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

- Other: 29%
- Dairy: 14%
- Timber: 9%
- Cattle & Livestock: 8%
- Fruit: 8%
- Ag Services: 7%
- Wheat: 6%
- Residential: 6%
- Potatoes: 6%
- Hay and Pasture: 4%
- Landlords: 4%
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 competitiveness of community banks and small regional banks?
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
• US Dollar is the reserve currency of the world
• Stable government and infrastructure
• Innovation and creativity abilities
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
• 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 determining 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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