

When the Going Gets Tough, We're Here for You



You're probably familiar with the saying, "When the going gets tough, the tough get going." This particularly applies in agriculture.

Even when the sun shines and the perfect amount of rain falls, it's a tough business. Markets can dry up faster than crops. Machinery breaks when you need it most. Yet farmers and ranchers generally don't give up. They just work harder and smarter, optimistic that next year will be better.

But no matter how tough you are — mentally, physically or financially — it helps to have a lender who understands what you're going through.

Your staff at Capital Farm Credit understands the cyclical nature of agriculture. Many of us grew up in agriculture and still have personal connections to the land. We know that dealing with risk and managing a large budget can be stressful.

Capital Farm Credit wants you to succeed. As a responsible lender, we encourage all of our customers to make the best decisions for their needs. At the same time, we must ensure that the co-op continues to flourish. When we do well financially, every member-borrower benefits. That's one of the advantages of financing with our co-op — we look out for our borrowers' interests.

For Capital Farm Credit, 2018 was a record year. Thanks to our strong financial results, we were able to return \$87.5 million in cash patronage to our borrowers, with another \$96.8 million set aside for future allocation. This total 2019 patronage declaration of \$184.3 million marks a record, as well. Capital Farm Credit has returned more than \$1 billion in patronage dividends since 2004.

I sincerely hope that 2019 will be an excellent year for all of our customers. However, if the going gets tough, come see us. Whether you need a word of encouragement or financing advice — or want to share some good news — we are always here for you.

A handwritten signature in black ink that reads "Ben R. Novosad". The signature is written in a cursive, flowing style.

Ben R. Novosad
Chief Executive Officer





Hurst

New Board Members Bring Technology Experience

We're proud to announce two board-appointed nonstockholder additions to our board of directors. Jerred Hurst and Sharleen Walkoviak both bring a fresh perspective from the world of technology. With backgrounds in digital marketing and IT consulting, Hurst and Walkoviak offer a look at new and innovative opportunities for Capital Farm Credit.

Jerred Hurst

Jerred Hurst is the chief technology officer for Primitive Social, a digital agency specializing in web design and development, branding, inbound marketing and social media. In addition, he is a stockholder of Hurst Farm Supply, West Texas' leading John Deere dealership, as well as CTO and co-owner of Fastpay Payroll, which provides companies with efficient and reliable payroll solutions.

Sharleen Walkoviak

Sharleen Walkoviak is a co-owner of Covenant Technology Services, which provides outsourced IT consulting. She is also a financial executive and certified public accountant. She's been a member of the Houston Livestock Show and Rodeo since 1995, and became the 6th female lifetime vice president in 2016. She is a member of the Greater Houston Women's Chamber of Commerce Hall of Fame and was selected as one of Houston's 50 Most Influential Women.

Together, they bring a diverse contribution of technological methods and resources to the board of directors. Their unsurpassed experience and success in the marketplace is an incredible asset to our team. Help us welcome Jerred and Sharleen to the Capital Farm Credit family.



Walkoviak

Community Outreach Grant Program

Capital Farm Credit gave \$30,000 in grants to local FFA and 4-H groups last year, which in turned implemented 27 community projects across the state.

The funding was provided through the Capital Farm Credit Community Outreach Grant Program. This initiative offers grants to Texas FFA chapters and 4-H clubs to create outreach projects that will visibly change their communities.

The 27 grant projects in 2018 ranged from school gardens and small-town welcome signs to a food-training program at a local Boys-N-Girls club.

Capital Farm Credit is passionate about giving back to our Texas youth. We're proud to offer a program that encourages positive change and instills in our youth the importance of giving back to their community.





From DIRT to Shirts

West Texas cotton farmers prove their cotton is earth-friendly.



Todd Straley, cotton farmer and Quarterway Cotton Growers' gin manager, talks to name-brand cotton representatives about growing and ginning cotton. The gin is financed by Capital Farm Credit.

AS a Texas cotton farmer, Todd Straley wants consumers and retail clothing makers to know he grows his crops in a way that doesn't harm the earth.

"There's so much wrong information out there," says Straley, gin manager with Quarterway Cotton Growers, located west of Plainview, Texas. "We as farmers literally live in the fields where we produce cotton. So we're not going to hurt our kids or anyone else's."

