

Harvest

The Leasing Alternative

Q2 profits above 2009

New Heartland Regional VP,
Byron Enix

Summer 2010



American AgCredit

MONEY FOR AGRICULTURE



American AgCredit
MONEY FOR AGRICULTURE

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Creating efficiency in customer communications

In an effort to consolidate costs and improve direct communications, American AgCredit now offers two 800-numbers for customers so that they can reach anyone at any office for an extended time.

Local, branch-specific 800 numbers have been eliminated. We now have region-specific 800 numbers. For customers in Kansas and Oklahoma (Central Time), customers can call 800-466-1146 and get routed directly to the office or individual they need. For customers in California and Nevada (Pacific Time), the administrative 800 number remains the same, 800-800-4865.

In fact, any customer can call either 800 number and be transferred seamlessly to any office. This is a great advantage since the use of the alternate 800 number creates extended office hours—with a live person answering the telephone—throughout all four states.

Each branch still has its own direct phone number, but it's important to note that many of our loan officers and insurance agents have direct extensions as well. So if our helpful support staff can't find the person you need right away, you can always call them directly on their office line. Another option is to send an email, which now goes directly to all loan officer cell phones.

We're here for you and look forward to serving you better and more efficiently!

For former Heartland customers, old branch 800 numbers are now routed to an automated notification system letting them know that those numbers have changed to a single source: 800-466-1146. All calls can be seamlessly transferred to and from any office. Just let us know who you need to talk to.

Online banking changes

Beginning October 2010, American AgCredit is adding Adaptive Authentication to its online banking security experience. Adaptive Authentication doesn't take the place of your secure User ID and Password, but will operate in addition to these standard security tools.

By doing more than authenticating user credentials at login, this new layer of security ensures the most protection for your financial data.

We're adding another layer of security to your online banking account



New security tools

SECOND LAYER OF SECURITY—In addition to your Username and Password at login, Adaptive Authentication provides a secondary layer of security for your financial records and transactions.

SECURITY IMAGE AND CAPTION—You will be asked to select a security image and provide a caption, which will help you to verify that you have reached the Online Banking site for American AgCredit.

CHALLENGE QUESTIONS—When setting up Adaptive Authentication, you will be provided with a group of Challenge Questions. You will select three questions and provide the answers, which will allow you to log in from multiple computers and locations.

LOGIN IDENTIFICATION—If you log in from a different computer or other location, you will be asked to authenticate yourself by answering one of your challenge questions. This creates an additional step for identification and security.

Steps to set up your new security

- Go to Online Banking and enter your Username
- Online Banking verifies the Username is valid and will present a screen allowing you to select a security image and key in a caption that will go with the image. At this screen you will also enter your password.
- A new screen will appear and you will be asked to choose three challenge questions and key in your answers.

The above steps are one-time events. This process will take place the first time after Adaptive Authentication has been installed. After setting up your Image, Caption and Challenge Questions, you will have the ability within Online Banking to modify any of the above anytime you want.



A message from
Ron Carli, President & CEO



Strong yields bring healthy gains

Heading into the second half of the year, we can safely predict that 2010 will be a strong income year. Earnings have been solid, although growth has slowed—not only for us but for the Farm Credit System as a whole as well as for many other financial institutions.

The Association had net income of \$8.6 million in August. Year-to-date net income is now \$55.4 million. In addition, Crop Insurance premiums added \$800k in income for the month.

Based on overall economic factors we believe rates will remain relatively low for a period of time. 2010 will sum up to be a solid year, building on our strong capital base as we move forward to 2011.

Commodity News

GRAPES—The 2010 harvest is just beginning. The crop is currently two to three weeks behind a normal growing season. The cool weather, wind and rain experienced throughout California in May will most likely result in a lower overall crop size, which is expected to be average to slightly less than average. In addition, as the cool weather has continued in California throughout the summer additional fruit has likely been dropped as growers try to ripen their fruit. Recent heat-spikes have also caused significant damage to the crop, although the overall impact is unknown. Of course not all areas and varieties will be affected equally.

