

Fresno Madera Farm Credit CONNECTION

Agriculture is Our Only Business.

PRESIDENT'S MESSAGE



Tom Brown
President & CEO

During my comments at this year's Annual Stockholders' Meeting, I addressed the membership with the following detailed report on the Association.

First I want to thank every member for financing with FMFC. We do our best every day to earn your business. Thank you.

The first order of business is to announce that former employee, Bruce McAbee, has returned to FMFC. Bruce previously worked for FMFC for 10 years; including five (5) years in my administration from 1999 to 2003. He was instrumental in setting the foundation for the success that we have enjoyed. Bruce and I have the same credit philosophy and the same vision for FMFC. We have the same expectations for our personnel – which is very high. We have the same sales and customer service mentality. Five (5) years ago Bruce left FMFC and transferred to New Mexico Farm Credit (NMFC) and served as their President and CEO. During his tenure with NMFC, their Company grew from \$700 million to over 1 Billion with outstanding credit quality and a very sound operation – which is remarkable.

It is my great pleasure to announce that Bruce McAbee has come back home to FMFC!

He will serve as the Executive Vice President of FMFC and will be focused on credit and new business development. He will also be 2nd in command of the entire organization and will play a pivotal role in management. Bruce and I have about the same amount of time left in our careers. Our priorities are first to develop the staff and the leadership for the FMFC of the future and secondly to grow the business. I feel very fortunate to be able to bring back a senior person of Bruce's integrity, knowledge and ability.



Bruce McAbee

2007 Fiscal Performance

Each member has received the Association's Financial Statement and the Annual Meeting Information Statement. We encourage you to read this information; if you have questions, please call us. The System and FMFC are extremely strong but it is very important, especially in these times of national financial turmoil that you are aware of our performance. In the Chairman's address to you at the Annual Stockholder's Meeting, Mr. Allen Cosyns stated that the most important

issue to share with the membership is the stability of the Farm Credit System and of FMFC. He commented that once again, Bankers and Investors have been taught the lesson that when you move too fast; when you abandon the basics; when you decide the "old rules" no longer apply – that you will get burned. He cited the trend of inflating housing values, which began in 2001, when lenders became comfortable with 90-95-100% loans as they thought their collateral would continue to inflate. They focused on collateral only and ignored income and repayment. Loans of good and poor quality were packaged into mortgage backed securities and were sold and resold. Banks and Investors made millions in the exchanges.

When home values dropped and the economy slowed, the stage was set for the "subprime" disaster. The investment value of a mortgage backed security that is supported by home loans that exceed the value of the homes and the homeowners cannot make their payment, is of little or no value. The repercussions of this tragedy have been felt by nearly every major lender in America and in the World. Chairman Cosyns made it clear that Farm Credit investments in mortgage backed securities are minimal.

Mr. Cosyns stated that he was pleased to report that the Investing Community is focused on one thing, which is quality. Fortunately, the Farm Credit System

INSIDE THIS ISSUE

- President's Message 1
- FMFC Calendar/ Upcoming Events 4
- Conversion Notice 5
- Annual Stockholder's Meeting Photographs 5

MARK YOUR CALENDARS

2008 Member Appreciation Barbeque will be held on **Friday, October 31st.** Our Offices will be closed at 11:00 a.m.

is very strong; collectively we have more cash equity than ever before, and thus our bonds are in very strong demand. He closed his comments by stating, "Despite market conditions, FMFC remains stable and ready to meet your growing needs. FMFC is heavily capitalized and our credit quality is outstanding. We have stayed with our financial plan which is based on insuring the stability of the Association on a long term basis. **We know that our customers and FMFC will be challenged from time to time and we intend to be here for you for many generations to come.**"

