

# Credit Conditions and Economic Trends

Presented by Frontier Farm Credit

Janet McPherson, Tony English, Dennis Fike



## Farm Credit

- Established in 1916
- Mission: To provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses.
- Loans for purchase of rural homes; to finance rural communications, energy and water infrastructures; to support agricultural exports; and to finance other eligible entities.



# Frontier Farm Credit Mission, Vision, & Core Values

## Vision

Growing opportunities for success in rural America.

## Mission

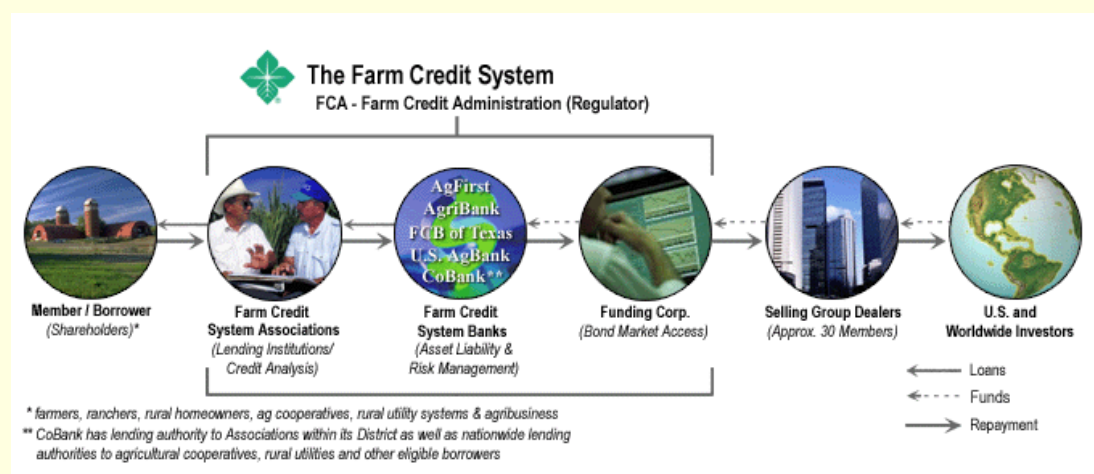
Providing financial solutions that enhance agriculture and rural America.

## Core Values

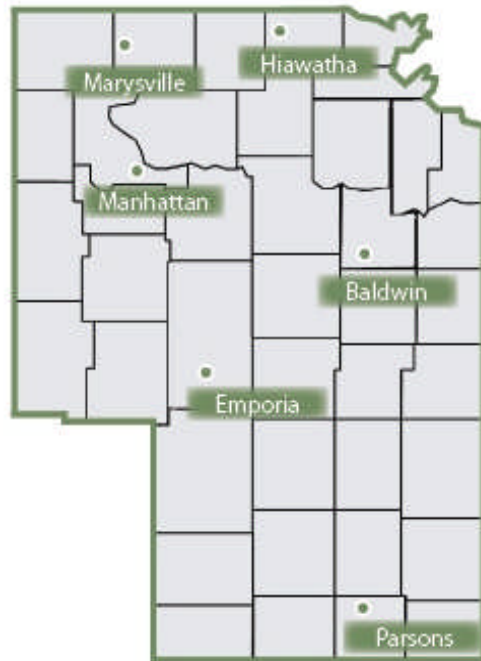
- Honesty and integrity in everything we do
- Excellence in serving customers
- Growing people to grow our company



# Funding for Farm Credit – Importing Money to Rural America



# Frontier Lending Offices



# Full Service Provider

- Loans
  - Real Estate
  - Machinery
  - Operating
- Leases
- Appraisal
- Crop Insurance
- Life and Disability Insurance
- Business Planning
- Record Keeping
- Tax Planning and Preparation



