Northwest
FARM CREDIT SERVICES
Advancing Rural America's Success

Montana Nutrition Conference

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Disclaimer

- The opinions and comments by the presenter do not necessarily reflect the views of Northwest FCS

Presentation Summary

- Farm Credit System update
- Northwest FCS update
- Dodd-Frank legislation
- Economic Update
- Inflation
- Interest Rates

Farm Credit System Update

as of 12/31/10

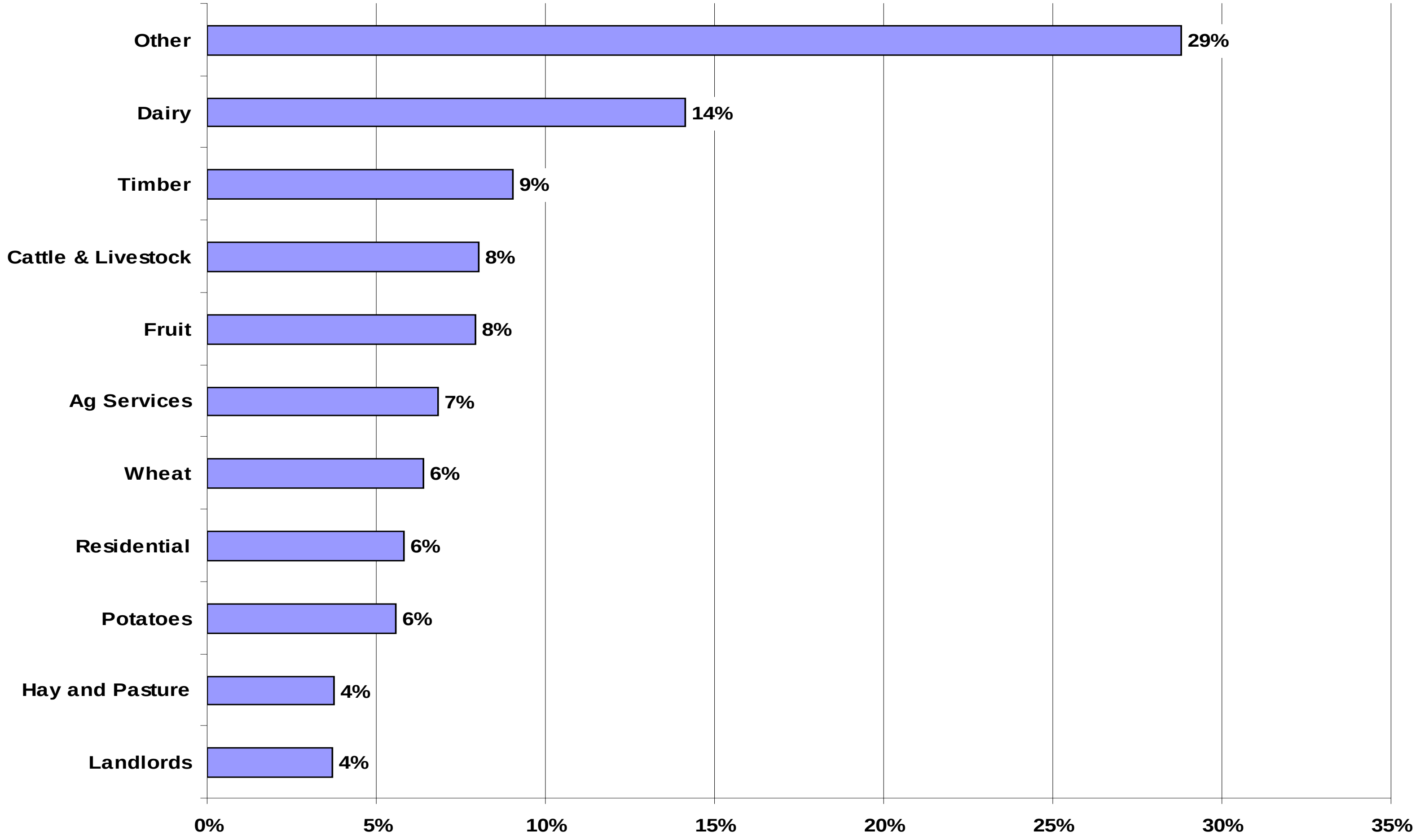
- 87 Associations (retail lending) and 5 wholesale banks
- $168.5 billion in loans and $220.6 billion in total assets
- Capital ratio of 15%
- Overall, Farm Credit has weathered the financial crisis well, but…
- There are a few smaller associations with significant credit problems relative to their size and amount of capital