CATTLE - Overall profitability in the cattle industry has been notably stronger in 2010 than in recent years. Underlying this improvement is reduced supplies due to a shrinking cow herd and strong export demand. Fed cattle prices have improved substantially from \$82—\$87/cwt range during 2009 to \$99 - \$100/cwt in recent weeks.

CORN & GRAINS —The corn harvest is getting underway in the Heartland Region and crop conditions are generally favorable. Hot, dry weather during August may have reduced yields somewhat but overall yields will still be strong. Grain prices have surged in recent weeks. Wheat stocks are at his-

toric lows and news of the crop failure in Russia added fuel to the speculative increase in prices.

DAIRY —The dairy sector is benefiting from improved milk prices over last quarter, driven largely by strong demand for cream, increased domestic consumption of dairy products and increased export sales. As of this writing, butter prices are at their highest level since 2004 and cheese, the highest since December 2008. Unfortunately, increasing feed prices, driven by strong demand for corn, has limited to varying degrees the positive effect of higher milk prices on individual producer profits. While results for 2010 are certainly expected to show considerable improvement over 2009, there remains plenty of uncertainty as to the timing of a full industry recovery.

NUT TREE CROPS —The harvest season is here for the nut tree crops (primarily almond and walnuts), with record sized crops again being forecast. Price outlooks are good, with demand keeping inventories at acceptable levels. The wet spring negatively impacted the early season fruit tree crops (primarily cherries and early season peaches) after they set good crops. The late season crops (apples, and mid and late season peaches) look promising, but the wet spring set them back a couple of weeks.

Association News

There are a lot of changes in the air for us as well. The Santa Rosa branch will be relocating later this year to its own stand-alone facility. In addition, we're streamlining our financial accounting system to ensure a solid platform for the future. In Kansas and Oklahoma, I think most of you have had chance to see our new truck, affectionately known as Aggie #2, the sister to our CA/NV truck Aggie #1. Combined with new signage throughout the Heartland Region, we have a pretty strong brand and our name is out there.

More news to come in the Fall/Winter edition. In the meantime, Happy Harvest to all.

Net interest income was \$11.0 million compared to \$10.7 million in July. YTD income now exceeds the income earned for all of 2009.

H stock increased \$8.4 million during the month to a balance of \$126.9 million.



A Capital Lease works well for the business owner that wants 100% financing with the benefit of depreciating the asset. For the True Lease, businesses can typically write-off the lease payments as “equipment rent” expense over a shorter period than the depreciable life of the asset. This allows for a quicker write-off of the asset for tax purposes. In both cases, there is no need for a large down payment and many items from multiple vendors can be leased – all billed on one convenient invoice.

Examples

Many American AgCredit customers have already been utilizing this alternative to improve their operations. One of the largest solar installations was recently leased to a customer in Southern California. The \$6 million project was set up on a 10-year-term with a 20% FPO/PRO residual. The lease allowed for progress payments to be made to the various vendors throughout the construction phase, then converted to a fixed rate lease once the project was completed. The customer was able to expense the lease payments as “equipment rent” for accounting and tax purposes. The incentives and rebates offered by the government and power company were priced into the lease as well. The customer was pleased to have a fixed payment and consistent tax write-off for the duration of the lease. The project also allows for a constant, predictable cost and reliable source of electrical power for many years to come.

Lease Lines of Credit are very useful tools for the mid level to larger agribusinesses. Many operations have annual acquisition plans for their equipment needs each year. Once the equipment needs for the upcoming year are identified, customers can come in and set up a Lease Line of Credit. We can set up individual lease contracts for items acquired throughout the year and each contract can have its own term and residual value. We can place the larger items (harvesters, high HP tractors, irrigation equipment, etc.) on a longer term lease and some of the smaller items (pickups, implements, etc.) can be set up using a shorter term lease. The customer receives one bill each month with multiple items listed and each item can be set up on a different contract length, payment due date, or residual option. Payment processing and cash flow planning becomes much easier.

