Overview

• Nationwide network of financial cooperatives
  • 82 Associations serving all 50 states and Puerto Rico
  • Four wholesale Banks
• Federally chartered financial institutions with a public purpose
• Congress passed Farm Loan Act of 1916
• Numerous additions/updates/amendments since
• Regulated by the Farm Credit Administration (FCA), an independent regulatory agency within the executive branch
• Cooperative ownership and governance
• Grassroots – local/regional structure, not top-down
Accomplishments

• Mission-focused: charter focuses on serving farmers, cooperatives and rural America.
• Cooperative ownership and governance – “captive” financial institution. Patronage dividends.
• Conduit for continuous flow of funds from Wall Street to every farming county in the U.S.
• “There in good times and in bad times.”
• Standard of competition & innovation in farm lending
• Evolving organizational structure driven by the farmer-owners since the late 1980s.
• Locally and regionally focused, not one-size-fits-all.
• Public policy success story
  • Born under great adversity, especially 20s/30s
  • Government investment fully repaid
  • No net cost to government
Farm Credit Act of 1971

“It is declared to be the policy of the Congress, recognizing that a prosperous, productive agriculture is essential to a free nation and recognizing the growing need for credit in rural areas, that the farmer-owned cooperative Farm Credit System be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations.”
Own the retail associations.

Offer loans, leases and a variety of related financial services to rural America.

Provide capital to retail associations.

Issues consolidated debt securities to fund our loan portfolio.
Farm Credit System Bank Chartered Territories
Facts & Figures

Leading agricultural lender in the U.S.:
  • Loans in excess of $191 billion in 2012
  • Nearly 500,000 borrower-owners
  • More than 13,000 employees

Fast Facts
(As of December 31, 2012)
  • Assets (billions) $246
  • Capital to Asset Ratio 15.7%

Senior Unsecured Debt Ratings
  - Moody’s Investment Services Aaa/P-1
  - Standard & Poors AA+/A-1+
  - Fitch AA/F1+
Rural America’s Cooperative Lender

- Loans to farmers for all purposes – mortgage, capital and operating. Leasing.
- Crop insurance and certain other non-loan services to farmers
- Loans to farmer cooperatives and rural utilities
- Loans to fishermen and farm service businesses
- Residential mortgage loans in rural areas
- Agricultural export financing
- Young, Beginning & Small Producer Programs
Share of Total Farm Debt

Source: USDA
Farm Credit was created to provide sound and dependable credit and related services to agriculture and rural America.

Discover how Farm Credit differs from other financial institutions and lenders. Learn more.
Additional Resources

Farm Credit System
FarmCredit.com

Farm Credit Funding Corp.
FarmCredit-FFCB.com

Farm Credit Council
FCCouncil.com

Farm Credit Administration
FCA.gov

Farm Credit East
FarmCreditEast.com
YouTube.com/FarmCreditEast

CoBank
CoBank.com
Regulatory Authority

- Farm Credit Act authorizes business with certain requirements and restrictions
- Eligible customers include:
  - Farmers, ranchers, producers and harvesters of aquatic products
  - Rural residents
  - Businesses that provide farm related services directly related to agriculture production
  - Various eligibility limits apply
Farm Credit East
Our Approach to Business

- Branch office based delivery, local leadership and delivery
- Provide "On Farm Service"
- We know your business
- Intensive staff training
- Recruit staff from Land Grant Universities, often with farm background/interests
- Farm business experts- delivery is supported by branch based administrative support
- Additional centralized delivery support delivered to branches
Our Products

Loans
Seasonal, "operating" loans
Short Term, "capital" loans
Long Term, "real estate" loans

Financial Services
Tax planning and preparation
Record keeping
Payroll
Business Consulting/benchmarking
Appraisal
Our Approach to Lending

• Offer loans and services that are good for both the borrower and the lender
• Extend credit that customers need to maximize profitability
• Foster strong communication with no surprises
• Be firm and fair regarding performance on loan terms
• Embrace our responsibility to operate in a manner that will ensure the scheduled repayment of holders of System debt
The Five C’s of Credit

What are the five most important fundamental questions to ask before you’d want to lend your money to someone?
### The 5 C’s (Credit Factors)

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<td>How will risks be mitigated?</td>
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**ARRIVE AT A DECISION**
Character:
*Who are we lending to?*

- What type of entity (for legal reasons)?
- Character of the individuals?
- Type of operation, size, quality?
- Industry make sense?
- Who signs on loan?
Capital:

*Where does the operation stand today and how did it get there?*

- Financial position of signers
- Structure of financial position
- Liquidity
- Position in relation to industry norms
- Financial strength or lack of strength results from what?
Capacity:
Where is the business going?

- Earnings ability
- Ability to repay debts
- Ability to handle more debt
- Consistency in earnings
Conditions:
*How much risk is involved?*

- What is the request - on what terms?
- Borrowing more or less than they can handle?
- Does purpose match terms?
- Does it make sense to lend for that purpose?
- Increase conditions of loan based on a perception of more risk?
- Escalating debt?
Collateral:
How will risk be mitigated?

- Understanding the risk of the loan?
- What is the collateral?
Financial Services Help Increase Customer Profitability and Manage Risk

- Identify business challenge
- Match appropriate financial service
- Work as part of customer's business team
- Designed to support business decision making – we do not get involved in farm management
The Lender: Summary Points

- Farm Credit East is a relationship lender that works closely with members and understands the industries that we serve.
- By maintaining a pro-active approach, we work to implement the Board-approved concept of “no surprise lending.”
- The 5 C’s (credit factors) are important to understanding how we reach credit decisions.
• Stuff Happens
• You Don’t Know What You Don’t Know
Why Practice Risk Management?

- Ensure confidence with our investors
- Joint & several responsibility to our fellow FCS institutions
- Keep our members’ investment safe and prosperous
- Ensure the success of our customer-driven mission and focus
- Congress expects it!
Risk Management Options

1. Avoid
2. Mitigate, reduce
3. Transfer, share
4. Accept, manage
Risks We Face at Farm Credit

1. Credit
2. Human Resources
3. Funding/Liquidity
4. Operational
5. Regulatory and Legislative
6. Competition
7. Interest Rate
8. Economy
9. Technology / Other Risks
10. Reputation
Multiple Layers of Review

- Our internal process
- Farm Credit Administration – Our Regulator
- PWC – Independent Auditor
- Funding Bank (CoBank, AgFirst, AgriBank or Texas)
Our Risk Management Plan

1. Credit Review
2. Appraisal Review
3. Tax Review
4. Internal Audit
5. Portfolio Management / Special Projects
Financial Risk Management

Vision

A. High customer value  
B. Strong earnings and capital

Goals

A. Net interest income 3% of earning assets  
B. Capital 14-18% of assets  
C. A growth oriented company
Internal Practices to Manage Risk

1. Annual Business Plan and Budget
2. Review of performance vs. budget
3. Participation loans
4. Loan Guarantees
5. Patronage to customers from earnings
6. Offering fixed and variable rate loans
7. Match pricing characteristics of loans and debt to minimize rate change risk
8. Interest rate hedging
Additional Internal Practices to Manage Risk

Annual Risk Survey

[Enterprise Risk Management Protocols]
Other Risk Mitigation

Redundant Levels of Capital

A. Farm Credit Associations ~ 15%
B. Farm Credit Banks ~ 15%
C. Farm Credit System Insurance Corporation ~ 2%
Open Discussion