

Ag Risks – Impact on Ag Lending

1st Farm Credit Services

Normal, Illinois



Key Risks We Manage Today

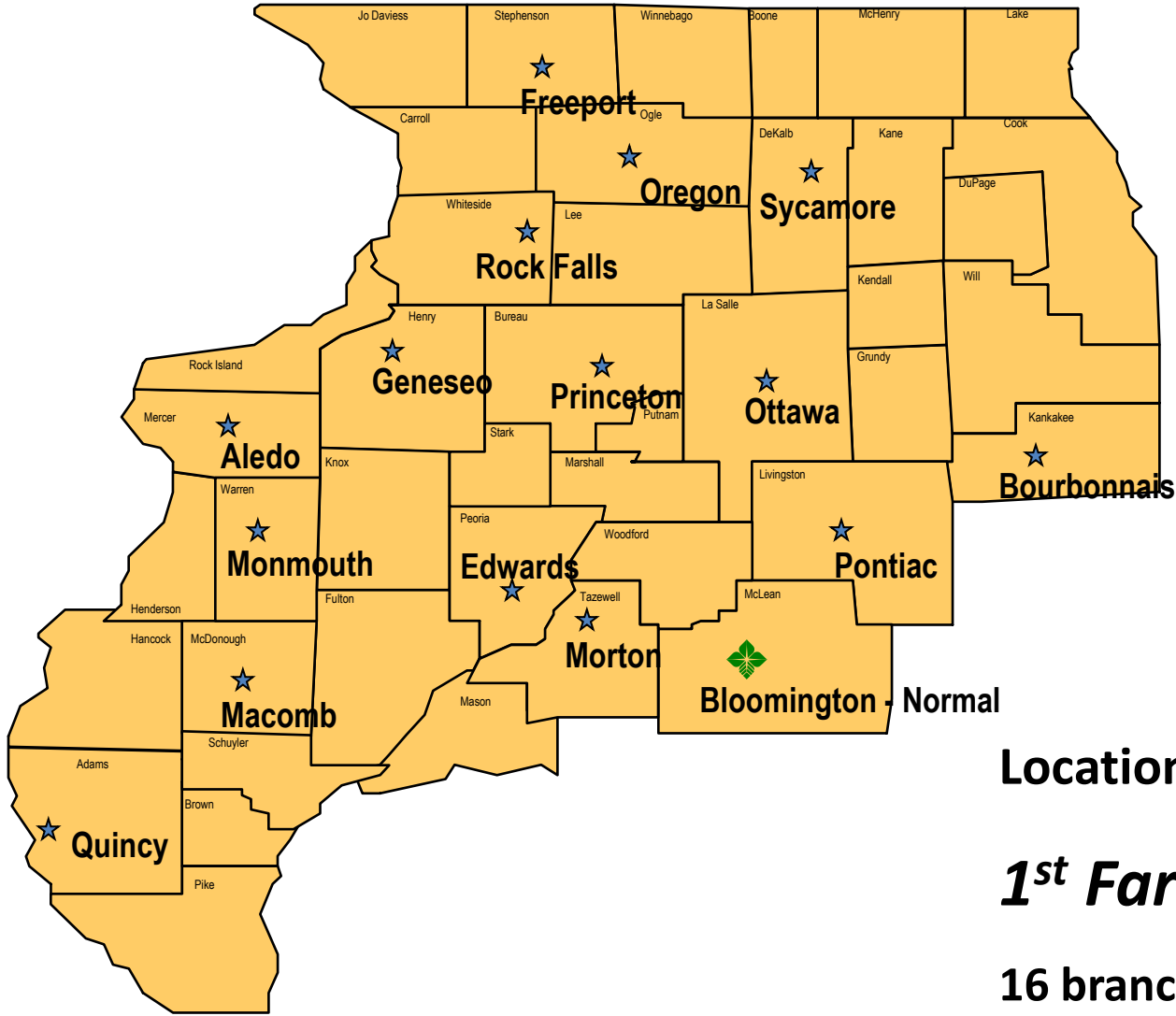
- Concentration risk
- Underwriting risk
- Collateral risk
- Spread/earnings risk
- Human capital risk
- Reputation risk
- Technology security
- Regulatory risk



My Comments today will focus on how we manage :