In the Heartland Region of American AgCredit, leasing is most used for commons items such as metal

Leasing

—the effective option

Contributions from Brent Plemmons, Assistant Vice President, Leasing Services, and Debbie Prairie, Farm Credit Leasing. Additional information provided by Craig Wamsley, VP Corporate, Heartland Region

In today's economy, cash is king. And with cash flows tighter than ever, many ag businesses are looking for good ways to conserve cash while still investing in new equipment, buildings and facilities. Leasing should be a key consideration whether cash flow is healthy or tight because it can provide options that buying doesn't. And while both can be positive to your ag business, evaluating which is best for you at this time means evaluating what you need, how it will affect your operation, and, most importantly, how it will affect your cash flow.

First, it's important to know what equipment you need and if it can be leased. Most equipment related to production agriculture can be leased. Some of the more commons items leased through American AgCredit include tractors, self-propelled sprayers, vehicles/trucks, combines, grape harvesters, wine barrels, metal buildings, irrigation equipment, solar equipment and much more.

Second, your loan officer can help you to evaluate the long-term costs and benefits of buying versus leasing. Leases can be set up as Capital Leases (customer depreciates the asset) or True Leases (customer expenses the lease payments). In both cases the asset is 100% financed and the customer can structure the lease on a term and payment plan that best fit the cash flows for their type of business.

buildings, grain storage bins, combines, large tractors and self-propelled sprayers. A metal building with a MACRS life of 20-25 years can be expensed over 5-10 years through leasing. The asset is 100% financed and payments can be structured so they are due when cash flow is most plentiful.

FleetPartner is another program offered by American AgCredit and Farm Credit Leasing. Farm Credit customers can factory-order everything from pickups, SUV's and autos to medium and heavy-duty trucks. FleetPartner orders vehicles of all types for many Farm Credit Associations throughout the U.S., which means that our customers can reap the benefits of national volume discount pricing when placing an order for as few as a single vehicle. Many existing customers take advantage of this program because they can order a vehicle equipped exactly as needed at a price that's very competitive. For Cab-Chassis and larger trucks, we can ship the vehicle to a national or regional body company or can have it sent to a local machine shop to fabricate the bed or body. The truck and body are combined on one lease contract which makes it simple and easy for the customer. Contact your local loan officer or additional details about the FleetPartner program.

Overall, leasing is ideal for machinery requiring heavy use, or if you need to stay current with advanced technologies. As part of the Farm Credit System, we have a wide spectrum of programs and services tailor-made to help you improve your operations. Contact your loan officer today and see what we can do for you.

Benefits of Leasing

COMPLETE FINANCING (100% of costs): No down payment plus leases typically include the cost of freight, installation, and sales tax. Financing 100% of these costs help improve working capital and frees up cash for other important uses within the business.

PAYMENT CONTROL: If a customer has a fixed capital budget and needs a certain sized payment, we can tailor a lease term, residual, and custom payment program to achieve this goal.

CASH FLOW: If a customer has an irregular revenue stream we can adjust the payments to match their cash flow requirements, thereby eliminating the need for a line of credit to meet irregular cash needs.

INCOME TAX BENEFIT: If the customer cannot use the depreciation, the lessor depreciates the asset and this can result in reduced lease payments. Another possible alternative is to schedule the lease rentals so they do not start until the next tax year in order to delay the tax deductions if necessary.

INCREASE TAX DEDUCTION: Most high tech equipment carries a MACRS term of depreciation longer than the actual useful life of the equipment. Whereas a true lease rental term more closely matches the use term selected by the lessee to the true useful life of the equipment.

MATCH TERM TO USE: By terminating the lease at the correct time of the year, customers can arrange for new replacement equipment delivery at the proper time with fewer distractions.

BETTER DEFINED EXPENSES: Loans may be accounted for differently than leases for the income statement, balance sheet and tax return. Working with your loan officer and accountant to determine how to best structure a lease can help maximize the benefits for your individual operation.



