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Lubbock Appraisal Department

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Proud to Serve Farm Families



When it comes to agriculture and rural communities, it's all about family. We see evidence of that every day in our offices. There are families that Farm Credit has been serving for generations, and we know them so well, we feel like they are an extension of our own family. When new customers come in, they are welcomed like family. And among our staff, we refer to ourselves as a Farm Credit family, too.

A report released recently from USDA's Economic Research Service reinforced the idea. According to their findings, most U.S. farms — 98 percent in 2007 — are family-run operations. They vary greatly in characteristics like size, profitability and production, but they share that one distinguishing trait of generations working together.

Having such a close connection to agricultural families is one of the reasons I love working for AgTexas. We value the many contributions of agricultural producers and strive to be there for them to help them succeed. Our goal is to stay ahead of the lending needs of agricultural producers and agribusiness owners, so that we can offer the right loan products and services to best fit their situations. Unlike many commercial lenders, at AgTexas, we understand commodity prices and the cash cycles of crop production. We put that knowledge to work, creating loan packages that suit individual situations.

AgTexas has been around since 1934. In all that time, ag and rural lending has been our only mission. We truly are specialists in ag lending, and every day, we put that expertise to work for you.

Your association's success was shown again in our performance during the first half of this year. AgTexas experienced an excellent first half of 2010, with net income of \$4.9 million. This resulted in a return on assets of 1.8 percent and a return on equity of 16.9 percent. With credit standards being maintained at a high level, credit quality remains strong, with 96.4 percent of loan volume being classified as acceptable, despite the economic turmoil of the past two years. Our present capital ratio continues to strengthen and now stands at 12.3 percent.

However, I'm proud to say that our performance has not come at the cost of our customer service. At AgTexas, we work hard to be a feel-good, friendly place to do business — a cooperative whose staff cares as much about your family as your finances.

When you blend experience with enthusiasm, head and heart, you have a winning combination. I think it explains why most farm families are so strong and why the Farm Credit System has stayed strong.

If you work in agriculture, I want to sincerely thank you for the work you do. If we can help you with any of your other financing needs, please call us. At AgTexas, we want to be your full-service lender.

Sincerely,

Mitchell Harris
Chief Executive Officer



Part of the Farm Credit System



Investments Pay Off *for AgTexas*

The board of directors and staff at AgTexas are constantly searching for ways to improve your association and its financial results. In June of 2007, AgTexas made its first investment in U.S. guaranteed securities. This was no small undertaking, as the board and senior management had researched and followed the market for approximately a year before testing the waters.

The decision was made to pursue this investment strategy because it provided the association with the opportunity to improve earnings, operating efficiencies, capital ratios and credit quality ratios. It also provided a source of earnings, which helped loan officers maintain market interest rates for our stockholders. The opportunity for additional earnings also allowed a replacement for the revolving of qualified allocated equities with a shorter duration or with an improved retention period.

Security Investments with a Guarantee

After careful review, the board of directors gave their approval for the AgTexas management team to invest in the guaranteed portion of loans. These loans are typically originated at commercial banks and are guaranteed by either the Small Business Administration (SBA), United States Department of Agriculture (USDA) or Farm Service Agency (FSA). These types of security investments have a 100 percent guarantee of the principal and interest, and the investor is held blameless for any inappropriate servicing action by the lender. The government-guaranteed portion is bought and sold on a secondary market.

The risk of investing comes from the non-guaranteed premium that is required with the purchases, as well as consequences from prepayments that occur as a result of default,

refinancing or early repayments. When prepaids occur, the association recognizes any unamortized premium as an expense.

Example:

Principal	
\$1,000,000	100% guaranteed par value
Market interest rates	
daily accrual	100% guaranteed par value
Market premium	
\$70,000	Non-guaranteed example at 7%
Total Investment	
\$1,070,000	or traded @ \$107 per share

Under the investment regulations of the Farm Credit Administration, due to the explicit government guarantee, AgTexas only capitalizes the non-guaranteed portion or, in the example, the \$70,000 of a \$1,070,000 investment. This allows the association to have the opportunity to provide a return for the cooperative, with minimal risk and usage of the stockholder’s equity.

Investment Performance

The board and management made the decision and completed all necessary approvals to begin purchasing during the middle of 2007. By the end of 2008, the association was holding total investment assets of \$143.98 million in a combination of SBA pools of loans and individual loan securities. The timing of the entry into the security market occurred mainly during a period when liquidity was needed in the commercial bank environment. Therefore, the majority of securities purchased were acquired at lower-than-normal premiums.

Here is the performance of the investment portfolio included in AgTexas net income:

2007-2009
\$2,906,938 return on investment (ROI) of 1.1%
YTD as of 6/30/2010
\$1,253,265 ROI of 2.2%
Total life earnings
\$4,160,203 recognized in Net Income
Unrealized Gain
\$ 2,201,988 estimated market value above unamortized cost of securities held as of June 30, 2010

Over the life of the investments, the association has recognized earnings totaling \$4.16 million that have become net income of the association. The unrealized gain would only be recognized in earnings if the portfolio were sold in today’s market. The investment portfolio, as of June 30, 2010, has a principal balance outstanding of \$97.14 million with an unamortized

premium balance of \$3.51 million, or 103.6 basis points, and an estimated market value of 105.375 basis points.

