



Jay Penick

**President and Chief Executive Officer
Northwest Farm Credit Services**

Northwest FCS Perspective

Operating in the Face of Uncertain Credit
June 10, 2009 Webinar

Jay Penick - President & CEO



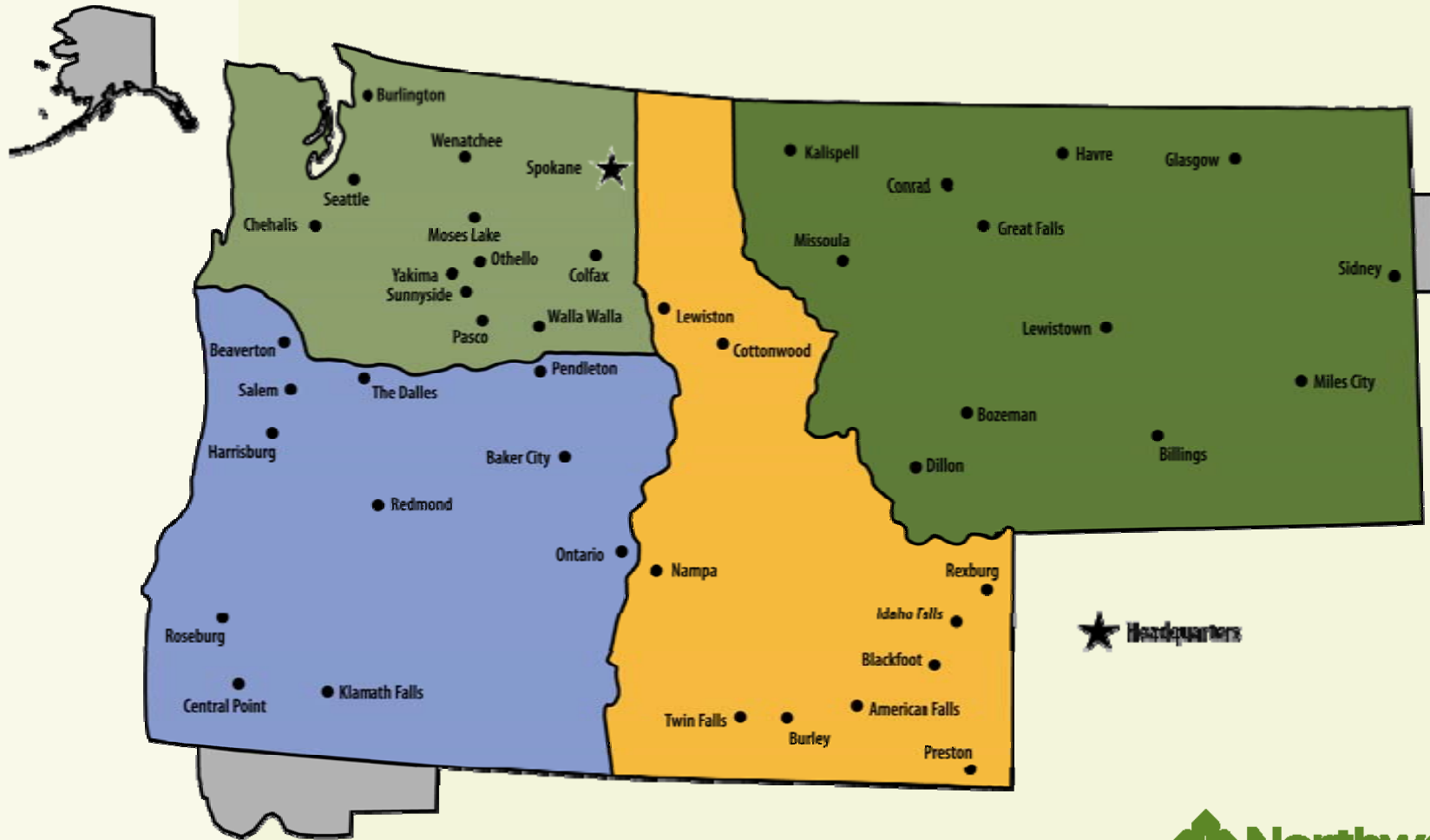
NorthwestSM
FARM CREDIT SERVICES

Advancing Rural America's Success

Northwest FCS Overview

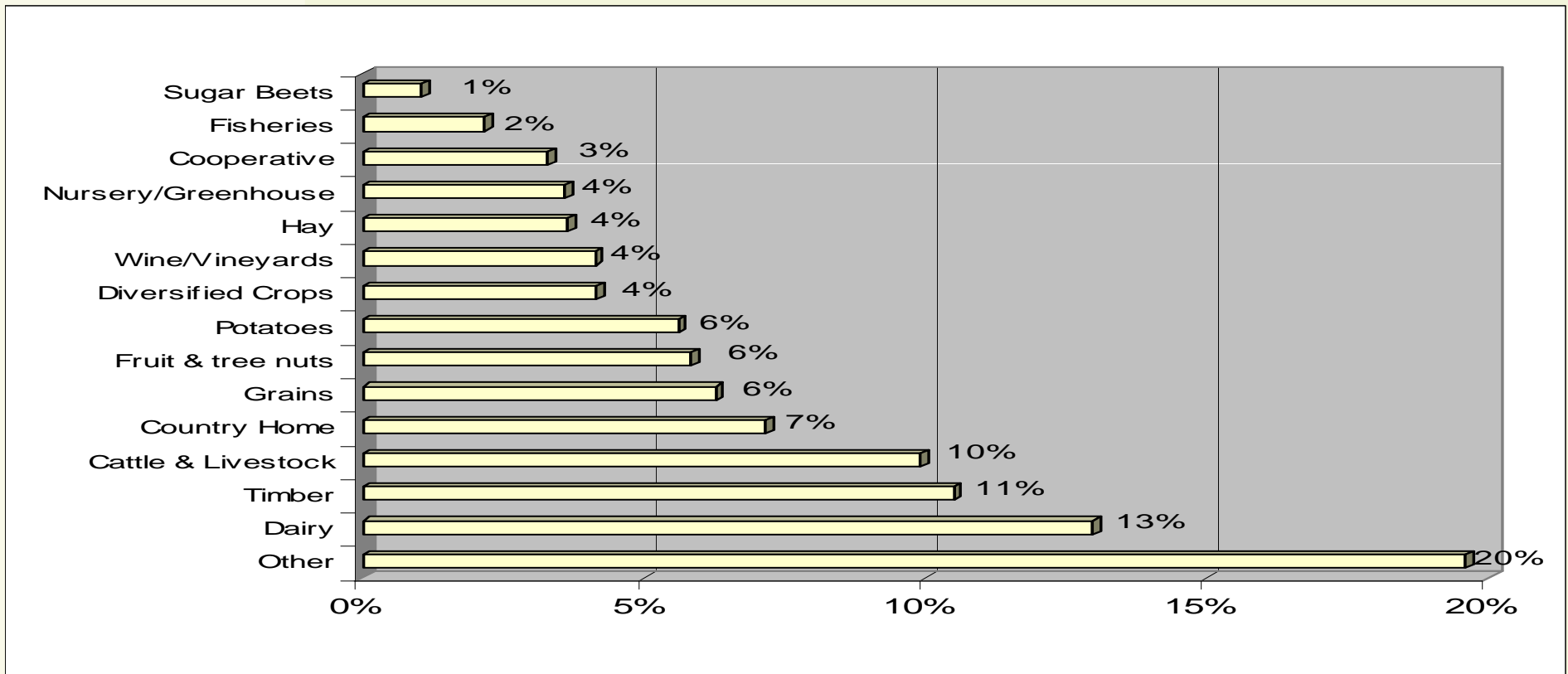
- **Northwest FCS is . . .**
 - A farmer-owned lending cooperative
 - Serving Washington, Oregon, Idaho, Montana, and Alaska
 - With 541 full-time and 33 part-time employees in 47 offices and headquarters
 - Providing \$9.7 billion to 13,000 farmers, ranchers, agribusinesses, aquatic harvesters, timber producers, and rural home owners
 - Financing 32% of the value of farm production in Washington, Oregon, Idaho, and Montana
 - The leading crop insurance provider in the Northwest