DEFINITIONS

FPO - Fixed Purchase Option*

PRO - Purchase or Renew Only*

MACRS - Modified Accelerated Cost Recovery System: A method of tax depreciation introduced by the Tax Reform Act of 1986 and applicable to most equipment placed in service after 1986

* Both are end-of-lease options as to how the residual will be treated

Financial Statements

(Unaudited
and in \$000s)

Locations



STATEMENT OF CONDITION

ASSETS

	June 30		Dec. 31	
	2010	2009	2009	2008
	Unaudited	Unaudited	Audited	Audited
Loans	\$4,535,765	\$3,756,236	\$4,747,370	\$3,783,018
Less: allowance for loan losses	(22,183)	(15,383)	(12,293)	(8,843)
Net Loans	4,513,582	3,740,853	4,735,077	3,774,175
Investment in the U.S. AgBank	119,327	99,143	119,327	99,143
Investment in CoBank	13,598	11,526	11,622	10,005
Accrued interest receivable	49,581	33,059	44,792	31,303
Premises and equipment	30,088	23,430	27,829	22,150
Other Property Owned	12,988	162	4,626	162
Other Assets	25,159	15,104	39,901	13,587
Total Assets	\$4,764,323	\$3,923,277	\$4,983,174	\$3,950,525

LIABILITIES

Note payable to U.S. AgBank	\$3,647,865	\$3,155,288	\$3,925,037	\$3,158,343
Funds Held Accounts	10,639	8,912	7,001	5,000
Accrued interest payable	8,591	6,769	17,598	8,461
Other liabilities	68,921	21,284	58,640	37,538
Total Liabilities	\$3,743,816	\$3,192,253	\$4,008,276	\$3,209,342

MEMBERS' EQUITY

Common stock and participation certificates	\$6,627	\$3,215	\$6,722	\$3,234
Preferred stock	121,655	96,865	116,286	125,422
Additional Paid in Capital	206,226	—	206,226	—
Unallocated retained earnings	686,000	630,944	645,664	612,527
Total Members' Equity	1,020,507	731,024	974,898	741,183
Total Liabilities and Members' Equity	\$4,764,323	\$3,923,277	\$4,983,174	\$3,950,525

STATEMENT OF INCOME

Unaudited	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Interest income	\$61,168	\$46,503	\$121,764	\$92,113
Interest expense	(26,680)	(20,652)	(52,877)	(42,026)
Net interest income	34,488	25,851	68,887	50,087
Other income	2,866	2,175	19,725	8,065
Loan Loss (Provision)/Benefit	(6,057)	(1,879)	(12,761)	(11,009)
Operating and other expenses	(16,777)	(14,520)	(35,636)	(29,924)
Income before taxes	14,520	11,627	40,215	17,219
Benefit/(Provision) for income taxes	(451)	555	258	1,453
Net income	\$14,069	\$12,182	\$40,473	\$18,672

CENTRAL REGION

PETALUMA, CA	(707) 793-9023
SANTA ROSA, CA	(707) 545-7100
ST. HELENA, CA	(707) 963-9437
UKIAH, CA	(707) 462-6531

CENTRAL VALLEY REGION

MERCED, CA	(209) 384-1050
OAKDALE, CA	(209) 847-0353
TURLOCK, CA	(209) 667-5101

INTERMOUNTAIN REGION

ALTURAS, CA	(530) 233-4304
ELKO, NV	(775) 738-8496
FALLON, NV	(775) 423-3136
RENO, NV	(775) 825-7282
TULELAKE, CA	(530) 667-4236
YREKA, CA	(530) 842-1304

NORTHERN REGION

EUREKA, CA	(707) 445-8871
LAKE OSWEGO, OR	(503) 639-7563
ROSEVILLE, CA	(916) 784-1060

SALINAS REGION

SALINAS, CA	(831) 424-1756
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SOUTHERN REGION

INDIO, CA	(760) 342-4726
ONTARIO, CA	(909) 947-2371
TEMECULA, CA	(951) 296-0175

STOCKTON REGION

STOCKTON, CA	(209) 944-7478
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HEARTLAND REGION

(800) 466-1146	
CONCORDIA, KS	(785) 243-4689
EL DORADO, KS	(316) 321-2707
HUTCHINSON, KS	(620) 663-3305
KINGMAN, KS	(620) 532-5102
LARNED, KS	(620) 285-2193
PONCA CITY, OK	(580) 765-5690
PRATT, KS	(620) 672-7406
SALINA, KS	(785) 825-4641
WICHITA, KS	(316) 721-1100

New Heartland Senior VP – Byron Enix

With last year's merger, American AgCredit brought on board Byron Enix as new Senior Vice President-Credit for the Heartland Region.