The 2008 FMFC Balance sheet reflects 1,576 active loans, total assets of \$673.7 million and total liabilities of \$532.1 million with a net worth of \$141.6 million. Our capital ratio is 18.67% which is nearly three times the 7% minimum set by our regulator. While the FMFC Board is supportive of the Association's growth plan, they are very cognizant of the need to remain strongly capitalized. FMFC has \$116 million of its own money invested in loans; this liquidity is a major factor in the Association's stability and ability to advance very competitive interest rates. There were no net loan losses in 2007; in fact, FMFC recovered \$506 during the year. The allowance for loan losses is now a dynamic account, i.e. it is adjusted quarterly based on the assessment of our credit quality; in 2007 this reserve was reduced by \$793 thousand due to an improvement in credit quality. FMFC's total allowance, which increases the ability of FMFC to extend credit to our members and shields capital including member stock, was \$7.5 million. The FMFC Board did not follow the trend of the System to reduce or eliminate the allowance for loan losses as our focus is on longevity and we are well aware of the risk of being a single industry lender and the normal cyclical nature of Agriculture.

Average loan volume for 2007 was \$596.7 million with gross income of \$42 million; after paying for the funds borrowed from our District Bank, FMFC earned net interest income of \$16.6 million. After all expenses and adjustments your Association earned net income of \$9.6 million which is a return on assets

[ROA] of 1.54% which is slightly above the System standard of 1.50%. FMFC ended the year with a cost per hundred of \$1.64 which is significantly below the System standard of \$1.75.

Many of our members periodically apply excess funds to our VACP account. VACP stands for Voluntary Advanced Conditional Payment; it is allowed under the Regulations as an "application against future obligations". The advantage is that the funds can be withdrawn at any time without penalty. FCA Regulations prohibit FMFC from offering checking or savings accounts; but we can have a VACP that pays interest at the Fed Funds Rate. On December 31, 2007 the balance in this account was \$18.3 million. Many of our members have used this account and have been confident that the risk to them is offset by the financial strength of FMFC. Your investment is protected by the Association's reserves and net worth. Your VACP account has a priority in the event of failure of the Association. Members need to be aware that your deposits in FMFC's VACP account are not insured. They are treated similarly to a CD at a commercial bank as there is a right of offset; VACP funds may be applied to loans in default at the option of the Association. The bottom line is that our members have trusted the Association with their borrowing needs for generations; they recognize the strengths of the Association and the leadership of the Board – so they have had confidence in investing their excess funds with us. If anyone has questions relative to this account, contact your loan officer or call me.

Performance Highlights

FMFC's credit quality was 99% acceptable on December 31, 2007. Every audit [fiscal, appraisal, credit] was nearly perfect. FMFC received an exceptional rating from our Regulator, FCA [Farm Credit Administration] again in 2007.

The ACA loan volume grew to \$664 million, an increase of \$119 million [22%] over two years ago. FMFC originated \$184 million in new loan commitments in 2007 only 1% off our record year in 2006. At year end 2007 our loans outstanding and undrawn loan commitments

totaled \$959 million which makes our goal of achieving over 1 Billion in average loan volume appear not only possible but probable. The path over the last nine (9) years has not been perfectly smooth. We have experienced adversity along the way, but FMFC has grown and maintained outstanding credit quality at the same time, which is remarkable.

The results of FMFC are a direct result of the entire FMFC TEAM. We have a staff of highly qualified, inspired, dedicated and experienced individuals. Today everyone on our staff believes that our long term goals are possible. As each "step" goal is realized, we gain confidence and we gain momentum.

Commodity Diversification

DIVERSIFICATION is the best risk management tool for FMFC and for our members. It is critically important that a lender's portfolio is diversified. It is even more important for a Farm Credit entity as we are a "single industry" lender that is essentially serving one geographical area. Agriculture is our only business, so we must diversify our risk within the industry as much as possible. The chart on page 3 (Figure 1) indicates the Association's concentration in different commodities and other market segments. Over the last nine (9) years, we've had huge percentage gains in Dairy, Tree Nuts, Vegetables and Melons, and Ag Business. Traditional commodities remain at nearly the same dollar amount or more. Loan volume to Table Grapes, Raisin, Wine and Wineries represents 26% of the total volume outstanding rather than the 42% as in 2002. Overall, we continue to further diversify our portfolio each year.