BCI Tells Farmers' Story

To get their story out, Straley and 16 other farmers who own the gin — financed by Capital Farm Credit — looked beyond West Texas. They partnered with the Better Cotton Initiative (BCI), which stewards earth-friendly standards for cotton growing around the world. As BCI licensees, they document how they use low-impact pest control, water-conserving methods, crop rotation and no-till or minimum-till practices.

"Our connection with BCI adds value to our cotton and creates more markets for

us," Straley says. "Within five years, 50 percent of our country's buying power will come from millennials and the generation after them. They're willing to pay a little more for a sustainably produced product."

Steven Ebeling, a Capital Farm Credit customer and Quarterway partner, compares the BCI license to having insurance.

"In today's age of social media, if something bad happens, 20 key strokes and the click of a mouse can be destructive," says the fifth-generation cotton farmer. "BCI's third-party accreditation is an incredible asset to have. It's as close to having true brand insurance as there can be."

Source Verification Adds Value

"As cotton producers in the U.S, we already have to meet certain specifications," he adds. "We have to do the right thing by law. But BCI can verify that cotton was sourced from a grower who's growing sustainably. That's real value in the market for us."

Last September, Straley, Ebeling and other farmers involved in Quarterway Cotton

Growers partnered with BCI to host a field trip for name-brand representatives from around the world. The day-long tour of the gin and nearby cotton fields fostered personal relationships between producers and cotton end-users.

First Time on Cotton Farm

"Out of 50 reps, only two had been on a farm of any sort," Straley recalls. "Most of them had never been out of a major city. Before the field trip, they didn't understand what we do as farmers. Now they do."

Ebeling was impressed when Gary Patterson, Capital Farm Credit's relationship manager for the Plains region, joined the trip.

"It was humbling to know that my banker cared enough to show up," he says. "If I didn't have a banker like Gary standing behind me, I couldn't do what I do. Farming requires relationships like what I have with Capital Farm Credit and BCI. Without them, we'd be dead in the water." ■ SSR

Understanding Patronage and Its Benefits

Capital Farm Credit is a cooperative, meaning that you, as a borrower, are also an owner who shares in our earnings. Profits are returned to you through our patronage dividend program. In fact, Capital Farm Credit has returned more than \$1 billion to borrowers since 2004.

In spring 2019, Capital Farm Credit distributed nearly 30,000 checks totaling \$87.5 million in cash to our member-borrowers in the form of patronage dividends. In addition, the association set aside \$96.8 million in allocated equities for future distribution to our members, for a total 2019 patronage declaration of \$184.3 million.

We have a long tradition of strong earnings, which adds to the benefit of our members. As our earnings are returned through our patronage dividend program, the association lowers the cost of doing business for our members, and in turn helps to strengthen the agricultural economy and rural communities we serve.

Here's how our patronage dividend program works and how it benefits you:

Q: What is a patronage dividend?

A: A patronage dividend is a return of a cooperative's earnings back to patrons who use the co-op's services. All members who have a loan relationship in good standing with Capital Farm Credit receive a patronage refund.

Q: What determines how much a borrower receives?

A: Our board of directors makes an annual decision regarding our patronage dividend program based on a number of factors, including financial performance of the association. A borrower's refund amount is determined by the total earnings generated by the association, and is allocated based upon the interest accrued on his or her loan. Each individual borrower's patronage amount will depend on that borrower's interest rate and loan size. Simply put, patronage is based on the amount of business the borrower does with Capital Farm Credit.

Q: How do patronage dividends benefit customers?

A: The patronage refund is a refund of a portion of the interest the borrower paid, which ultimately lowers the effective interest rate and reduces his or her borrowing cost. Capital Farm Credit charges a market interest rate on loans, but our customers get money back through a patronage refund, which reduces the cost of lending.

Q: How do patronage dividends benefit the cooperative?

A: Earnings that are not returned to members in cash are reinvested in the cooperative to provide financial stability and generate future earnings for members. In addition, unlike most corporate earnings, a cooperative's earnings distributed as qualified patronage are taxed only once — to the member **when they are distributed** as a patronage refund.

Q: What sets Capital Farm Credit's patronage program apart?

A: We're one of very few associations that allocates nearly 100 percent of earnings to members. Regulations prevent allocating

100 percent of earnings, but by and large, we distribute all of our member-sourced income in patronage.

Based on our solid financial results in 2018, our board voted to return 97.1 percent of the year's earnings to our members.

Cooperatives offer services that benefit their member-borrowers' operations. Capital Farm Credit puts the stock that members purchase in the co-op, plus the interest they pay on their loans, to use for their benefit. We return some of that capital in a cash patronage refund each year, and retain some for a period of time to capitalize the association. As a healthy cooperative grows, it generates new capital and is able to retire older capital from previous years.