- Concentration Risk
- Underwriting Risk
- Collateral Risk





Location of

1st Farm Credit Services

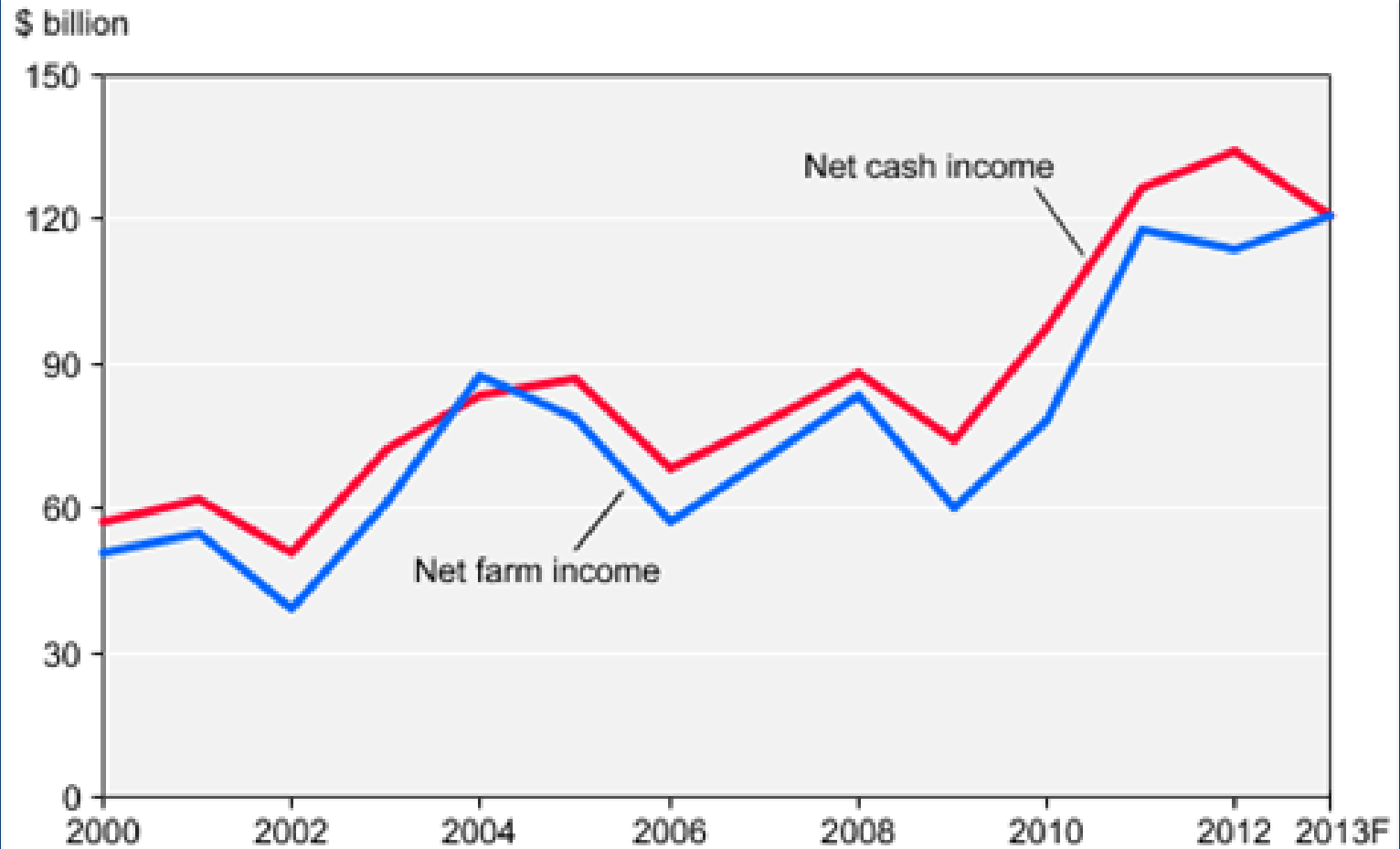
16 branch offices



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Net farm income and net cash income, 2000-2013F



F = Forecast.

