



FARM CREDIT

The Farm Credit System

2013

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.”

System Structure



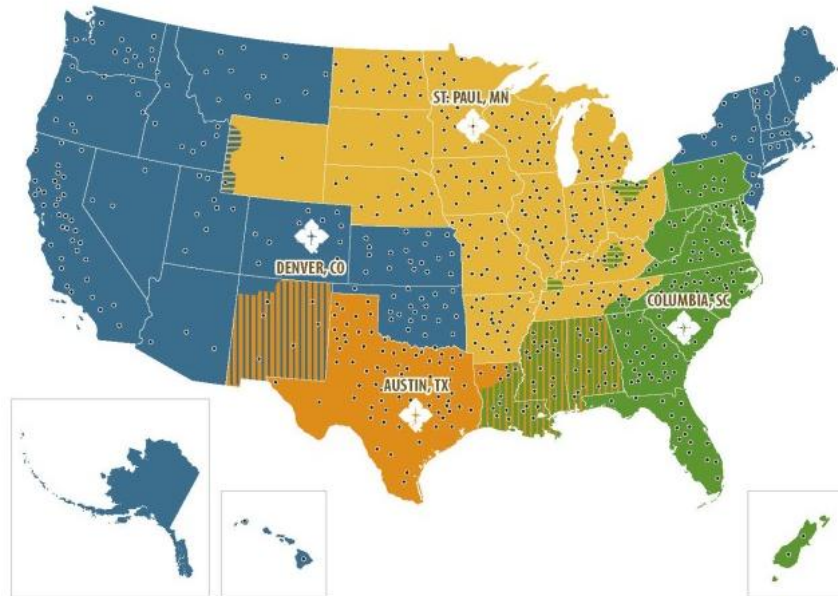
Own the retail associations.

