



Financial Health of Michigan Agriculture  
– from a Lender's Perspective

David Armstrong – Chief Executive Officer

Remarks

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- ▶ Overview of GreenStone
- ▶ Payment Delinquencies
- ▶ Credit Quality
- ▶ Provisions for Loan Losses
- ▶ Foreclosures
- ▶ GreenStone Key Business Measures 08 vs. 09
- ▶ Financial Outlook
- ▶ Credit Availability
- ▶ Loan Pricing



## GreenStone Overview

- ▶ \$5.1 Billion - Assets
- ▶ 19,000 Customers
- ▶ \$761 Million Surplus
- ▶ Paid member/borrowers \$67 million in patronage since 2005
- ▶ \$10 Million Annual Revenue from Financial Services
- ▶ 37 Office locations serving Michigan and Eleven Counties in NE Wisconsin
- ▶ 440 Employees

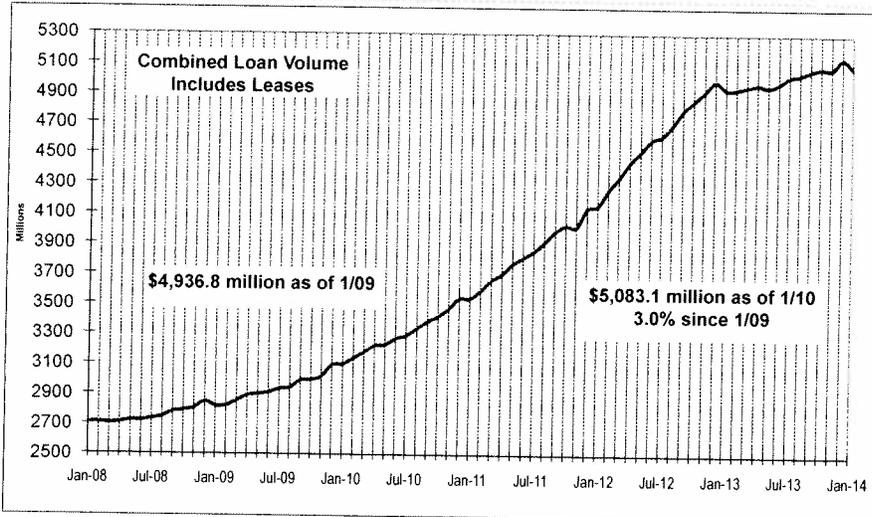


## GreenStone History

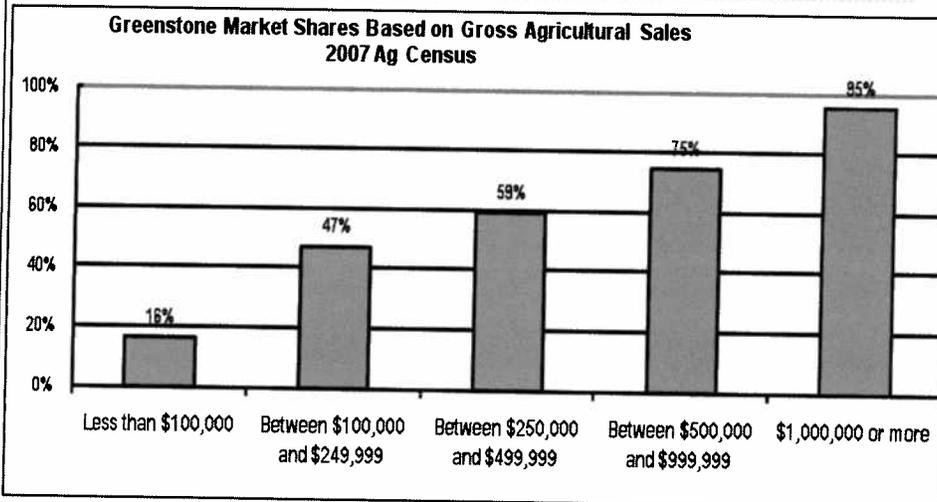
- ▶ 2000 – 2009
- ▶ Annual growth in loan volume
  - ▶ 12.5% per year compounded
  - ▶ \$1.6 billion to \$5.1 billion
- ▶ Number of customers: 14,000 to 19,000
- ▶ Net Operating Rate: Reduced .6%+
- ▶ Loan Spreads: Reduced .9%+
- ▶ Financial Services: Increased from \$5.6 MM to \$10.3 MM



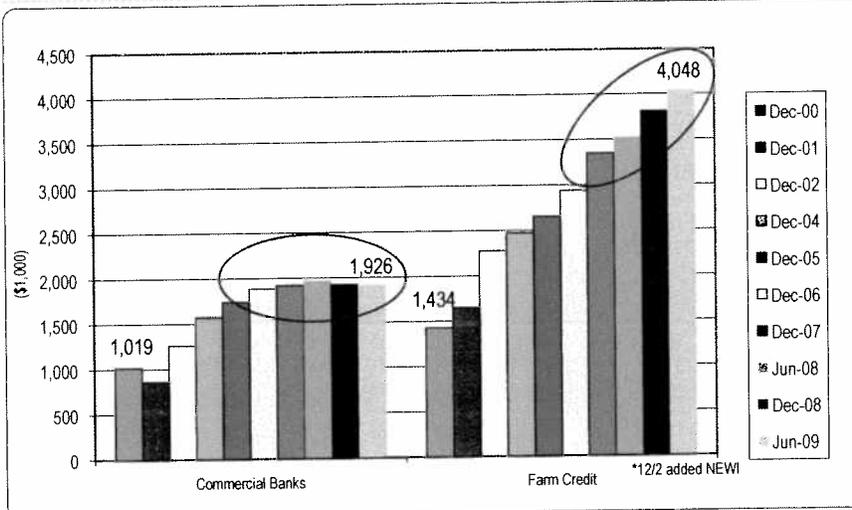
## Investments in Agriculture (Loan Balances Outstanding)