Capital Farm Credit allocates (or puts a name on) its earnings. These earnings are called nonqualified **allocated equities**. By allocating these earnings, when a borrower pays off his or her loan, those earnings rightfully belong to that member and we will make every effort to pay it out to them in the future.

Not every cooperative allocates its earnings. If earnings aren't allocated, then a co-op can just use that capital without rightfully returning it to the patron who contributed to those earnings. We believe customers shouldn't have to capitalize the association after they cease to be members. That's why we retire allocated equities as we are able, and distribute to members in cash.

Q: Is the patronage dividend program sustainable?

A: Yes. Capital Farm Credit has a 10-year capitalization plan to ensure our philosophy is sustainable. Continuing our patronage philosophy is important to us, and we manage our business with this in mind. We've paid cash patronage and returned nonqualified allocated equities since 2004.

Patronage Dividend Example

Here is how the patronage Capital Farm Credit declared on 2018 earnings lowers borrowing costs for a hypothetical borrower with a \$500,000 loan.*

Original interest rate on loan | **5.95%**

Patronage dividend distributed to borrower in 2019: **\$6,645**

Over **22%** of the interest the borrower paid in 2018

In effect, patronage and allocated equity lower the member's interest rate to

3%

Equity allocated to borrower for future payout: **\$8,123**

Over **27%** of the interest the borrower paid in 2018

*Calculations are based on the assumption that the loan was made on Jan. 1, 2018.

Capital Farm Credit has consistently distributed capital each year for several years. It is our intention to continue this practice in the future.

Example provided for informational purposes only. Actual patronage dividends may vary.

How do you attract thousands of visitors to your farm in the fall? Build a corn maze, add a pumpkin patch and a nice offering of other farm activities and games, and use social media to draw families in for a rockin' good time.

That's what the Klepac family of Rockin' K Farms of Robstown, Texas, did.

"We started out with just the corn maze in 2014, doing our own marketing through Facebook, Instagram and Twitter, and had 10,000 visitors that year," says longtime Capital Farm Credit customer Traci Klepac. "Over the years we added the fall festival with more attractions, and our visitors have increased to 25,000 a season."

Publications and news channels have shared the farm's story, and visitors also spread the word. In 2018, the Klepac family sought the help of a marketing firm, Audience Media Group.

Planning the Maze

It all starts with planting the corn in mid-July on 6 acres. The Klepacs — including Traci's husband, Jeff, and their sons Wade and Brandon — plant a drought-resistant variety that has more foliage than most. This creates a dense screen so that people on the 5-foot-wide paths can't see through to another path. The corn is planted in north-south and east-west perpendicular rows.

Traci and her daughters-in-law, Rachele and Kourtnei, who help manage the business, choose a design and work with The Maize Company, which maps out the design in grid format. When the corn is about 8 to 12 inches tall, they spray-paint the design in the field. The Klepacs then go in and cut out the paths, which they maintain throughout the festival season. By the time the maze is open for visitors, the corn can be 10 to 14 feet tall.

Fun-Filled and Educational Activities

Besides the family, it takes a team of 45 employees to work the maze and festival, which this year will be open on weekends from Sept. 28 through Nov. 3. In addition to the maze, visitors

Top photo: Rockin' K Farms' first corn maze design, created in 2014. Bottom photo: One young visitor had a great time running through the maze.

A ROCKIN' GOOD TIME

Corn Maze and Fall Festival Draw 25,000 Visitors to Robstown Farm



Courtesy of Rockin' K Farms



Courtesy of Audience Media Group



Lacey Herrmann

The Klepac family, from left to right: Kotton, Wade, Kamille, Kourtnei, Jeff, Traci, Rachelle, Cheyanne, Brandon and Shiloh

enjoy up to 30 activities such as a pumpkin patch, pumpkin bowling, farm animals, Giddy-up bouncers, a cow train, dummy steer roping and more. The Kountry Kitchen, Sweet Bin, Texas Treats and Kountry Road Scoops offer good food.

“I wanted others to enjoy the farm as we do,” says Traci. “I also wanted something to leave my grandkids . . . for them to carry on the knowledge of agriculture.”

The Klepacs host school field trips during the week, giving 15-30 minute lessons on agriculture, while showing the children their corn, cotton and grain crops. Informational posters are spread throughout the farm illustrating how certain crops are produced and listing their uses. Rockin’ K Farms also has goats and chickens for the students to see.