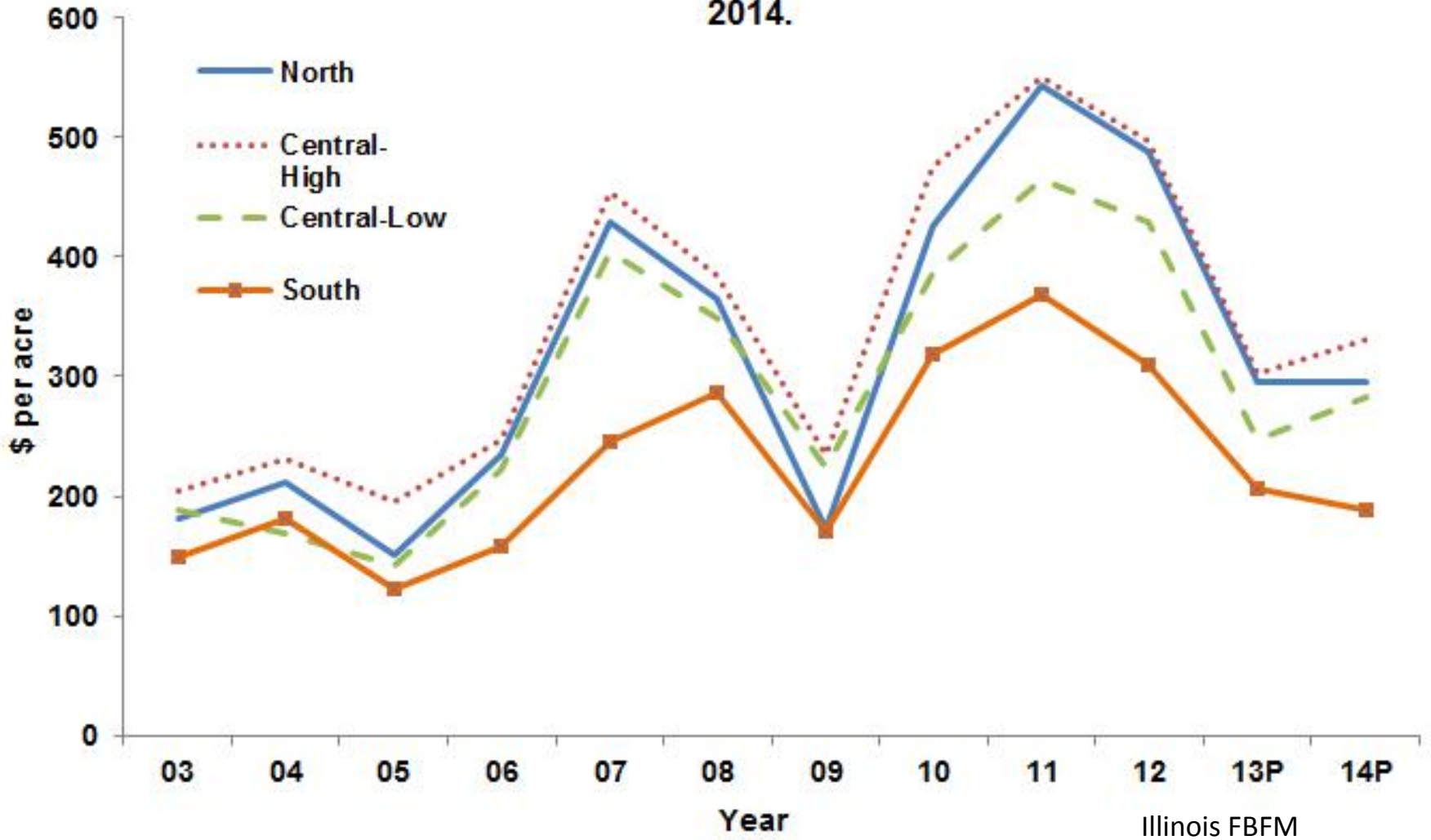
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of August 27, 2013.