New Business

The next chart on page 3 (Figure 2) reflects our achievements over the past 9 years. In 2006, FMFC reached our 1 Billion Dollar goal – at year end 2007 we reached \$1.206 billion! Our success is contributed to several aspects. The Board has provided sound direction and leadership. An internal positive change in every employees' attitude, perspective and confidence is apparent to all. **We are focused on rate, service and product competitiveness.** We strive to be a consistent,

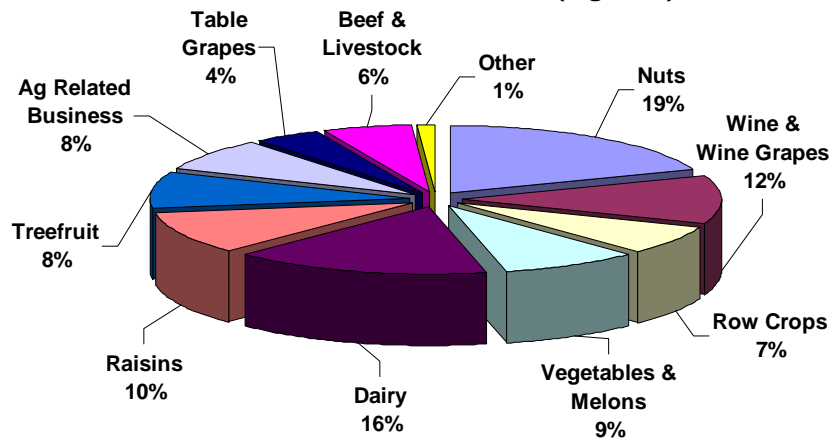
reliable and competitive lender. In addition, we have consistent standards; we have administered our credit and operational standards uniformly, in good times and bad, and have consistently positioned ourselves to be the lender of choice in every market, good and bad. Our “on the farm” and “face to face” contact with our customers has paid big dividends for both our customers and your Association. We offer a level of expertise, and commitment to service that is simply not found in any other lender. Over a sustained period of time, we have proven that we can maintain sound credit quality and grow the business, even through adversity such as during the freeze in 1999, the raisin crisis in 2001-2003, and the tough milk prices in 2002-2003 and during the Citrus freeze in 2006. Finally, we have focused on developing people, promoting from within, hiring the best and retaining the best. By implementing these strategies and overcoming our challenges, our Association has grown significantly, while also maintaining outstanding credit quality.

Cost Efficiency

The chart in Figure 3 depicts the correlation between operating costs and loan volume including our progress since 1999. In the early years, we reversed the inverse relationship between costs and volume; then we worked to increase the efficiency of the organization by widening the “gap”, by increasing volume and controlling costs. We are attaining economies of scale; our expenses are becoming very affordable based on our volume. For our borrowers, this equates to lower interest rates. FMFC’s ranking relative to efficiency is climbing each year. When compared to our peers as to capital, liquidity, competitive interest rates and growth, we are among the best!

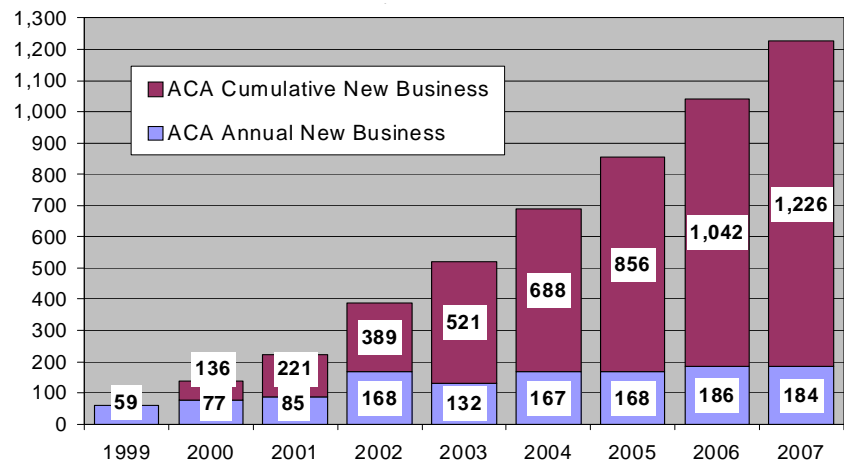
I am very pleased to report that FMFC is off to a very strong start in 2008. It is our goal to push our volume to the \$700 million level in 2008; we are off to a strong start with first quarter growth at 12%.