“We try to encourage agriculture as much as we can, because so many children don’t know where food comes from,” says Traci.

“Even kids in our rural communities don’t know — they may see fields as they are driving by, but don’t actually get close to see the plants at different stages of growth or see the harvesting process.”



One weekend, Rockin’ K Farms features a “Touch the Tractor” event that is sponsored by local tractor dealerships. This event offers a show and tell experience for visitors.

A Good Lender Helps

Traci is quick to point out that the farm has been working with Capital Farm Credit for 14 years. The rural lending co-op has financed land, equipment and operations for the Klepacs over the years.

“It’s absolutely a good relationship,” says Traci, referring to the co-op. “It is such a great fit, and they really know farmers and agriculture. We couldn’t ask for a better lender.”

For more information, visit www.rockinmaze.com.

 @RockinKMaze  @RockinKFarms



Courtesy of Audience Media Group

Visitors to the maze enjoy riding on the cow train.

What Color Is *Your* Brand?

Economy, geography and relationships drive farm equipment preferences.

Contributed by AgDirect®



Although recent farmer surveys suggest producers remain loyal to their preferred farm equipment brands, other industry research indicates machinery-purchase decisions are becoming more dependent on the bottom line.

Chad Goldsmith, AgDirect territory manager in Oregon and Washington, says this shift in buying activity is already a reality in his region.

“As farms and dealerships have consolidated, brand loyalty has become less of a factor in machinery-buying decisions,” he says. “Today it’s simply a bid process. Producers look at equipment as a line item on their balance sheet, and whoever can come in at the best price gets their business.”

Brand Loyalty in the South

Meanwhile, in other areas of the United States where manufacturers have maintained market share on specialized equipment, brand loyalty continues to reign.

“Cotton is big in my territory, and when an equipment dealer like John Deere is the industry leader in the type of equipment most of the region needs, that can be hard for the competition to beat,” says Nick Johnson, AgDirect territory manager in Oklahoma and Texas. “In terms of brand loyalty, there really hasn’t been a big shift yet in the south-central region. The front-runners have only gotten stronger.”

These contradicting case studies show that brand loyalty is not a one-dimensional phenomenon. Rather, there are many factors influencing farmers’ paint color preferences, including the economic

environment, geographic location and local business relationships.

Economic Environment

Despite brand loyalty differences in their territories, both Johnson and Goldsmith recognize the role that the downturn in the ag economy has played in producers’ machinery-buying habits.

“Over the past five years, equipment buying has become a more calculated decision,” Johnson says. “Low commodity prices have hurt producers’ margins and net worth, while the cost of owning and operating farm equipment has consistently continued to rise.”

According to Goldsmith, generational viewpoints play a part in shifting producers’ color preferences, too.

“For many young producers, brand loyalty is a number and economics game,” he says. “At some point, dollar differences become great enough to persuade them to make the switch. What dad or grandpa drove doesn’t carry as much weight as it once did.”

Geographic Location

Geographic location is another factor.

“In eastern Washington where we work with smaller, more traditional dryland farming operations, brand loyalty is really driven by what dealer is closest,” Goldsmith says. “Some producers are willing to pay a lot more money for the same equipment if it means being two miles from the dealership instead of two hours.”

The same logic doesn’t always apply to larger operators, whose farmland may span a wider territory.

“When operators get big enough, dealer proximity and access to service, parts and repairs become less of a factor, especially when they can afford their own shop and labor,” he says.

Local Business Relationships

While online equipment sales have altered the dealer-customer dynamic, Johnson says brand loyalty remains an important aspect of a producer’s identity, due in part to the strength of local dealer networks.

“Producers have always been prone to trying to find the better deal,” he says. “The Internet presented a new avenue for them to do just that, but at the end of the day local dealerships still have the stronghold. Producers are going to stay loyal to dealers who are not just part of their business, but part of their community.”

United by the strength of participating Farm Credit System institutions like Capital Farm Credit, Johnson says the AgDirect team is motivated to serve customers using this same relationship-building model.

“At AgDirect, we finance all brands and colors of ag equipment and we know that every dealer, customer and partner we work with has different needs,” he says. “It’s our job to listen to our customers to make sure they are getting the best financing and to find new ways to improve the customer experience.”

AgDirect is an ag equipment financing program offered by participating Farm Credit lenders. To learn more about AgDirect, contact your local Capital Farm Credit office or visit capitalfarmcredit.com.