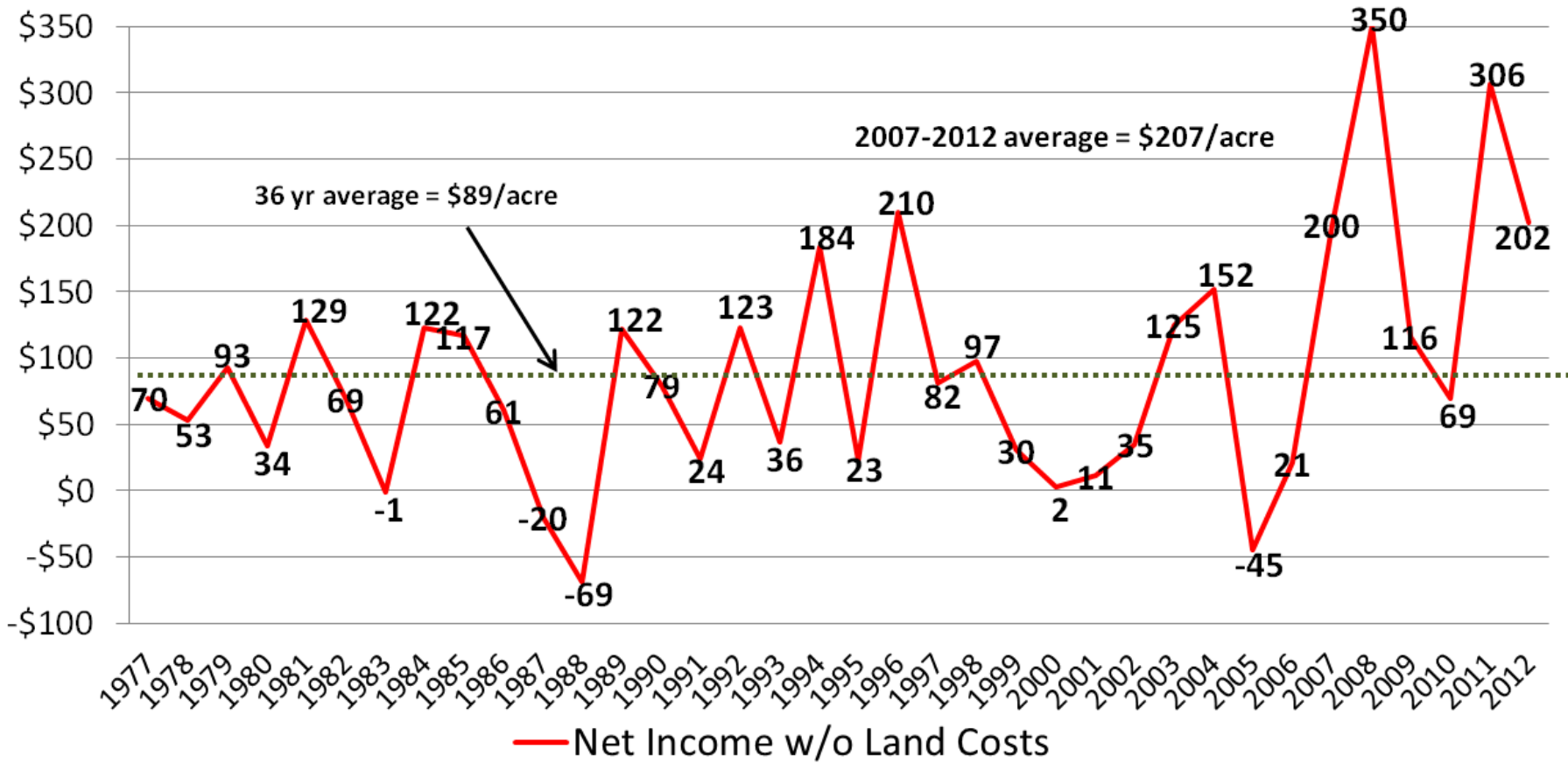


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Figure 1. Actual and Projected Operator and Farmland Returns for Regions of Illinois, Actual for 2003 through 2012, Projected for 2013 and 2014.



Net Income w/o Land Costs (FBFM - Northern IL Corn)



Marketplace Industry Segments

Top 5 Commodities, 2011 (USDA)

	Corn/Soybeans	Hogs	Cattle	Poultry	Dairy	Other
Illinois	81.6%	7.2%	3.1%		2.0%	
Iowa	57.9%	22.4%	11.4%	3.1%		
Minnesota	50.6%	14.2%	7.0%		9.7%	
Indiana	66.8%	10.3%		3.6%	6.2%	
Ohio	56.5%	7.4%		5.1%	11.5%	
Missouri	44.7%	10.1%	16.9%	4.0%		
Wisconsin	25.1%		10.5%		44.7%	2.2%
Michigan	33.5%		5.4%		22.1%	7.4%