Northwest FCS Update

as of 12/31/10

- Northwest FCS is the 3rd largest FCS Association (WA, OR, ID, MT & AK)
- There are 582 full-time and 35 part-time employees serving 13,000 customers in 46 branch offices and Spokane HQ
- $8.3 billion in loan volume and $8.7 billion in total assets
- Strong capital levels at 15.4% and $1.3 billion of member equity (capital)

Northwest FCS Commodity Concentration



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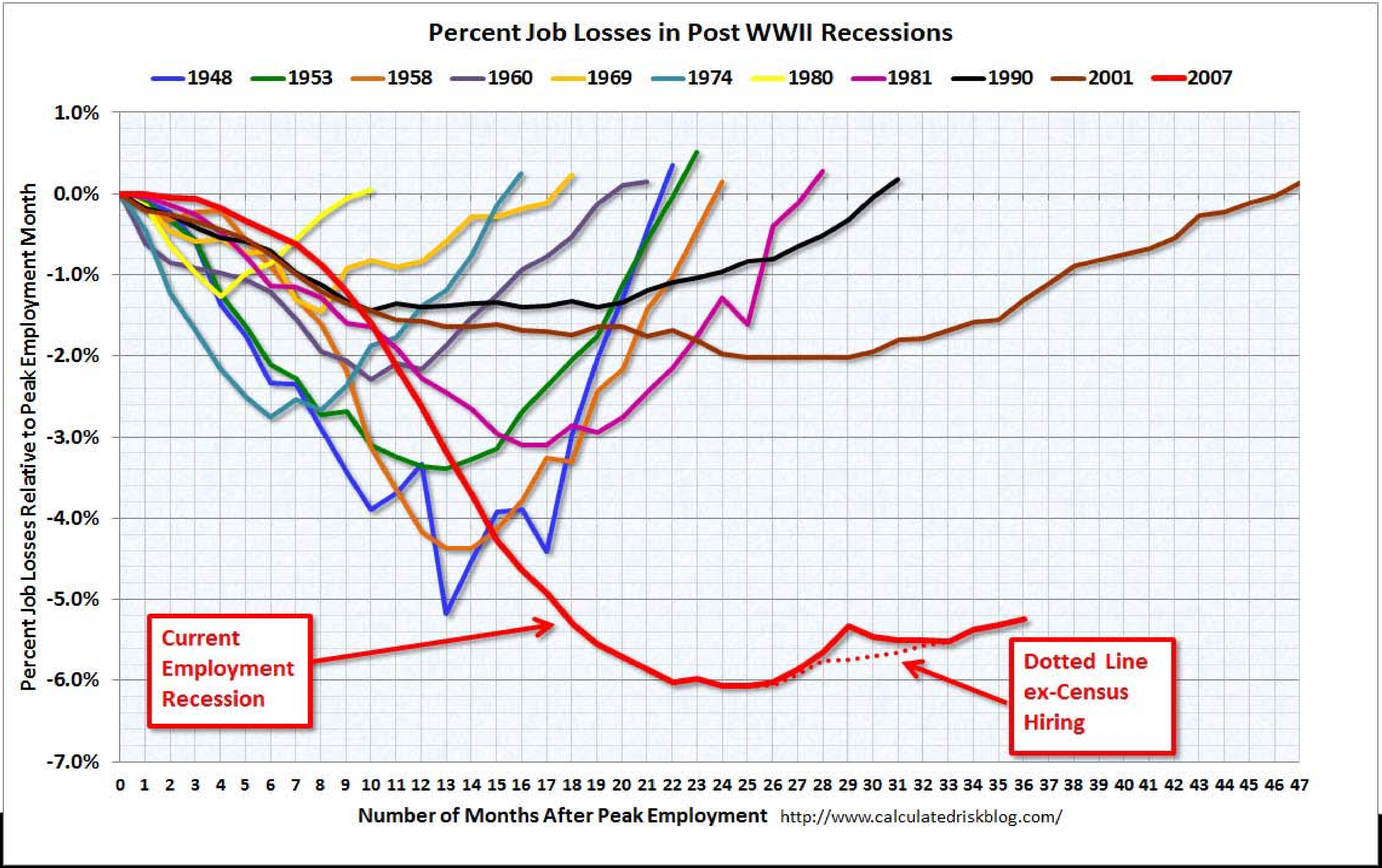
Dodd-Frank impact on Ag