Northwest FCS Office Structure



Northwest FCS Portfolio Volume by Commodity

- As of 4/30/09



Last Year

- All commodities, except timber and nursery, were doing very well
- Almost all lenders, including Northwest FCS, were considered very well capitalized
 - Credit quality, delinquencies, and repayment capacity were at all time record levels
 - Debt markets were very easy to access
 - Risk management tools (e.g. credit default swaps) were available to manage loan growth and risk

Last Year

- Every deal included two to three competing lenders
- Interest rate pricing was very competitive
 - Spreads were tight, providing agricultural producers great rates
- Most agricultural commodities were coming off good to very good years, showing excellent repayment capacity

Today

- Stressed agricultural markets
 - Downturns in timber, nursery, poultry, hogs, dairy, and cattle, industries
 - Higher costs and significantly reduced prices
- Ethanol
 - Facing economic downturn and lower oil prices
 - Gas dropped from more than \$4 to less than \$2.50 per gallon
 - Feed (e.g. corn) prices fall
 - Ethanol industry in crisis (e.g. bankruptcies)
- Housing bubble burst; prices drop off table
- Credit markets are much tighter
- Commercial banking industry in financial turmoil

Impact: Changing Lender Focus

- Changed perceptions and attitudes surrounding the finance industry
 - “Anything goes to nothing goes” significantly reduces credit availability
 - Credit quality, delinquencies, and repayment capacity are moving in the wrong direction quickly
 - Capital availability is the bigger question
 - Followed by which borrowers get approval and the dollars they need
- Interest rates are stable or a little lower
 - But, lenders are requiring spreads that are 100 or more basis points higher than a year ago on the same quality deals

Impact: Changing Producer Focus

- Last year
 - Almost all were thinking about expanding
 - Demanded lenders provide significant rate reductions on loans
 - Believed they would meet or exceed income projections
 - Were upbeat; positive outlook for industry and operation

Impact: Changing Producer Focus

- Today
 - Very conservative toward expansion and growth
 - Worried that their commodities are next in free fall that has hit dairy and protein industries
 - Much more concerned about credit availability than interest rates
 - Budgets are more conservative, including worst case scenarios

“Big Credit” Conditions

- Impacts for lenders and producers are a result of bigger economic picture outside agriculture
- Today’s agricultural credit reality is much more conservative
- Credit is more expensive
 - Foundation for increased spreads in future are being built into credit lines
- Leverage is a killer to any operation currently facing drastically reduced prices (e.g. dairy, all proteins, nursery, and timber)

Knowledge and Successful Management

- In dynamic and uncertain markets, knowledge is key
 - More than information
 - Information with context, interpretation, impact, and execution
 - Execution (i.e. knowing what to do) is a function of knowledge, experience, positioning, and insight (i.e. “gut” instinct)

Knowledge and Successful Management

- Key points in understanding industries
 - Drivers
 - Best practices
 - Consensus-based opinions regarding future direction

Knowledge and Successful Management

- Key sources for understanding industries include peer and professional networks
- Lender can be a key a 'trusted advisor' in producers' networks
- Agricultural producers should demand their lenders be relationship managers (more than loan officers)

Lenders as a Strategic Advantage

- Relationship managers provide more than capital
 - Understand industries, business models, and businesses' unique positions within industries
 - Grasp interconnectedness of agricultural value chains
 - Understand people and ask questions
 - Where have producers been?
 - Where are producers today?
 - Where are producers headed?
 - Provide context to information, adding meaning and relevance to 'numbers and noise'
 - Focus on what makes long-term sense

Prospering Producers

- Proactive in changing environments
 - Customer and value chain focus
- Consideration of different perspectives
- Networks and alliances with a strategic focus
- Excellent people and human resource skills (coaches)
- Win – win negotiations

Prospering Producers

- Coordinated production systems
 - Qualified suppliers; systems of traceability
- Solid risk managers and calculated risk takers
- Balanced management, above average in most areas
- Reason and emotional intelligence

Prospering Producers

- Superior financial management systems
- Excellent time management
 - Balance in work, family and play
- Selective adoption of technology
- Complimentary partners/advisor teams
 - Spouse, farm manager, father/mother, son/daughter
- Recognition of differences between \$1000, \$10,000 and \$100,000 decisions

Questions