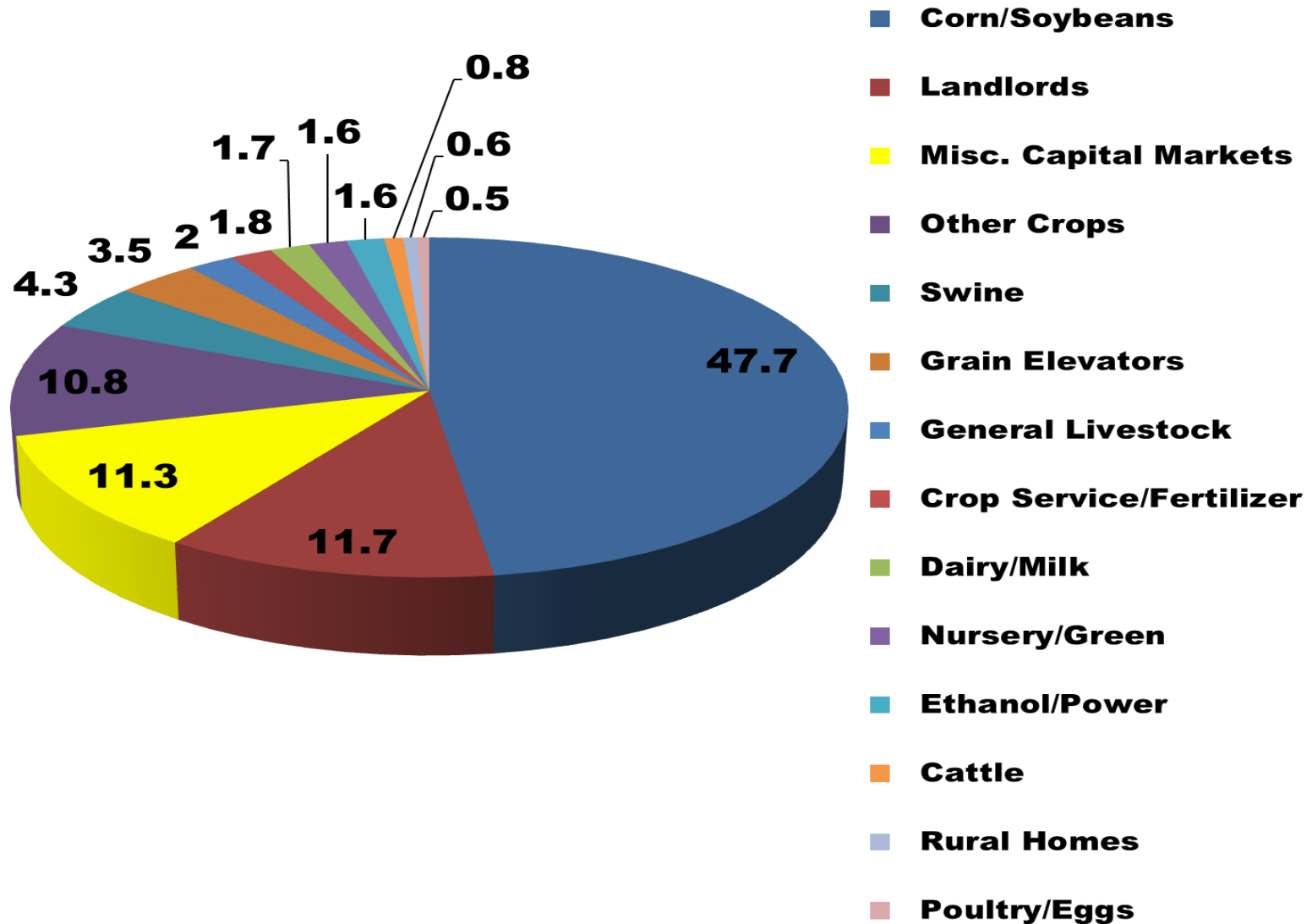


Managing Concentration Risk

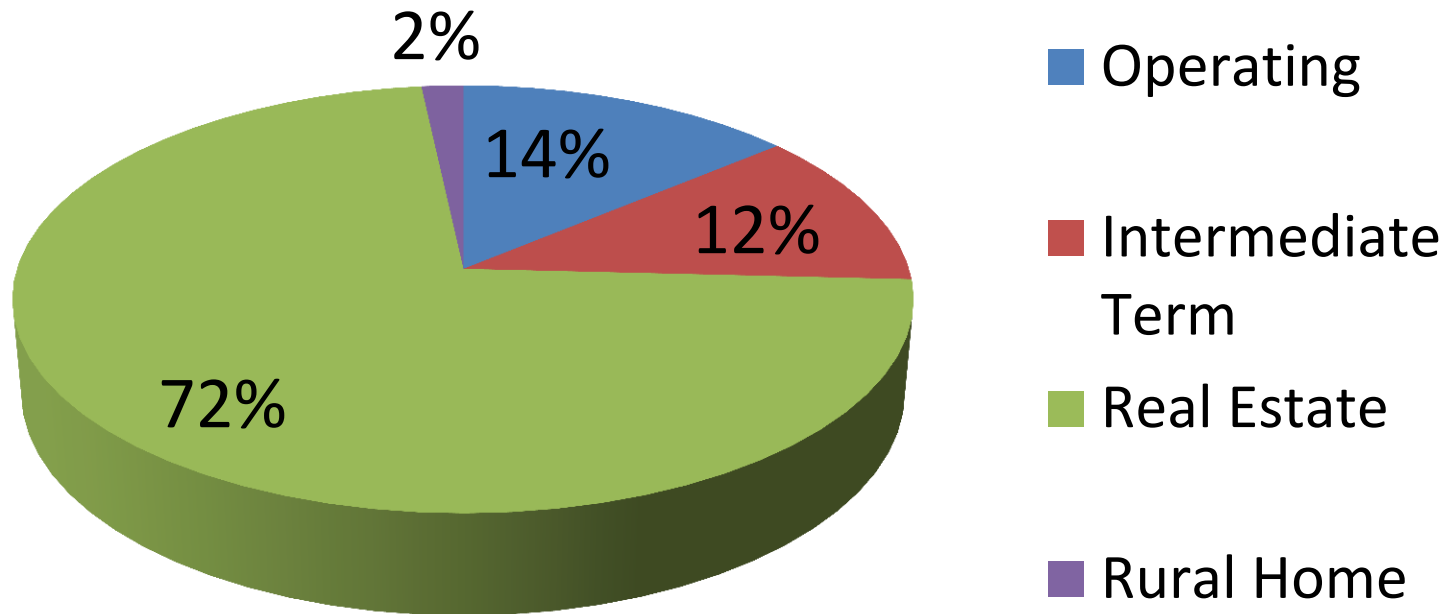
- Seek diversification of Assets & Income
- Participate loans to transfer/share risk
- Keep hold limits well below regulatory limit
- 3 resources on staff focused on portfolio management.
- Portfolio management guidelines
- Stress testing – black swan events
- Strong capital position
- Conservative underwriting
- Crop Insurance and Gov't loan guarantees