Byron joined Farm Credit in 1984 with his first position in the Vinita, Oklahoma, Federal Land Bank Association. He later went on to become the Branch Manager of the Stillwater, Oklahoma, Farm Credit office. In 1996 Byron moved to Colorado to join the Mountain Plains Association and served in several credit positions including Administrative VP of Lending until 2006 when he became the Chief Financial Officer for the company. Now, Byron will bring his forward-thinking expertise to American AgCredit.

"I'm very excited to be a part of an Association that is successfully putting together a model that will serve agriculture over the long-term," he said. "Fifteen years from now agriculture will look

much different, and American AgCredit is creating an Association that is prepared to serve farmers and ranchers not only today but also into the future."

Byron grew up in Wichita, Kansas, where he was active in 4-H and sports, and is proud to have worked at Sheplers Western Store in his youth. He received Bachelor of Science degrees from Oklahoma State University in Agricultural Economics and Accounting.

Byron and his wife Carol have been married for 26 years and have three daughters—Angela, Elaine, and Diane. In his off time, Byron enjoys spending time with his family, playing golf, fishing, and serving at his church.

We are fortunate to have Byron on our team and know that he will bring tremendous insight and experience to the American AgCredit team.



AG FACTS

Data compiled from the 2007 USDA AgCensus and encyclopedia sources

CALIFORNIA

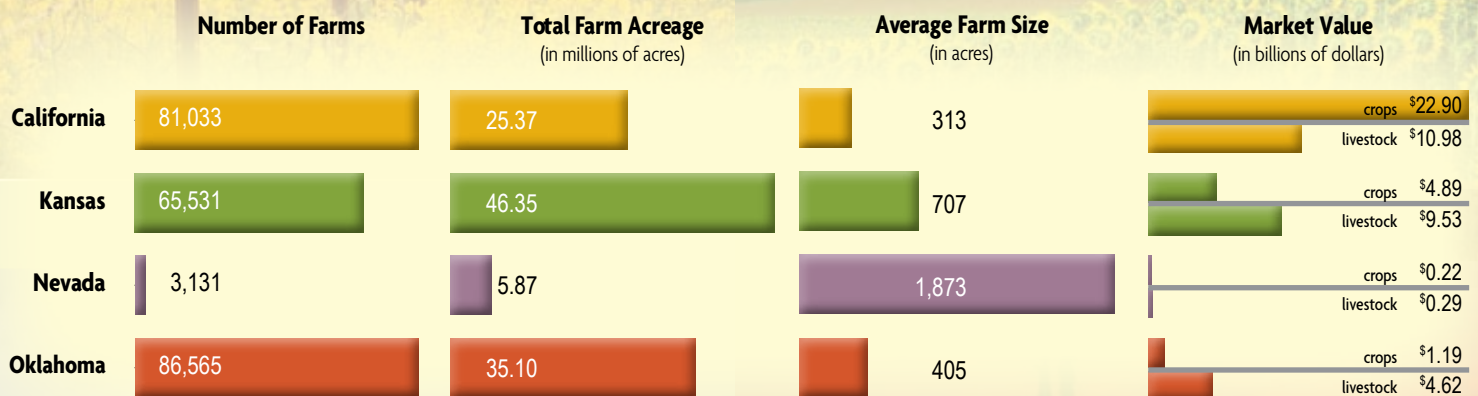
The Golden State

California is the 8th largest economy in the world, and is the 3rd largest state by land area. The state is the world's 5th largest supplier of food and agriculture commodities. The industry includes more than 400 commodities and generates \$100 billion in related economic activity, making it more than twice the size of any other state's agriculture industry. The state produces nearly half of U.S.-grown fruits, nuts, and vegetables. Milk is California's number one farm commodity.

KANSAS

The Sunflower State

Kansas ranks 8th in U.S. oil and natural gas production. The state is one of the most productive agricultural states, and leads the nation in wheat, grain, sorghum, beef and sunflower production most years. The agricultural outputs of the state are cattle, sheep, wheat, sorghum, soybeans, cotton, hogs, corn, and salt. The state ranks 6th in farm product exports, 2nd in cattle and calf livestock sales.