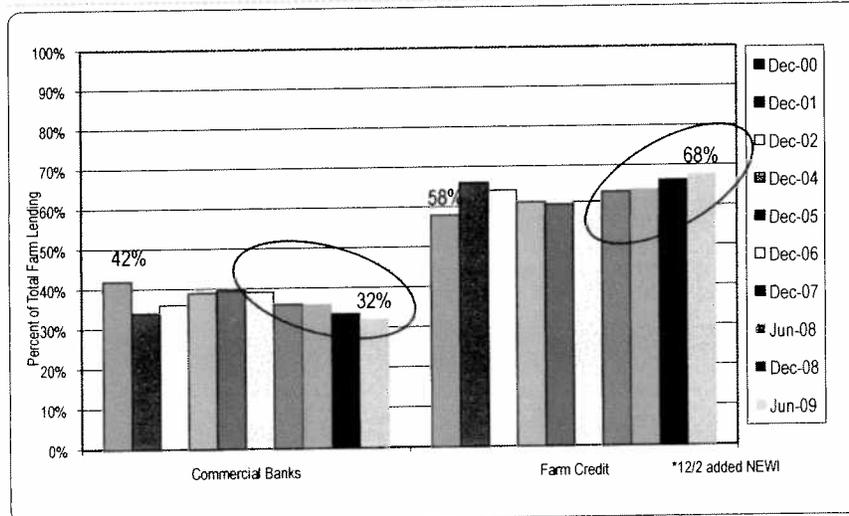
## As Michigan Agriculture Goes – So Goes GreenStone