1st FCS Portfolio Industry Segments



1st FCS Portfolio Loan Segments



Credit Underwriting



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Managing Underwriting Risk

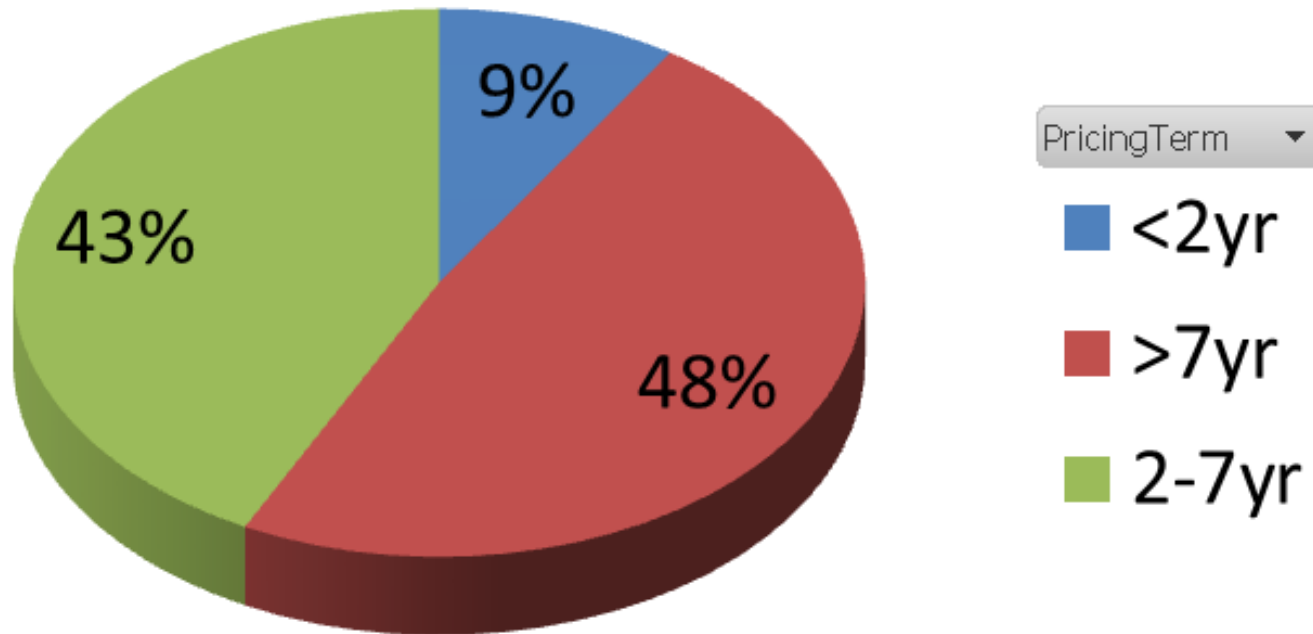
- Specialized staff
- Granular PD rating process
- Discounting pro-forma capacity analysis.
- Most r/e assets on borrower Balance Sheets valued below market
- Track and manage underwriting exceptions
- Locking in longer term rates on R/E portfolio
- Loan terms
- Internal audit validation process.