NEVADA

The Silver State

Nevada is the 7th-largest state and it is the most arid state in the Union. Approximately 86% of the state's land is owned by the U.S. federal government. Nevada primarily produces grains such as hay, wheat and alfalfa, as well as cattle, vegetables (potatoes, onions), and some aquaculture. Range livestock production predominates, with well over half of the farms producing cattle or sheep. Elko County ranks second among all counties in the nation in number of beef cows.

OKLAHOMA

The Sooner State

Oklahoma ranks 2nd in the nation for production of natural gas. The state is the 27th-most agriculturally productive state, ranking 5th in production of wheat and in cattle production. Approximately 5.5 percent of American beef comes from Oklahoma, while the state produces 6.1 percent of American wheat, 4.2 percent of American pig products, and 2.2 percent of dairy products. Poultry and swine are its 2nd- and 3rd-largest agricultural industries.

West Coast Events

SEPTEMBER 24-25
**California Avocado
Society Annual
Meeting**

*South Coast Winery,
Temecula CA*

OCTOBER 7
Taste of the Valley

Turlock CA

OCTOBER 13
**Pacific Egg and Poultry
Assn. Scholarship, Jim
Eastman Golf Tournament**

*Sierra Lakes Golf Course,
Fontana CA*

OCTOBER 16
**Elko County FB
Annual Meeting**

*Biltoki's Restaurant,
Elko NV*

OCTOBER 21
**San Diego County
Farm Bureau Farmer
of the Year Dinner**

*California Center for the
Arts, Escondido CA*

OCTOBER 23
**Churchill County
FB Annual Meeting**

Lattin Farms, Fallon NV

OCTOBER 28
Good Egg Breakfast

*DoubleTree Hotel,
Modesto CA*

NOVEMBER 10-12
**Nevada Cattlemen's
Convention**

*Elko Convention Center,
Elko NV*

NOVEMBER 11
**Stanislaus County
Ag Hall of Fame**

Assyrian Hall, Turlock CA

NOVEMBER 14 - 17
**Western Growers
Association
Annual Meeting**

Grand Wailea, Maui HI

NOVEMBER 16
**Pacific Nut Producer
Expo**

*Stanislaus County
Fairgrounds, Turlock CA*

NOVEMBER 17 - 19
**California Cattlemen's
Association Annual
Meeting**

*John Ascuaga's Nugget,
Sparks NV*

NOVEMBER 18
**Blue Diamond
Centennial Annual
Meeting**

*Sacramento Convention
Center, Sacramento CA*

NOVEMBER 18-20
**Nevada Farm Bureau
Annual Meeting**

*Winnemucca Convention
Center, Winnemucca NV*

DECEMBER 1-2
**Western Alfalfa and
Forage Conference**

*Visalia Convention Center,
Visalia CA*

DECEMBER 4-8
**CA Farm Bureau
Annual Meeting**

*Portola Hotel & Spa/
Monterey Conference
Center, Monterey CA*

DECEMBER 8-9
**38th Annual Almond
Industry Conference**

*Modesto Centre Plaza,
Modesto CA*

Heartland Events

SEPTEMBER 24-27
Kansas Junior Livestock Show

Kansas Coliseum, Wichita KS

SEPTEMBER 25
Fall Festival Parade

Concordia KS

SEPT. 18/25, OCT. 2/16
**Women Involved
in Agriculture Series**

*Hutchinson Community College,
Hutchinson KS*

NOVEMBER 4
Woman in Agriculture meeting

Salina KS

NOVEMBER 9 - 11
Wichita Farm & Ranch Show

Kansas Coliseum, Wichita KS

NOVEMBER 19-21
**Oklahoma Farm Bureau Annual
Meeting**

*Cox Convention Center,
Oklahoma City OK*

DECEMBER 2 - 3
**Kansas Livestock Association
Annual Convention**

Century II Convention Center, Wichita KS

DECEMBER 10-11
State YF&R Committee Meeting

*Oklahoma Farm Bureau Headquarters,
Oklahoma City OK*



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