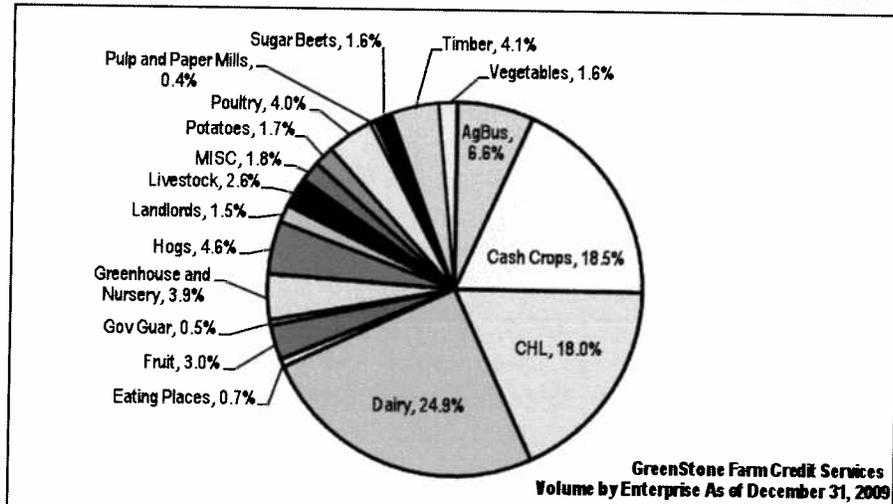
## Farm Lending in GreenStone Territory



## Market Shares



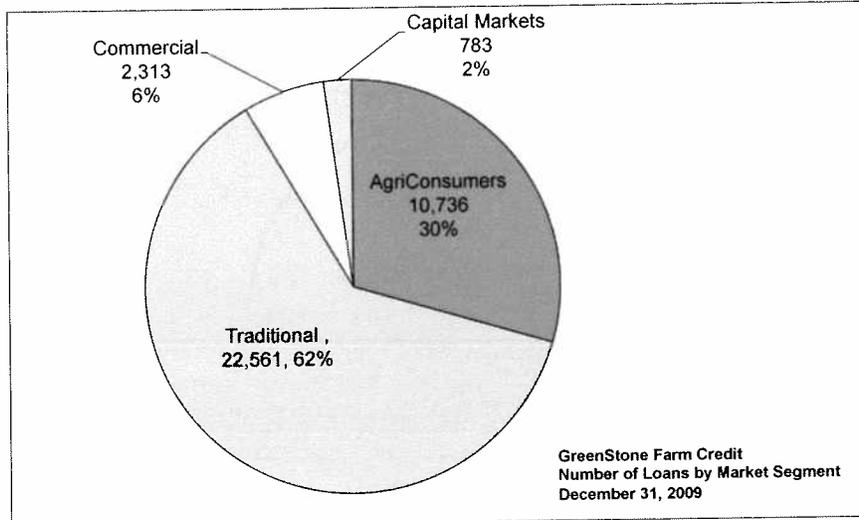
## Commodity Mix



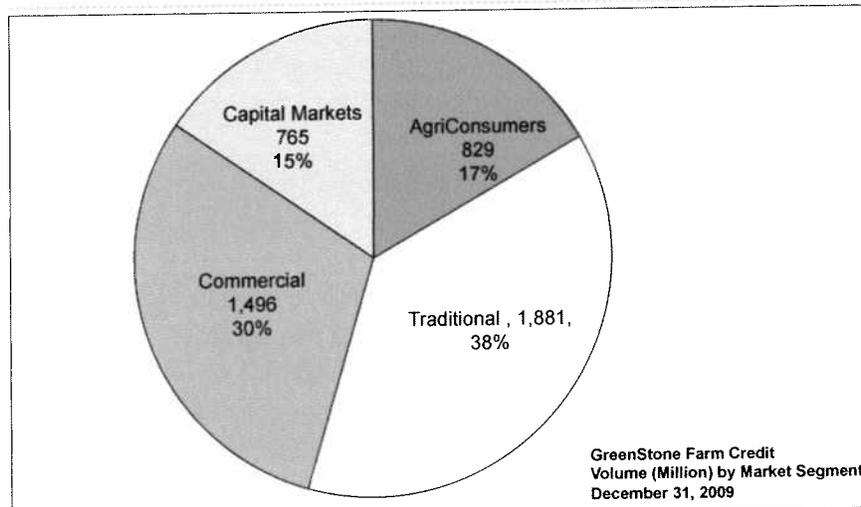
## Market Segment Definitions

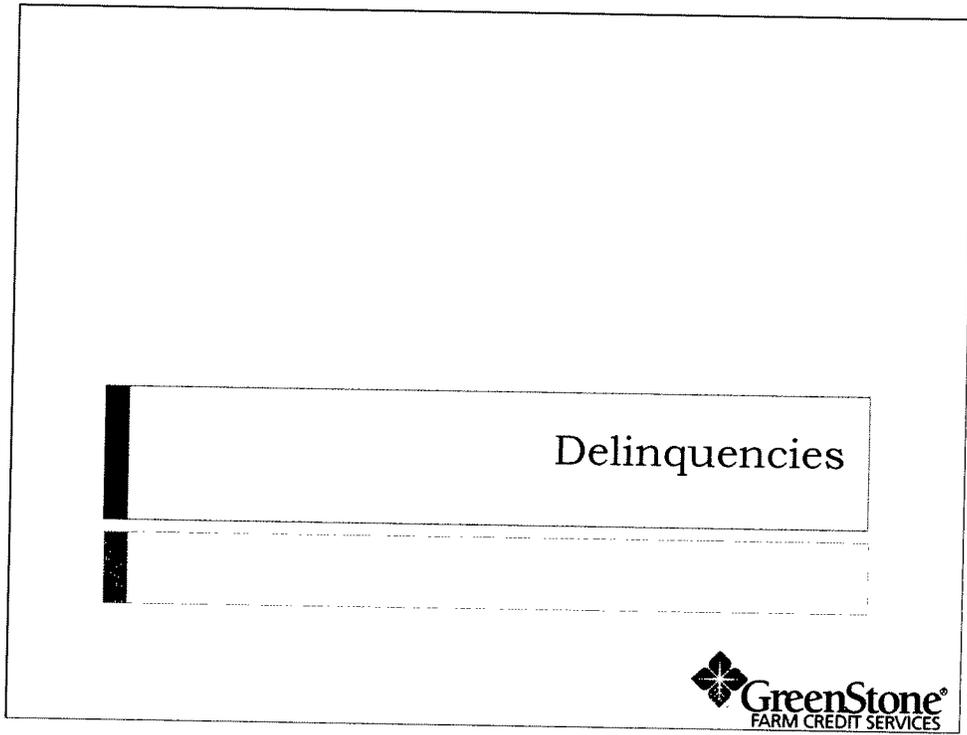
- ▶ **AgriConsumer** – Customers whose farm income represents less than 30% of total income and all rural residential customers who have no farm income
- ▶ **Traditional** – Customers whose farm income is greater than 30% of total income and generally have gross farm income (GFI) from \$250,000 to \$3 million
- ▶ **Commercial Producer** – Local agriculture producer customers with GFI above \$3 million or local agri-business customers with GFI above \$2 million
- ▶ **Capital Markets** – Large agribusinesses whereby GreenStone is typically not the primary relationship provider. This segment primarily consists of purchased participations (within and outside territory)

