

# Farm Credit

A decorative graphic element consisting of a large, light blue arc that starts on the left side of the slide and curves downwards and to the right, ending at the bottom right corner. The arc is semi-transparent, allowing the dark blue background to show through.

Southeastern United States

# AgFirst District

15 States and Puerto Rico

Maryland, Delaware, Pennsylvania Virginia, West Virginia, South Carolina, North Carolina, Georgia Florida, Mississippi, Alabama, Louisiana, parts of Tennessee, Ohio, Kentucky

# 6 Year Trend

Loans	\$8.6 Billion to \$12.9 Billion
Investments	\$2.4 Billion to \$3.7 Billion
Capital	\$0.6 Billion to \$1.2 Billion
Net Income	\$86 Million to \$180 Million
Allowance/High Risk Assets*	155.59% to 55.48%

\*After 80% reduction in Allowance!

# Other Measures

Loan Quality	Outstanding
Credit Administration	Very Good
Delinquency	Very Low
Efficiency	Very Good
Profitability	Outstanding

# Return to Stockholders

~\$1,080MM	Revenues
~\$ 956MM	Gross Interest Income
~\$ 368MM	Net Income
~\$ 191MM	Patronage

Other income sources include Secondary Mortgage Market; Financially Related Services, Credit and Accounting Services, Investments. AgFirst delivers funding negative to the cost of funds because of these other funding sources.

# Return to Stockholders

20% Patronage

What does it mean?

Various definitions, but for the most part it means 20% of interest earned is returned in 2 stages: 30% - 40% in April following the year just ended and the remainder on a 6 or 7 year cycle.

# Example

\$100,000 Interest Expense 2005

25% Patronage

10,000 April 2006

12,000 November 2012

If paying 7% interest, patronage has a Present Value of 1.09% reduction at 15% IRR; 1.35% reduction at 7% IRR; 1.45% reduction at 5% IRR; 1.58% reduction at 2.5% IRR

# What's next?

Horizon's Project: First extensive review since 1971. Association driven. Analysis of the changing face of agriculture.

Today's definition of agriculture involvement?

Production? Agribusiness? Rural Lifestyle?

Are any "full-time farmers" left?

Consolidation and integration are generating huge corporate structures – Is the Farm Credit System integral to those needs as well?

# Tobacco Buyout

Tobacco Buyout	\$9.6 Billion
Approximately	590,000 contracts
Approximately	360,000 recipients
66,000 recipients receive 80% of funds	
3 ways to receive the funds	
10 payments over 8.5 Years	
Lump Sum Loan over 8.5 Years	
Successor In Interest Contract Sale	

# Tobacco Buyout

Lump Sum Loan over 8.5 Years

Reasonably high advance rate

Tax benefit of interest expense (loan)

Patronage (Farm Credit)

Probable taxation over 9 year period

# Successor In Interest Contract Sale

Settlement of last 9 or 8 payments

Can't settle yet – can't get approval

Expect two products

- Settlement this year

- Settlement in 2006 (tax issues)

Pretty High Advance Rates 80%+

Watch out for “Bottom Feeders”

All over by February/March 2006

Best Advice I've Heard So Far: “Don't sell your contract to any company that is younger than you are old”.

# What's next?

## Investments in Rural America

2 MM Farmers and Ranchers

65 MM Americans live in a rural area

Investment in infrastructure, jobs development in Rural America is behind that of Urban America

The Farm Credit Administration (our regulator) has asked the Farm Credit System to engage in rural activities via its “Mission Related Investment” charge