COMMODITY BY PERCENTAGE — (Figure 1)



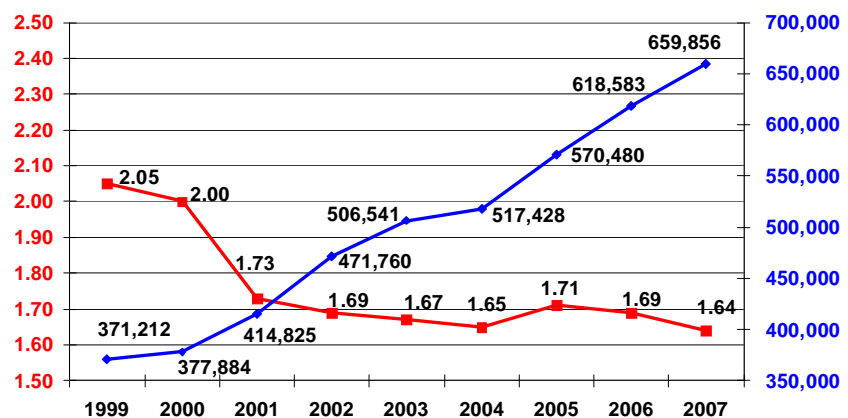
ACA NEW BUSINESS — (Figure 2)

\$ in Millions



WOW CHART- (Figure 3)

ACA Cost per \$100
ACA Volume



It is very important that every member recognizes the role that you play in our growth which results in lower interest rates to you. Your referrals are our best source of new business. A recommendation from you means 100 times more than any other advertisement.

Financial Planning and Interest Rates

FMFC's fiscal and credit objectives are established to ensure that we are rate competitive. We compare very favorably with other Farm Credit entities and commercial banks in the area and we intend to keep it that way. We have over \$116 million of the Association's money invested in loans, which reduces our need to borrow and reduces our interest cost significantly. Our own funds contribute to earnings as well; albeit at a larger amount in a higher rate environment than in a lower rate environment; FMFC becomes more "spread dependent" to cover our needs when rates are extremely low. Fortunately our costs are in line and our credit quality is outstanding; thus, we still maintain a competitive advantage over most lenders.

The Fed Funds rate for May is 2%; there is a possibility of further reductions.

The interest rate forecast of Global Insights as of April 2008 predicts that Federal Funds will decrease to 1.50% by July 2008.

Rates are expected to start moving back up again at the end of 2nd Quarter, 2009 with the Fed Funds moving up to 4.75% by the end of 2010.

Global Insight is still forecasting that a mild recession is likely in the first half of 2008, followed by a pick-up in growth in the second half of 2008 largely in response to the fiscal stimulus package. I have to question the materiality of the current fiscal stimulus package. We have a very slow economy, the housing market has crashed, fuel has drastically increased and overall operating costs have escalated; \$600 will not go very far to offset these issues. We also have to question the effectiveness of the Fed as their rate reductions have not promoted growth or mitigated the risk of recession.

I am obligated to state that there is a much higher probability of rates increasing significantly than getting much lower. Now is an excellent time for borrowers to consider fixed rate financing as there are many variables that could cause rates to increase; one being that rates have been and remain very low based on history.



