are eligible for a tile loan under this program.

All tile loans have 10-year terms and repayments are made annually. While under the program you are eligible for a loan of up to 75% of the value of the work, both the Ontario Ministry of Agriculture and Food (OMAF) and your local municipality may have policies restricting the total dollar amount of any loan in any given year. The provincial government sets the program interest rate, which is currently 8%. This rate is fixed for the full term of the loan, regardless of changes in market interest rates. Check with your local municipality for more information on tile loan policies and current interest rates.

Loan application forms, which are available at your municipality, must be completed and submitted to the municipal council. Once council approves the application, the owner arranges to have the work completed by a licensed tile drainage contractor (for more information on licensing, read OMAF Factsheet *Agricultural Drainage Licensing*, Order No. 01-063). The municipality will inspect the work and may charge a fee for this inspection. Once a month, the municipality prepares loan documents to send to OMAF in the amount of all the loans for that month. After processing these documents OMAF issues a cheque to the municipality who distributes the loan funds to each individual applicant.

The municipality collects the loan repayments from the owner and passes these payments back to OMAF. Defaulted payments are rare but are treated in the same manner as unpaid taxes.

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## Program Benefits

The Tile Loan Program offers several benefits to agricultural property owners:

- The application process is simple and straightforward.
- The current loan interest rate is 8 percent and is fixed for the full 10-year term. Compared to other loans under these terms, the interest rate is very competitive.
- The loan can be repaid in full at any time without penalty.
- The interest is calculated annually, not semi-annually as is done by most financial institutions.

## OMAF's Responsibilities

OMAF's Resources Management Branch is responsible for ensuring that municipalities are aware of the loan policies and program details. They also process the loan documents received from the municipality and transfer the loan funds to the municipality. OMAF's Financial Management Branch is responsible for collecting the annual repayments from municipalities, as well as any early tile loan payouts.

A contractor installing tile drainage systems must be licensed under the *Agricultural Tile Drainage Installation Act*. OMAF is responsible for issuing these licenses.

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## The Municipality's Responsibilities

The municipality must ensure that it has a valid borrowing by-law under the *Tile Drainage Act* and that it is aware of the details of the current provincial policies on the Tile Loan Program. The municipal council must review each application for loan and approve or reject it.

Council may place borrowing restrictions on tile loans, but must ensure that all loan applicants are treated equally. Council must appoint a drainage inspector to inspect the tile drainage work and file an inspection report. Once the work is completed, municipal staff prepare and submit the loan documents to OMAF.

After the municipality receives the funds from OMAF, they distribute them to the loan applicant. The municipality is responsible for collecting the repayments from the property owner and repaying these funds to OMAF's Financial Management Branch. Interest is charged on late payments. On the date of printing, the charge for late payment is based on 15% per year.

## The Loan Applicant's Responsibilities

Any property owner considering installing tile drainage should first answer these questions.

1. Is there a drainage problem on my agricultural land?
2. Will the soil on my land respond to tile drainage? The information listed under "For More Information" will help you answer this question.
3. Is there a ditch or tile where my drainage system can be discharged and am I legally able to use it?

If you have answered all three questions with "yes", tile drainage should be considered.

Before any tile installation begins, complete the tile loan application and submit it to your local municipality. Some municipalities will not approve a loan if tiling starts before council approves the application. Only the agricultural property owner may apply for a loan. Farmers wishing to tile drain rented farmland must make their own arrangements with the property owner.

If the application is approved, the owner hires a licensed tile drainage contractor to do the work. For

contractors in your area, check with your local municipality. Before the work begins, the owner must also notify the municipality to arrange an inspection.

After receiving the money, the agricultural property owner is responsible for making the loan repayments. The repayment is collected either with the usual municipal tax bills or as a special tax bill on the anniversary date of the loan. The loan applicant should find out the collection method used by their municipality and should agree to the method before accepting the loan.

The loan can be repaid in full at any time. Contact your municipality to find out the amount still owing at the time of your proposed loan payout date.

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## Ineligible Costs

Some costs are not eligible for funding through the Tile Loan Program:

**Goods and Services Tax (GST):** This is not an eligible cost since farmers receive a full rebate of GST.

**Costs Not Related to Tile Drainage:** Any costs that may be associated with, but not directly a cost of installing a tile drainage system are ineligible costs. Examples of this include removing tree stumps, cleaning up fence lines, land levelling, etc.

**Costs Incurred off the Property:** On occasion, a tile drainage system will need to be continued across another property or road. Any costs incurred off the property are not eligible for a loan.

**Rebates and Refunds:** Any discounts received by the property owner for volume purchases of tile or discounts for early payment must be deducted before calculating the value of the loan.

**Work Performed by an Unlicensed Contractor:** Tile drainage contractors must be licensed under the *Agricultural Tile Drainage Installation Act*. If an agricultural property owner uses an unlicensed contractor, loan funds will not be provided.