### GreenStone Number of Loans by Segment

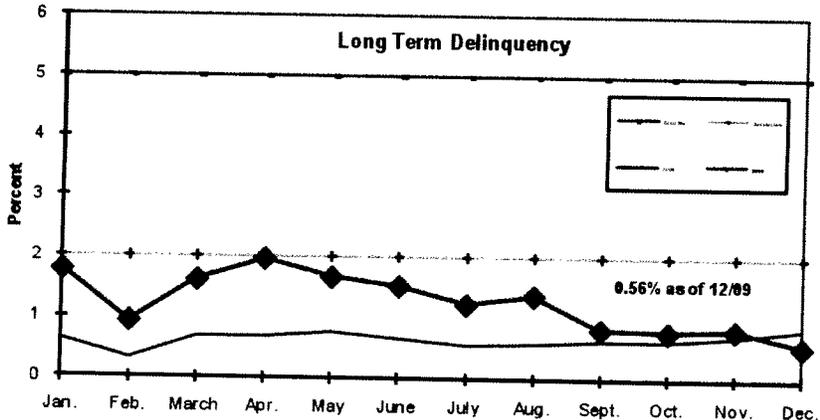


### GreenStone Volume by Segment

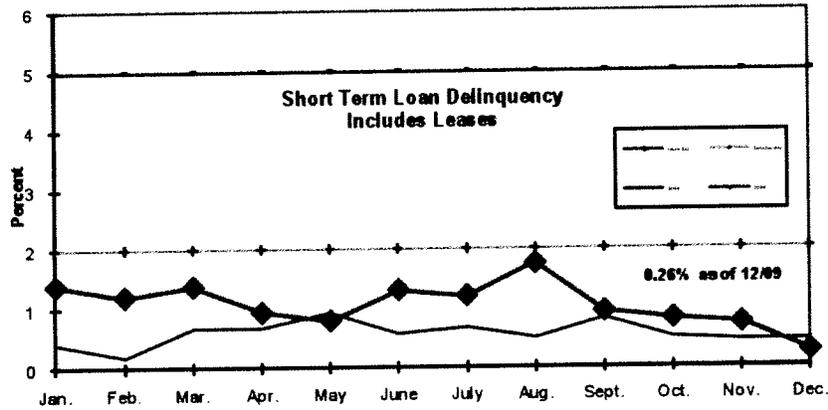




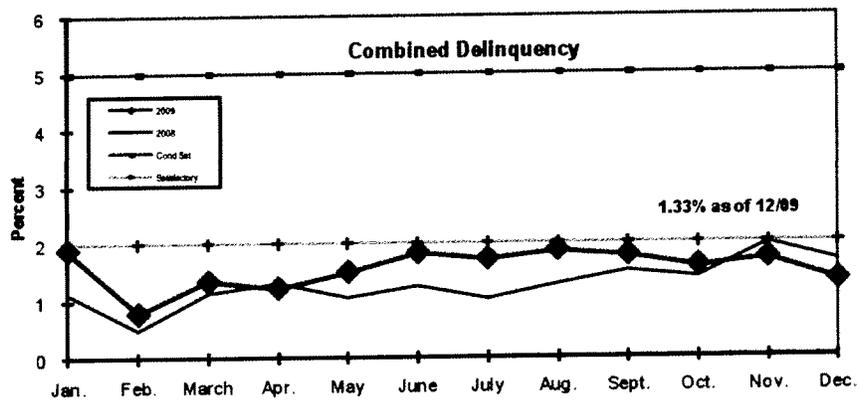
### GFCS Long Term Delinquency



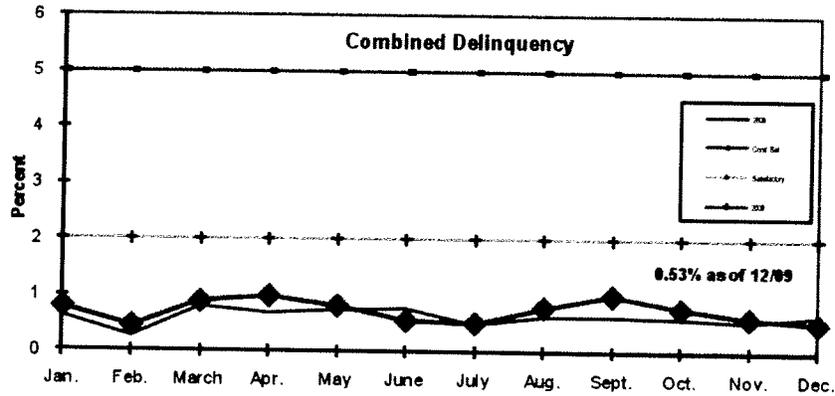
### GFCS Short Term Delinquency



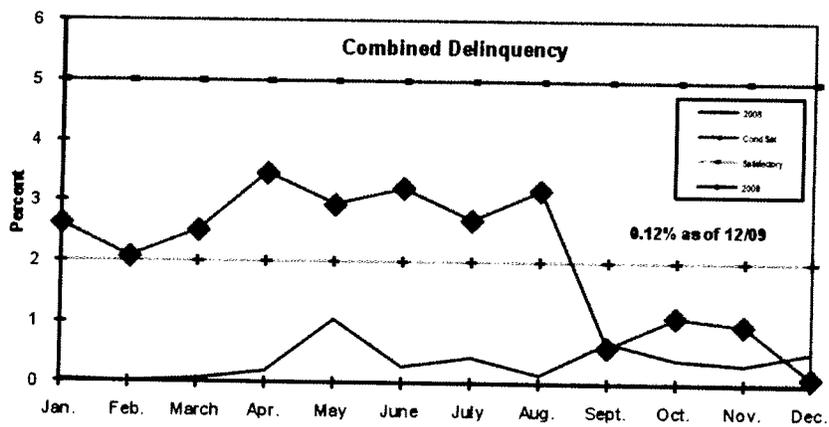
### AgriConsumer



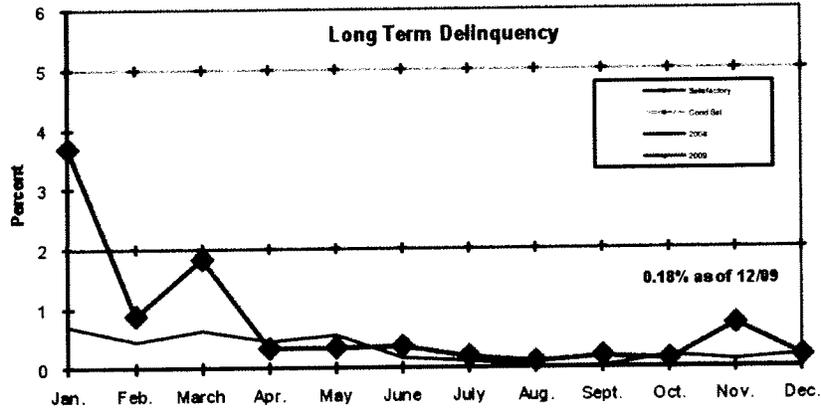
### Traditional Farmers



### Commercial Borrowers



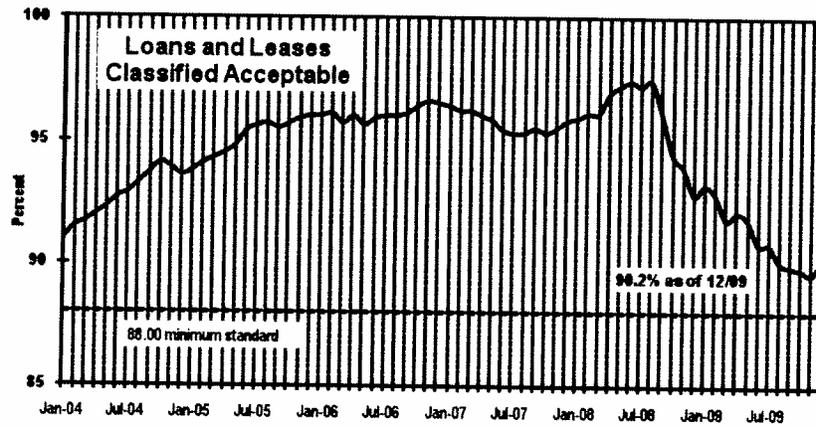
## Capital Markets



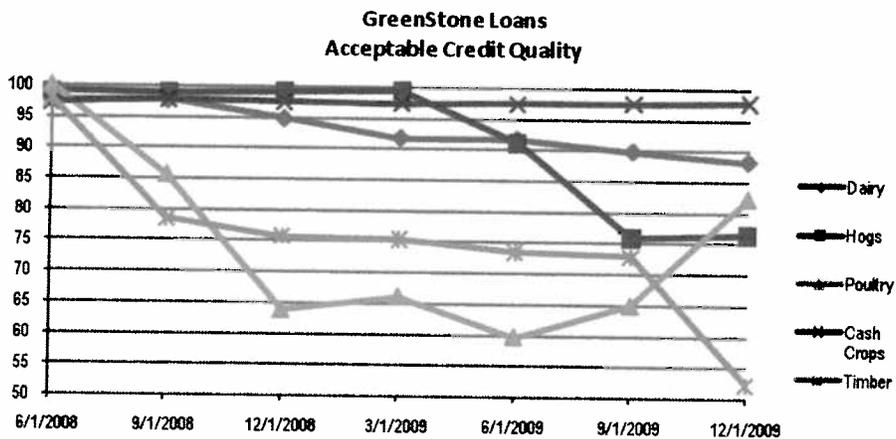
## Portfolio Quality



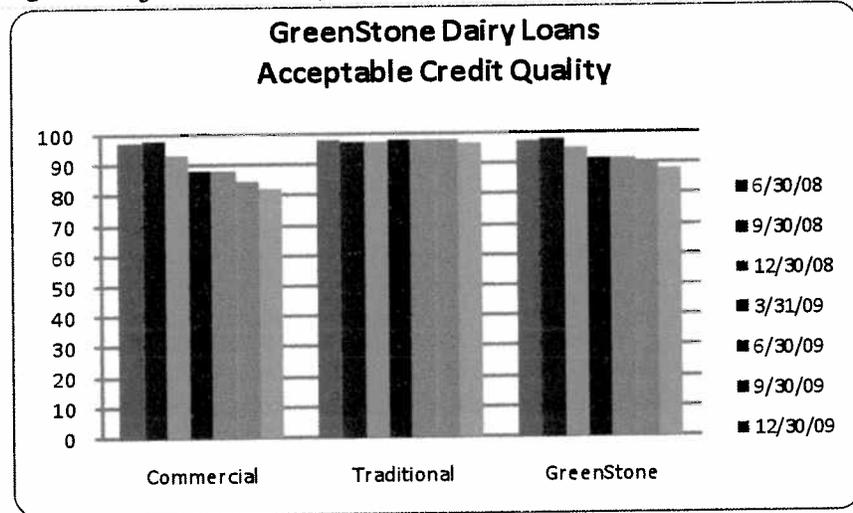
## Quality of Agriculture



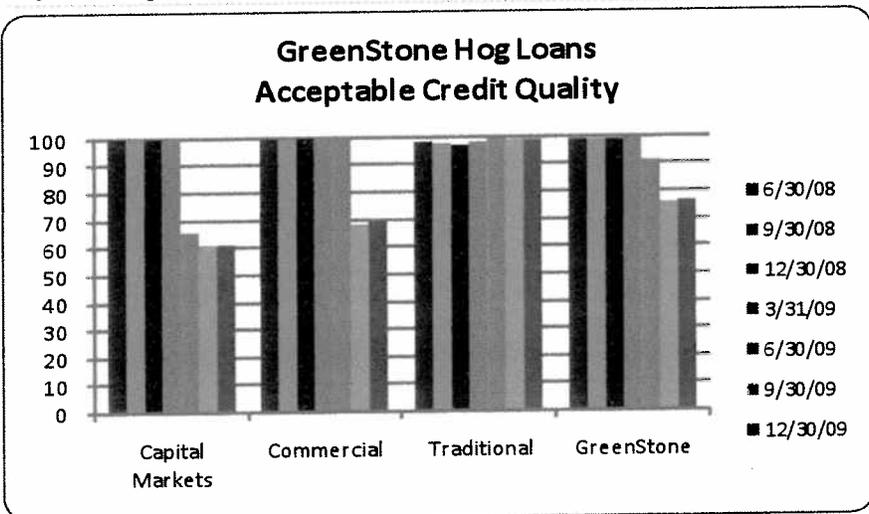
## Quality of Agriculture



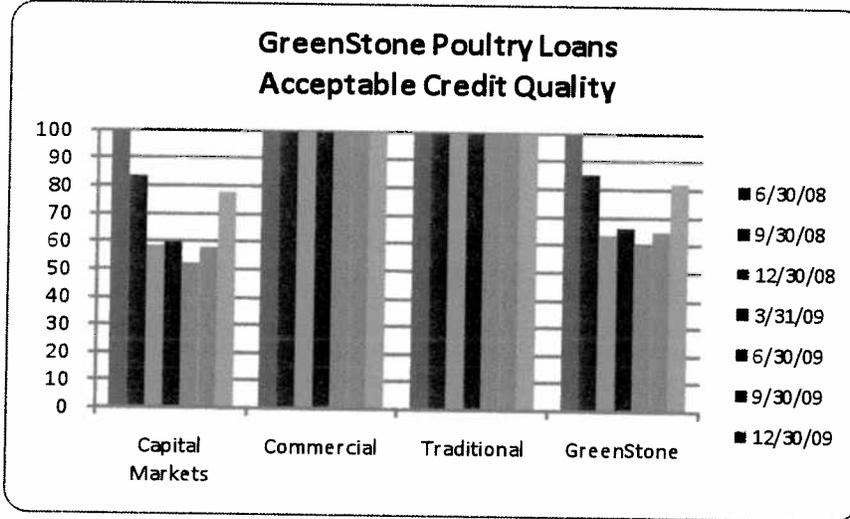
## Quality of Dairy Portfolio



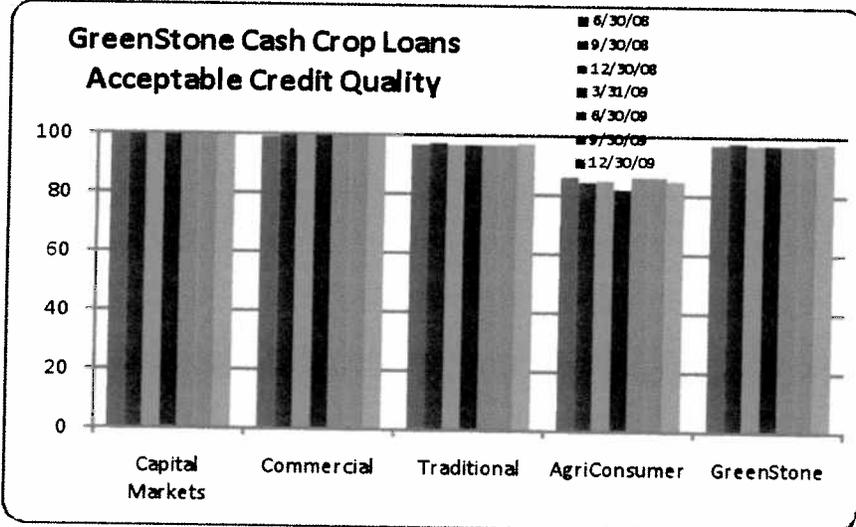
## Quality of Hog Portfolio



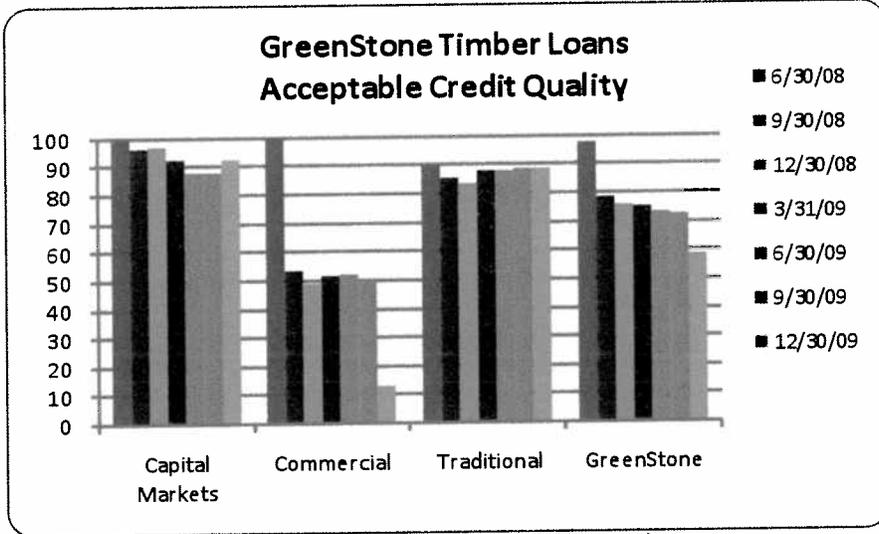