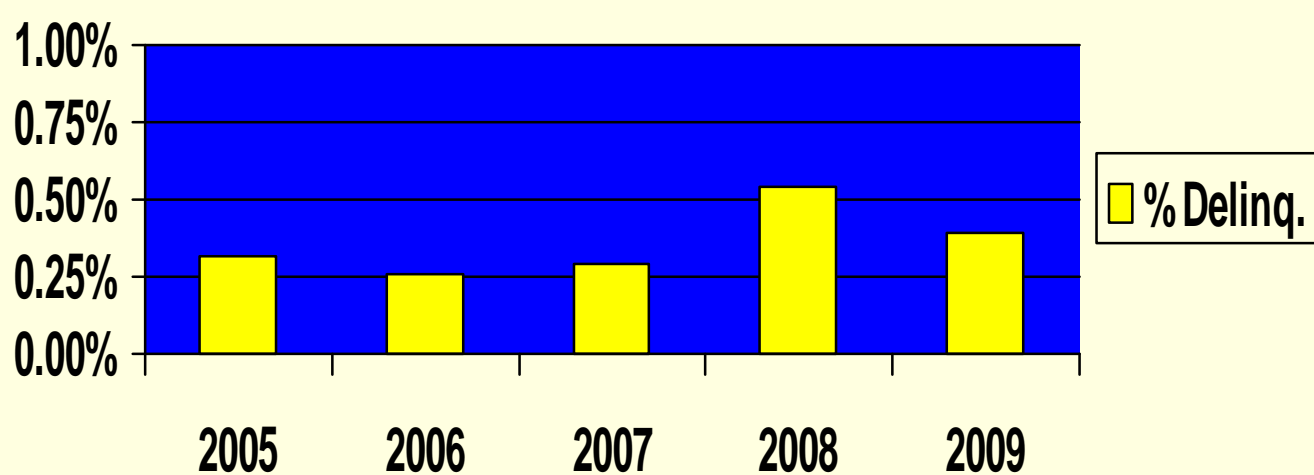
## Credit Condition Comments

- Agriculture in general has fared better than most other areas of the economy.
- Hardest hit sectors in agriculture: dairy, hogs, and feeder cattle.
- Impact on credit quality has been minimal in the overall scope of events.
- Our most significant challenge: Getting customers to visit with us when they are facing financial difficulty.