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



DISTRICT HEADQUARTERS



FUNDED BY COBANK, ACB



FUNDED BY AGRIBANK, FCB



FUNDED BY FARM CREDIT BANK OF TEXAS



FUNDED BY AGFIRST FARM CREDIT BANK



FUNDED BY AGRIBANK, FCB,
AND COBANK, ACB



FUNDED BY FARM CREDIT BANK OF TEXAS
AND COBANK, ACB



FUNDED BY AGFIRST FARM CREDIT BANK
AND FARM CREDIT BANK OF TEXAS



FUNDED BY AGFIRST FARM CREDIT BANK
AND AGRIBANK, FCB

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

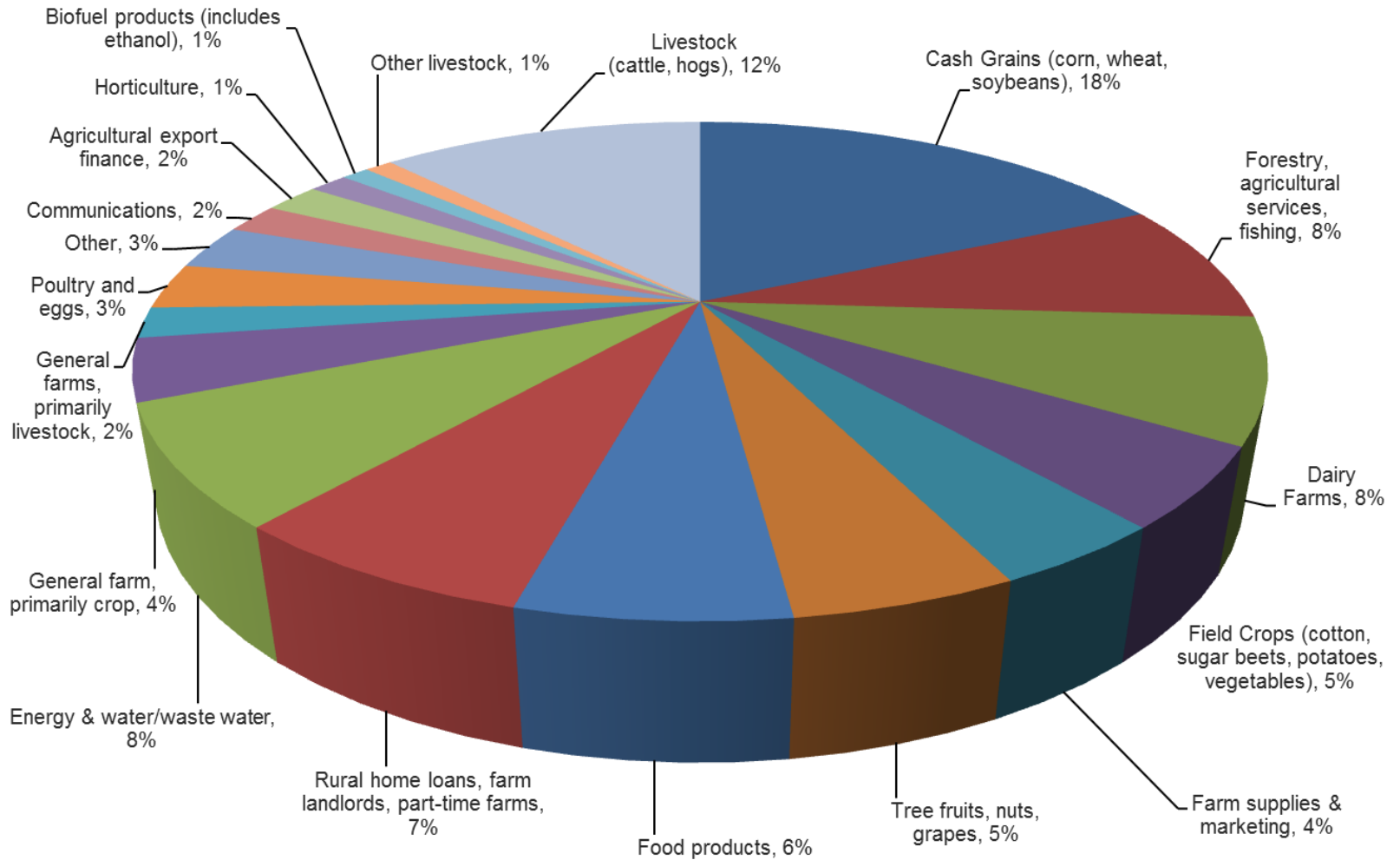
Moody's Investment Services	Aaa/P-1
Standard & Poors	AA+/A-1+
Fitch	AA/F1+