## Quality of Poultry Portfolio



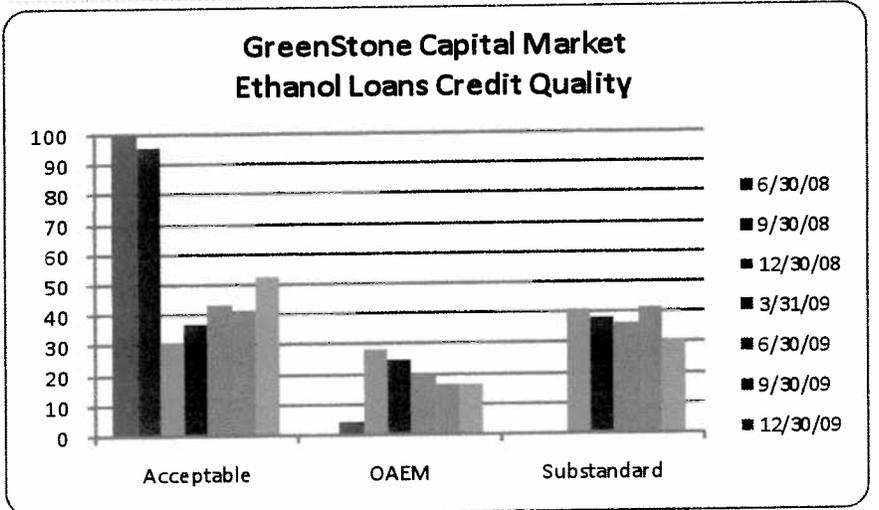
## Quality of Cash Crop Portfolio



## Quality of Timber Portfolio



## Quality of Ethanol Portfolio



Provision for Loan Losses

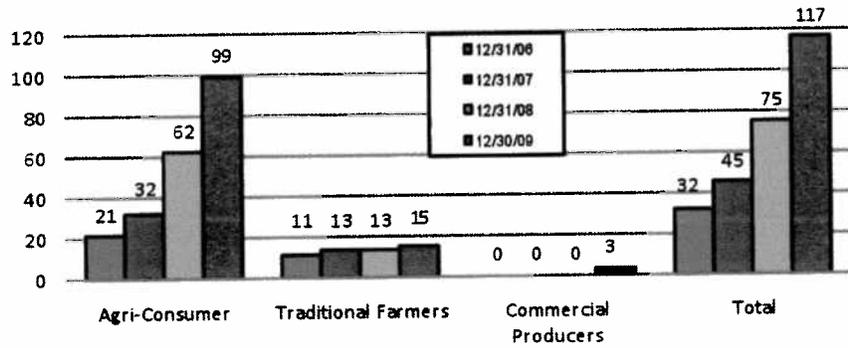


Foreclosure Activity



# Foreclosure

## Foreclosure - Borrowers



## Financial and Credit Outlook



## Financial and Credit Outlook

- ▶ Income levels – A mixed bag
  - ▶ Dairy
    - ▶ Positive compared to 2009 – but slow recovery through 2010
    - ▶ Marketing opportunities are there
    - ▶ Significant restructuring of debt needed to replenish working capital
  - ▶ Hogs – Poultry
    - ▶ We now believe the light at the end of the tunnel is NOT a train
    - ▶ Margin management is critical
  - ▶ Commodity Crops
    - ▶ 2009 should be OK (they need to watch Accts Receivable)
    - ▶ 2010 and 2011 may be a challenge
      - Marketing/procurement planning (AKA margin management) and risk management will be critical to success