Reaping the Rewards

So far, the investments have been purchased and managed by the AgTexas finance department without adding additional employees, which is reflected in the results.

“The investments have been a very positive move for AgTexas stockholders during a time when many financial institutions are experiencing substantial stress due to excessive credit risk in a weak economy,” said AgTexas Chief Executive Officer Mitchell Harris. “Our chief financial officer, Jerry Spruill, and his staff have exhibited exceptional leadership in managing this venture.”

Harris also praised the board of directors for their leadership. “The stockholders should be pleased with our directors, past and present, elected and appointed, who have the confidence and courage to allow management to enter new ventures that constitute reasonable and manageable business risk.”

AgTexas is currently the only association in the Texas Farm Credit District with a purchased 100 percent U.S. guaranteed security portfolio. Board Chairman James Schronk said, “The board is pleased with the positive results and will research the possibility of providing security management services for other associations to leverage additional earnings for our stockholders and other district associations.”

The staff and directors at AgTexas have recognized the benefits of the investments, especially given the economic recession, and we believe that a solid investment strategy could have a positive long-term impact on the return to our stockholders.

The impact of AgTexas’ investments as of June 30, 2010:

	Actual Includes Investments	Excludes Investments
Net Income	\$4,937,352	\$3,687,087
Return on Assets¹	1.84	1.75
Return on Equity²	16.81	13.27
Cost/\$100 of loans³	0.73	1.00
Coverage Ratio⁴	46.78	50.52
Credit Quality:		
Acceptable	96.6	95.8
Substandard	3.4	4.2

¹ Net income divided by average assets

² Net income divided by average stockholder equity

³ Operating cost divided by average accrual assets

⁴ Percent of total operating cost covered by total revenues

Where Does My Loan Come From?

Most banks loan money from the deposits that people make, but AgTexas has a different structure. Unlike other banks, we are only a lender. In other words, we don't accept deposits, so the money we loan to customers like you has to come from somewhere else.

The loan you receive as a Farm Credit customer ultimately comes from the sale of Farm Credit securities in the nation's money markets. However, it takes a little trip before it gets to you. It's what we call our flow of funds.

The Federal Farm Credit Banks Funding Corporation (Funding Corp.) manages the sale of Farm Credit Systemwide debt securities. The money from these transactions goes to the wholesale Farm Credit System banks. Each bank serves a particular region. AgTexas' wholesale bank is the Farm Credit Bank of Texas.

AgTexas receives money from the Farm Credit Bank of Texas, and we use those funds to make loans to customers.

Interestingly, ownership within the Farm Credit System follows a pattern that is opposite from the flow of funds. Customers of each Farm Credit cooperative association, including AgTexas, own the co-op. The local lending co-ops, in turn, own their wholesale bank. In our case, AgTexas owns part of the Farm Credit Bank of Texas, which, along with four other wholesale banks, owns the Funding Corp.

Loans for Your Land, Your Business and Your Life

AgTexas finances rural property and all aspects of agricultural production. This includes rural real estate loans; operating loans to cover expenses, such as feed, seed or fertilizer; and loans for equipment and facilities.

In addition, AgTexas can make a variety of other loans to full-time agricultural producers. These lifestyle loans can be made for most purposes, including vehicle purchases, college expenses and home improvements.

AgTexas has the strength and depth to cover all of your rural financing needs. If you have either a land or operating loan with us, talk with us about financing the rest of your agricultural needs. We'd love to be your full-service lender. Let us know how we can better serve you.

FFA Students Told Jobs Abound in Agriculture

Between 2010 and 2015, there will be more jobs in the agriculture industry than qualified people to fill them, according to a recent study by Purdue University and the U.S. Department of Agriculture. That was a message that Stan Ray, chief administrative officer of the Farm Credit Bank of Texas, shared recently with more than 12,000 people attending the 2010 Texas FFA Convention.



"It's an exciting time to be in agriculture, and FFA is doing a great job of preparing young people to fill those positions," said Ray, who also is a Texas FFA Foundation board member and a former Texas FFA state officer.

"Regardless of what you end up doing in life, your chances of success are greater because of your involvement with this organization," he told participants. "Farm Credit is proud to be a part of that."

Farm Credit and Justin Brands were title co-sponsors of the convention, which was held July 13-16 in Corpus Christi. This is the fifth consecutive year that Farm Credit has been a title co-sponsor of the event.

Four \$2,000 scholarships, which are funded by participating Farm Credit cooperatives in Texas, were also presented during the convention. Scholarship winners were: Kathryn Barber, Morton Ranch FFA; Laura Ehlers, Riesel FFA; Andrew Gresham, Garrison FFA; and Allison Sestak, Weimar FFA.

Locally, AgTexas continues to be a major supporter of both FFA and 4-H programs across our service area. Literally hundreds of our youth have been recipients of premium money for their livestock and other projects, as well as benefited from the time and efforts of association employees who contribute countless volunteer hours to these programs.