Interest Rate Term

Principal

Farm R/E Portfolio - Total Principal



Collateral Risk

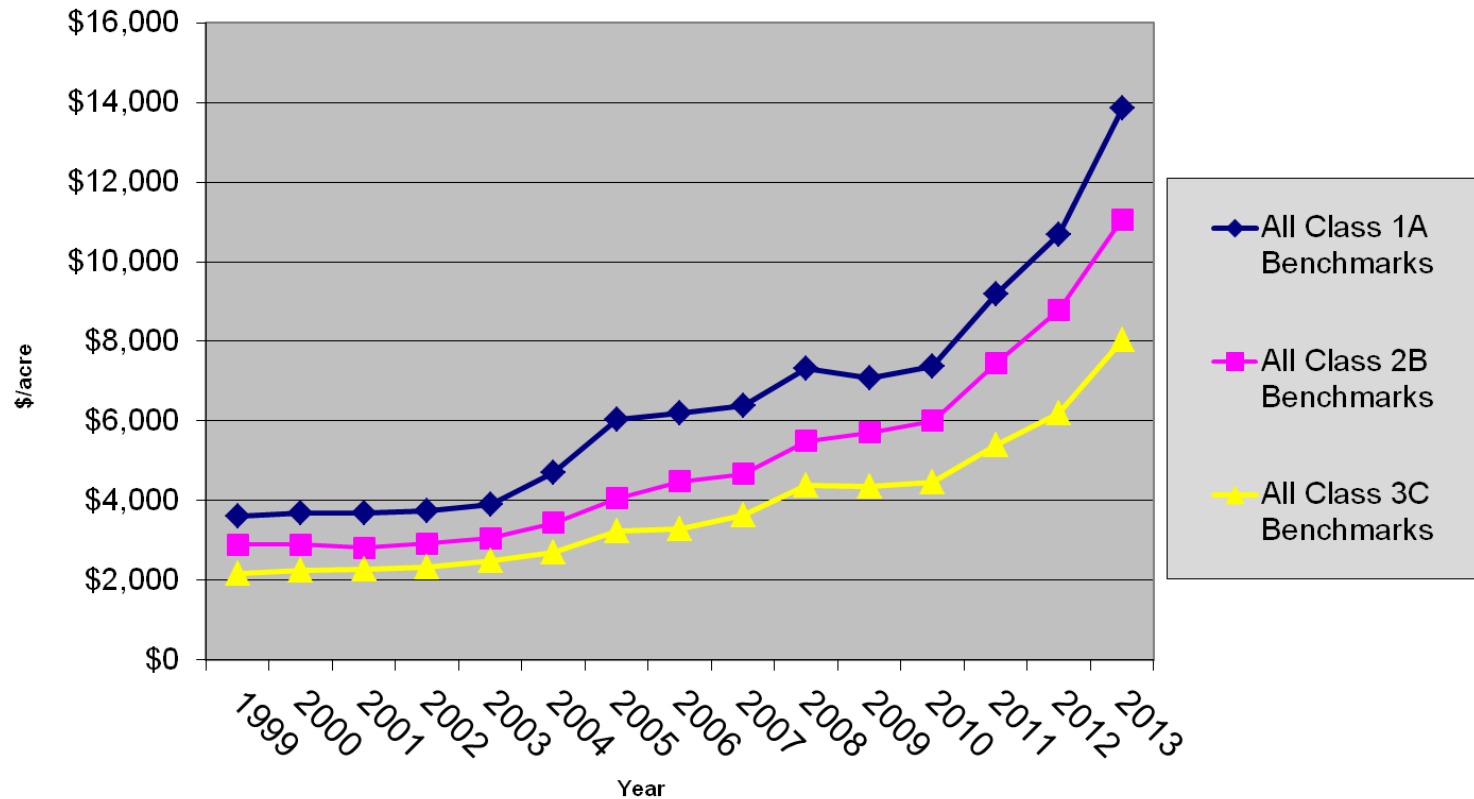
(R/E portfolio)



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1st Farm Credit Services Benchmarks 1999-2013

19 Farms – 26 year appraisal history



BENCHMARKS	2013		3 Yr	5 Yr	10 Yr
	Per Acre	Change	Change	Change	Change
All Class 1A Benchmarks	\$13,864	30.3%	50.4%	93.3%	260.6%
All Class 2B Benchmarks	\$11,064	26.5%	50.0%	101.3%	264.3%
All Class 3C Benchmarks	\$8,042	30.1%	48.2%	87.8%	227.6%
All 1st FCS Benchmarks	\$10,902	27.9%	47.6%	90.5%	252.7%



Managing Collateral Risk

- Specialized appraisal staff
- Benchmark Farm System allows us to maintain updated EMV's (estimated market values) on majority of R/E loans.
- Limit loan amortization and require more frequent payment schedule.
- Debt per acre guideline, and sliding amortization term and L/AV rule as land value/acre increases
- Cross - collateralize loans
- Low avg. L/AV and avg. loan term
- Test portfolio exposure with 40% & 60% decline.