- ▶ Non-Traditional Crops – Profitable based on current supply / demand fundamentals



## Financial Outlook

- ▶ Land values have softened slightly since the peak of last year, but remain stable today actually increasing in a few areas
- ▶ Working Capital for all but crop farmers is very low
- ▶ Producers will need higher lines of credit and increased leverage needs in 2010 even before CAPEX
- ▶ Energy prices will once again increase from current levels – significantly if federal Cap and Trade legislation is enacted.
- ▶ Interest rates will increase slowly over 2010 and then increase at a faster pace thereafter depending on the overall economic recovery.
  - ▶ Locking rates a good bet



Credit Availability



## Credit - Availability

- ▶ Capital position drives credit availability at banks
  - ▶ GreenStone has 13% capital
    - ▶ Substandard credit has increased but our capital position remains strong
    - ▶ GreenStone remains committed to our roots – Agriculture
    - ▶ Projecting 6-8 % growth in outstanding loans
  - ▶ Many banks have more serious capital issues
    - ▶ Development and housing lending have taken their toll
    - ▶ Commercial real estate is “next shoe to drop”
    - ▶ Some banks have communicated that they are exiting Ag Lending
      - Others are being very selective
      - Others remain in the market, but pricing and conditions are higher/tighter
    - ▶ National players are very selective - due particularly to weakness in West Coast Dairies and Midwest/Southeast Hogs



## Credit Availability

- ▶ Credit is available for “bankable units”, but controls and conditions of lending will be more stringent.
  
- ▶ Foreign investments have basically ceased outside of purchasing US Treasuries
  - ▶ Affects FCS Bonds
  - ▶ Affects commercial paper market
  - ▶ Creates uncertainty in funding
  
- ▶ Sound record keeping and business planning are critical.