- Status update on the Dodd-Frank legislation that passed
- Requirement for increased collateral posting on derivative trades and use of a clearing house—unintended consequences and increased cost to non-financial entities
- Will regulatory burden of Dodd-Frank materially impact the competiveness of community banks and small regional banks?

U.S. Job Losses

(from Bianco Research)



Economy

- Economic recovery will remain gradual and moderate with GDP growth around the 3% level
- There are several factors against a fast and strong recovery:

1. Unemployment still high at 8.8% but down 1% from Nov 2010
2. Weak new housing starts—still only 479k annualized for Feb 2011 (peaked at 2+ million with normal around 1.2 million)
3. Consumer Spending is still limited and was 67% of the economy
4. US Govt spending and fiscal deficits

U.S. Economy Will Recover…eventually

- U.S. GDP is more than double that of Japan or China
- 2010 GDP:
  - USA - $14.6 trillion
  - China - $5.7 trillion
  - Japan - $5.4 trillion
  - Germany - $3.3 trillion
  - Brazil - $2.0 trillion
  - India - $1.4 trillion
  - Russia - $1.5 trillion
  - *European Union – $16.4 trillion*

BRIC Nations

- US Dollar is the reserve currency of the world
- Stable government and infrastructure
- Innovation and creativity abilities

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Commodity Prices

- Majority of corn and grain commodity prices remain strong for 2011
  1. Weather issues in Russia, Australia, Midwest/SE USA, etc.
  2. Supply stocks are low
  3. Ethanol impact to corn prices—impact to other feed crops like hay
  4. China and India middle class development
  5. Global economic recovery
- Oil trades between $90 – 110/barrel for 2011

Northwest FCS Crop Commodities

- Beef prices remain strong through 2011 due to tighter supplies/smaller herds
- Milk prices increased in Q1 2011, but are flattening out for remainder of 2011
- Protein sector impacted by high feed input costs and rising energy costs
- Margins in Dairy Industry may not allow for a strong recovery in 2011

Cont.

- In NW, winter wheat acres are up 10% and spring wheat acres are up 5%
- Nationwide, estimated that corn acres could be up 5% or more
- 2010 Apple crop is moving and selling well—above average crop size
- Frost/Freeze issues in NW will impact 2011 Apple crop size
- Potatoes have low supplies which are resulting in strong open market prices—margins constrained by high fuel and fertilizer costs

Inflation

- Headline Inflation (CPI) is still relatively mild with the Feb 2011 year-over-year increase in prices of 2.2%
- Core Inflation (excludes food & energy) is very low with only a 0.5% increase for Feb 2011
- Federal Reserve focuses on Core Inflation when determing monetary policy actions (implied target range of 1 – 2%)
- There is becoming a disconnect with Core staying mild, but Headline starting to increase due to energy and commodity price increases

Interest Rate Forecast

- Fed Funds forecast = 0.25% through 2011 and early 2012
- At March 15 meeting, Fed maintained commitment to keep rates at “exceptionally low levels” for and “extended perio”
- Change in Fed language will come before actual rate changes
- Prime Rate stays at 3.25% into early 2012
- 10-year Treasury forecast = 3.40 – 3.90% through most of 2011
- Large U.S. deficit and need to pay for this deficit will have a stronger impact on 10-year Treasury rates than historical factors like inflation
- Lots of wildcards that could impact Treasury rates like European sovereign debt crisis, Middle East reform and Japan nuclear situation

Questions?

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