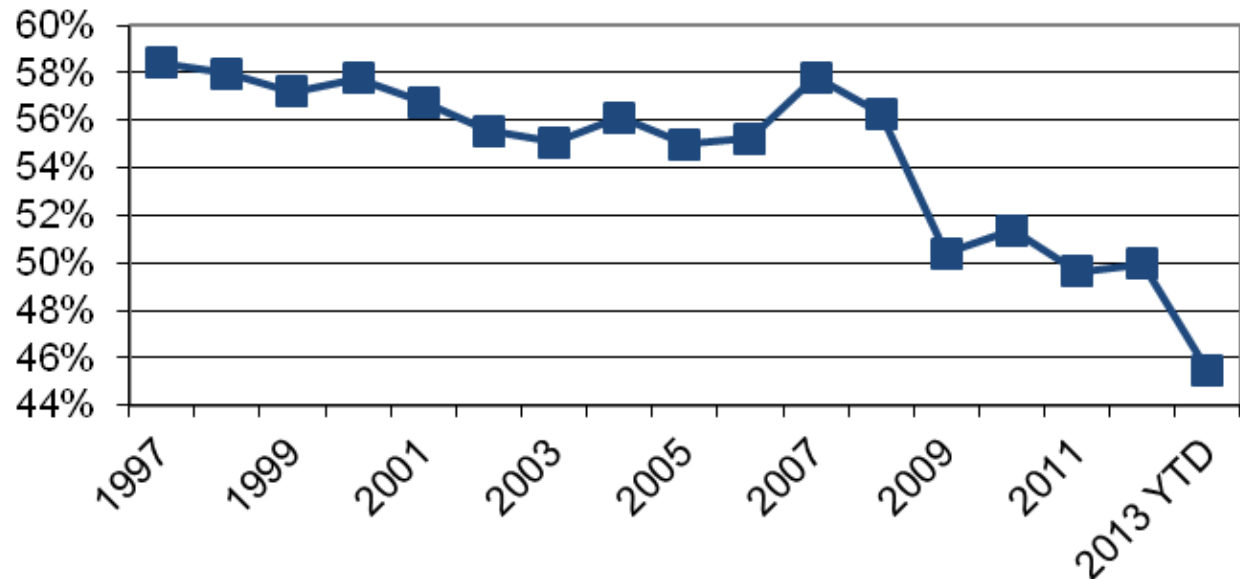


1st FCS R/E portfolio 6/30/2013

Year Loan Originated

L/AV+TERM	2007	2008	2009	2010	2011	2012	2013 YTD
<90	70.5%	69.6%	91.8%	90.2%	92.7%	93.6%	94.8%
90-95	13.8%	16.5%	6.6%	7.9%	5.4%	5.1%	5.0%
>95-100	12.1%	13.1%	1.5%	1.6%	1.5%	0.9%	0.2%
>100-105	1.5%	0.5%	0.1%	0.1%	0.0%	0.0%	0.0%
>105	2.1%	0.2%	0.0%	0.2%	0.5%	0.4%	0.0%
AVG L/AV+TERM	76.0	77.3	69.8	71.2	69.2	70.0	64.4

Average L/AV by Year Loan Originated



1st FCS R/E Portfolio 6/30

1st FCS Real Estate Portfolio 6/30/10								
	Remaining Term	0-5	5-<10	10-<15	15-<20	20-25	>25	Grand Total
L/EMV	<25%	1.9%	4.5%	7.1%	4.6%	1.6%	0.7%	20.3%
	25%σ<50%	1.0%	5.4%	10.2%	13.6%	6.4%	5.1%	41.8%
	50%σ<65%	0.3%	3.2%	5.0%	9.7%	4.3%	4.5%	26.9%
	65%σ<75%	0.1%	1.3%	1.7%	4.9%	1.3%	0.8%	10.0%
	>75%	0.0%	0.0%	0.1%	0.4%	0.1%	0.2%	0.9%
Total		3.3%	14.4%	24.1%	33.2%	13.7%	11.4%	100.0%

1st FCS Real Estate Portfolio 6/30/13								
	Remaining Term	0-5	5-<10	10-<15	15-<20	20-25	>25	Grand Total
L/EMV	<25%	1.9%	5.8%	8.5%	8.1%	4.7%	3.0%	32.1%
	25%σ<50%	1.4%	5.4%	8.3%	21.0%	8.9%	7.6%	52.5%
	50%σ<65%	0.3%	2.5%	2.2%	4.2%	2.0%	1.6%	12.9%
	65%σ<75%	0.0%	0.1%	0.6%	1.2%	0.3%	0.1%	2.3%
	>75%	0.0%	0.1%	0.2%	0.0%	0.0%	0.0%	0.3%
Total		3.7%	13.9%	19.9%	34.4%	15.8%	12.3%	100.0%

Looking forward – 2014-2016

- Grain producer incomes declining
- Commodity price declines, lagging input cost declines
- Expect interest rates to increase
- Farm r/e values could decline 15-30%.
- Crop insurance coverage – remains a critical risk management tool.