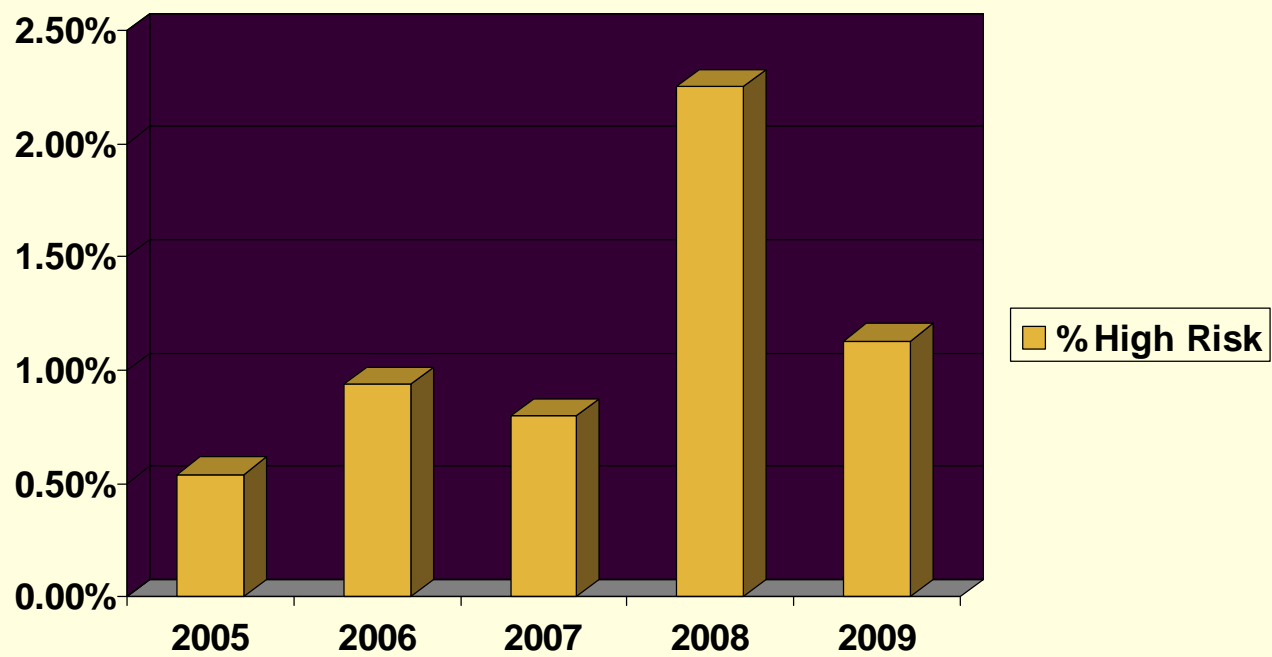


## Delinquency Rates – Frontier

- Delinquencies are up but are still historically low.



## Non-performing Loans – Frontier Higher, but still at an acceptable level



## Impact of Credit Crisis on Ag Credit?

- Fewer lenders committed to agriculture.
- Lenders with significant ag portfolios have tightened lending standards – particularly on highly improved properties.
- Longer-term fixed rates have moved slightly higher.
- It may be tougher to renew operating loans if financial progress is not being made.



## Frontier Farm Credit Position

---

- We're long-term bullish on Agriculture.
- We hire and train professional employees so we can stay committed to the industry.
- We look at all possible avenues to work along with stressed customers when we have cooperation.
- Sometimes exiting a relationship is the best alternative.



## Tighter Lending Standards for Frontier?

---

- In a word, "yes".
- Still fully committed to existing customers.
- More careful in taking on new customers.
- Our lending standards have changed very little – but more loans are being reviewed by our loan committee to ensure consistent credit philosophy.



## The Dollar, Interest Rates, and More...

---

- The Fed continues the policy of a weak dollar
- Among other things, Real Interest Rates affect the dollar's value
- Real Interest rates = Nominal (stated) Rate - Inflation
- While inflation is low (today) the Fed is committed to very low rates at the short end of the yield curve



## The Value of a Dollar

---

- US Dollar enjoyed a “flight to quality” during the liquidity crisis
- Bearish sentiment then took over and the dollar continued its long-term trend downward versus other major currencies (Fundamentals)
- Q4 of 09 the dollar was over-sold and experienced a contrarian rally (Technicals)



## Low Rates, Weak Dollar

---

- Weaker dollar is generally good for commodities
- Takes more dollars to purchase goods
- Exports benefit
- Oil and Gold lead commodities



## 2010 Good for Commodities?

---

- Supply and Demand ultimately drive prices
- If rates stay low and dollar is weak, commodities could benefit
- Ultimately we need economic activity to pick-up
- Volatility is ever-present
- Beware of “shocks” to the system



## Manage “Both” Sides

---

- Know your cost of production
- If marketing output, consider locking input prices and vice versus
- Utilize risk mitigation tools and techniques



## Case Study

---

- Q3 10 Fed raises rates
- Dollar immediately strengthens
- Commodities decline in reaction to weaker dollar
- If this occurs during the fall, some producers will have their input costs set but may be exposed on their growing crop (output)



# Questions?

---

Janet McPherson, Vice President, Marketing & Communications  
785-587-8206 x2902  
[janet.mcpherson@frontierfarmcredit.com](mailto:janet.mcpherson@frontierfarmcredit.com)

Dennis Fike, Sr. Vice President, Credit  
785-776-6955 x2816  
[dennis.fike@frontierfarmcredit.com](mailto:dennis.fike@frontierfarmcredit.com)

Tony English, Chief Financial Officer  
785-587-8206 x2925  
[tony.english@frontierfarmcredit.com](mailto:tony.english@frontierfarmcredit.com)