Rural America's Cooperative Lender

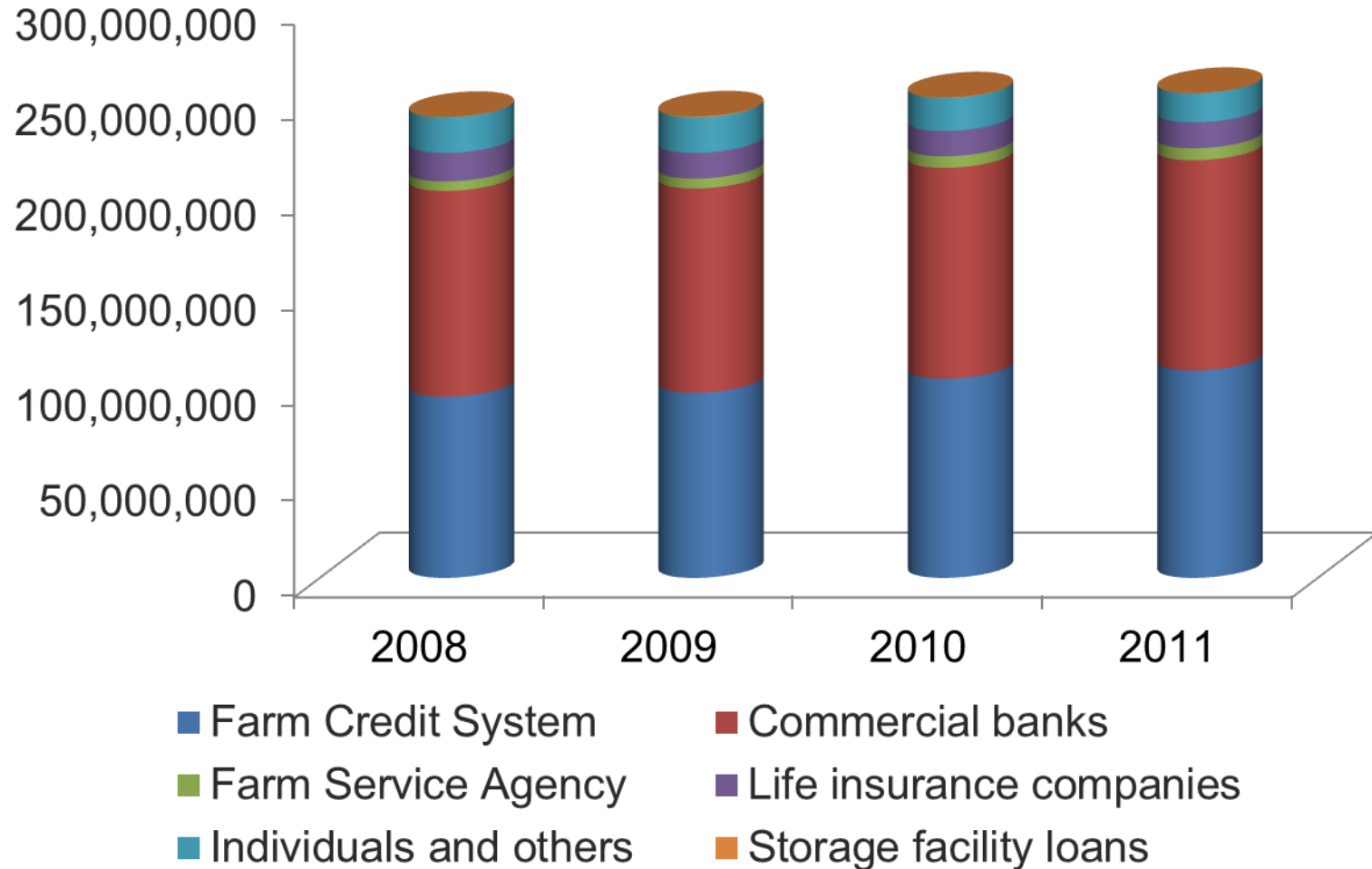


- Loans to farmers for all purposes – mortgage, capital and operating. Leasing.
- Crop insurance and certain other non-loan services to farmers
- Loans to farmer cooperatives and rural utilities
- Loans to fishermen and farm service businesses
- Residential mortgage loans in rural areas
- Agricultural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

Farm Credit System Loan Portfolio 12/31/2012



Share of Total Farm Debt



www.FarmCredit.com



The screenshot shows the Farm Credit website homepage. At the top left is the Farm Credit logo with the tagline "Lending support to rural America". To the right are social media icons for RSS, Facebook, and Twitter, along with buttons for "Find a Location" and "Daily Feed Login". A search bar is located on the right side. Below the header is a navigation menu with links for "Home", "About Farm Credit", "Careers", "Contributions", and "Newsroom". The main content area features a large image of a farm field with hay bales. A text box on the right side of the image reads: "Farm Credit was created to provide sound and dependable credit and related services to agriculture and rural America." Below this, another text box says: "Discover how Farm Credit differs from other financial institutions and lenders. [Learn more.](#)" A yellow arrow icon is positioned to the right of this text. At the bottom of the page, there are four green buttons with white text: "LEARN HOW FARM CREDIT WORKS", "FIND A LOCATION", "SEARCH CAREERS", and "APPLY FOR GRANTS AND SPONSORSHIPS".

FarmCredit.com

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](https://www.youtube.com/FarmCreditEast)

CoBank
CoBank.com



FARM CREDIT

Retail Delivery

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)

Character (The Individual)
Capital (Financial Position) & (Financial Progress)
Capacity (Repayment Ability)
Condition (Basis of Approval)
Collateral

Fundamental Questions

Who are we lending to?
Where does the operation stand today? How did it get there?
Where is the business going?
How much risk is involved?
How will risks be mitigated?

Analysis Tools

Membership Application Reference Checks
Balance Sheets Search Reports Farm Inspections Trend Analysis Income & Expense Statements
Trend Analysis Income & Expense Statements Projections Sensitivity Analyses
Loan Application Trend Analyses
Appraisal Reports Security Evaluations

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





FARM CREDIT

Financial and Risk Management



- 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