Good News

The Best News that I can give you tonight is that your Association is directed and managed so that it can absorb adversity, support every qualified borrower and at the same time, welcome other qualified new customers into the organization. We know that the time to add quality new business is during an adverse cycle, when our competitors are less motivated to remain or expand in agriculture. I can report to you that FMFC is postured to grow and welcome in more members whenever the opportunity presents itself in good times and in bad.

The Future

We sincerely believe that the long term future of San Joaquin agricultural producers, packagers and marketers is very bright as it is for FMFC. We encourage your participation in our Association and thank you for your attendance at our 91st Annual Meeting.



CALENDAR

We will be closed on the following dates...

Friday, July 4

Independence Day

Monday, September 1

Labor Day

Monday, October 13

Columbus Day

Friday, October 31

Member Appreciation BBQ

Office will close at 11:00 a.m.

UPCOMING EVENTS

- **July 18, Allied Grape Growers Annual Meeting, Fresno, CA**
- **July 24, Senior Farmer Banquet, Madera, CA**
- **June 25, Salute to Agriculture, Visalia, CA**
- **July 31, Fresno County Farm Bureau Media Appreciation Night, Fresno, CA**
- **Aug. 15—Sept. 1, California State Fair, Sacramento, CA**
- **September 4-7, Madera Fair, Madera, CA**
- **September 7, Madera Fair Livestock Sale, Madera, CA**
- **September 7, Ag Booster BBQ, Madera, CA**
- **September 6-7, California Women for Ag Statewide Meeting, Fresno, CA**

LOAN ACCOUNTING SOFTWARE CONVERSION

In order to stay in line with current technology and innovations, we will be upgrading our loan accounting software. The new system will provide us with additional features and capabilities in maintaining your accounts. The conversion of our loan accounting software is scheduled to occur on **Saturday, July 12, 2008**. By converting on a weekend we are able to provide you with *uninterrupted service*.

After the conversion of our loan accounting software, you may notice some improvements including:

- *New Format for Statements and Notices*
- *New FMFC Website*
- *New Online Banking Display*

We will be sending out more details with your statements mailed in July. If you should have any questions or concerns, please contact your Loan Officer or our Loan Accounting Manager Kim Alcorn at (559) 277-7000.

CONGRATULATIONS TO JOSEPH BOYD

Each member present at the Annual Meeting was entered into a drawing for a \$1,000 gift certificate to Travel Express. Joseph Boyd was the lucky winner!



Agriculture is Our Only Business.

P.O. Box 13069
Fresno, CA 93794-3069

PRSRT STD
U.S. Postage
PAID
Permit #2097
Fresno, CA



ELECTION RESULTS

**Commercial Director
Seat 2:**
John Peelman

**Commercial Director
Seat 7:**
Mark Perez

**Mortgage Director
Seat 6:**
Dan Souza

**2009 Nominating
Committee:**
Keith Bursey, Fred Fagundes,
Steven Emmert, Samuel Weis,
Larry Chaney, John Garcia

FMFC BOARD OF DIRECTORS



**BOTTOM ROW (FROM LEFT TO RIGHT): STEVEN SCHAFER, ALLEN COSYNS, DAN SOUZA,
JOHN SIMPSON, BRIAN PACHECO**
**TOP ROW (FROM LEFT TO RIGHT): RICHARD BRADY, JEFF JUE,
MARK PEREZ, MATT ABERCROMBIE, JOHN PEELMAN**

CONTACT US

Fresno
4635 West Spruce
NE Corner of
Herndon & Milburn
Fresno, CA 93722
(559) 277-7000
Fax (559) 277-7030
Hours: 8 a.m. - 5 p.m. M-F

Loan Accounting
(559) 277-7016
Toll Free
(877) 363-8637

Visit us online at www.fmfarmcredit.com

Madera
305 North "I" Street
NE Corner of
4th and "I" Street
Madera, CA 93637
(559) 674-2437
Fax (559) 673-8414
Hours: 8 a.m. - 5 p.m. M-F