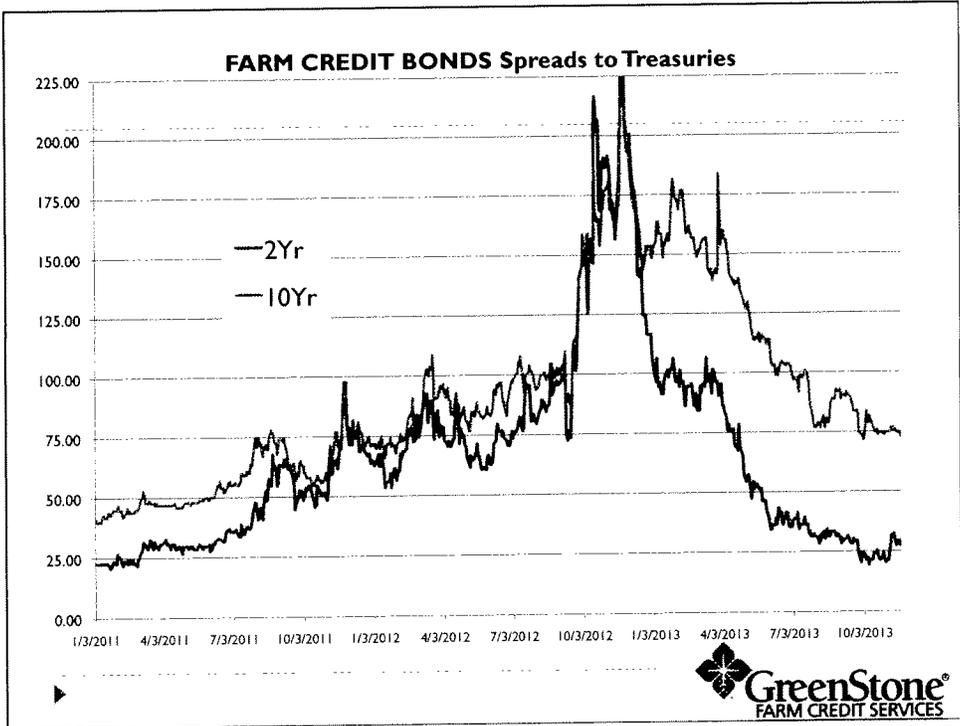


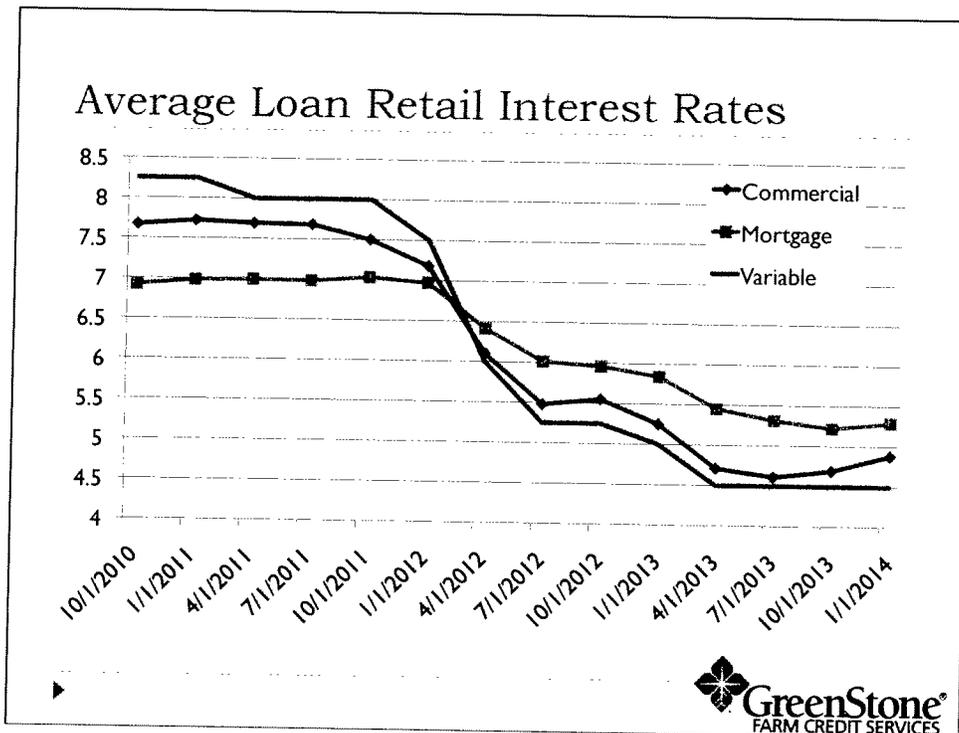
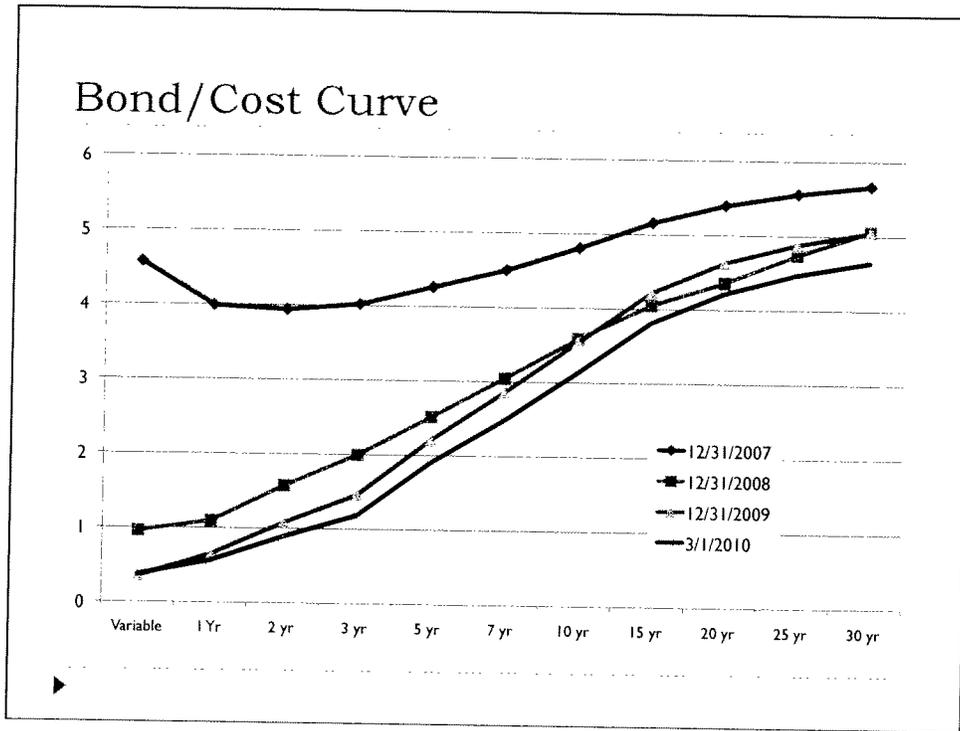
## Credit - Availability

- ▶ Risk mitigation more important than ever – Much more volatility!
  
- ▶ Any weakening of land values may create conservatism in some lenders.
  
- ▶ Cash flow and working capital rule!
  
- ▶ Increased regulation on Financial Institutions....
  - ▶ Will it affect availability - or just increase cost?



**Loan Pricing / Financial Meltdown**





## Loan Pricing

- ▶ Pricing Expectations
  - ▶ Yield curve will lift and flatten (when?)
  - ▶ Rates should be near their low
  - ▶ Inflation will rise which will take interest rates with it (when? and how far?)
- ▶ Financial Institutions Have New Rules
  - ▶ Capital/Liquidity requirements
  - ▶ Financial Regulatory Reform
  - ▶ Servicing regulations
  - ▶ TARP (NOT Farm Credit)
  - ▶ Financial, banking, and consumer protection regulations
  - ▶ All these will tend to increase cost and raise spreads and retail rates in the marketplace

