 FARM CREDIT EAST

**National Workshop for  
Dairy Economists & Policy Analysts**

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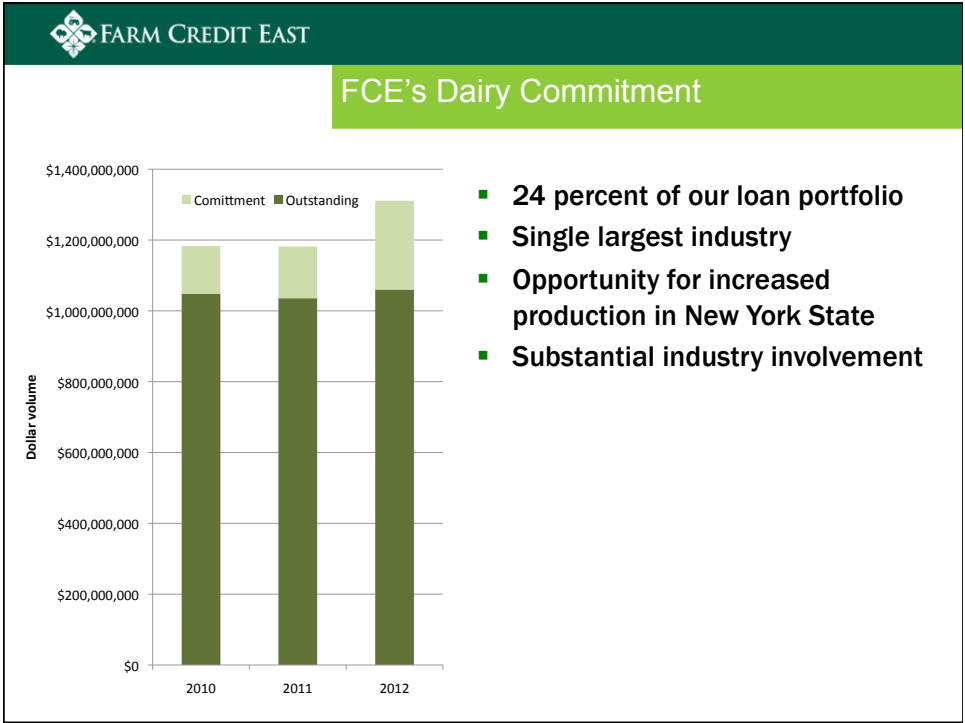
## The Farm Credit System




- Nationwide system of cooperatives serving agriculture and rural America
- Roots in 1916 and 1933, currently operating under the Farm Credit Act of 1971 as amended
- 82 direct lending associations, 3 Farm Credit Banks and 1 Agricultural Credit Bank (CoBank)
- Each has own Board and Management
- Direct access to Wall Street money markets through issuing bonds and notes
- Regulated by Farm Credit Administration (FCA)
- No Federal or other subsidies
- Centennial celebration in 2016!

## Overview

- Chartered territory: New York, New Jersey, CT, MA, RI and NH
- 13,000 members, including 3,000 dairy
- \$4.7 billion in loans: \$1.1 billion in dairy
- High credit quality – 96% Acceptable overall and dairy 94%
- \$18.6 million in financial services
  - Accounting and tax services
  - Business consulting & benchmarking
  - Appraisal
  - Crop insurance
- \$803 million in capital and loss reserves

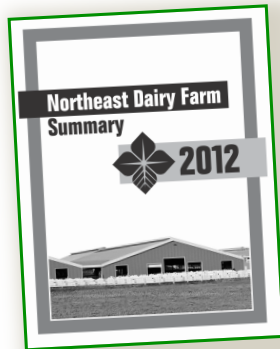


### Lending 101



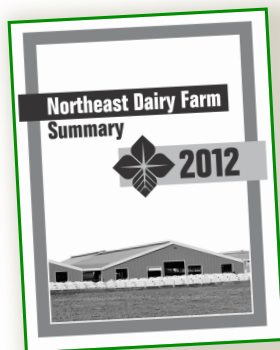
- Full-service, relationship lender
  - Mortgage, capital, operating and leases
- 5 Cs of credit
  - starting with **Character** and **Capacity**
- Blended-debt term
- Commitment vs. outstanding
- “Never borrow your last dollar”
- There in “good times and bad”

### Northeast Dairy Farm Summary

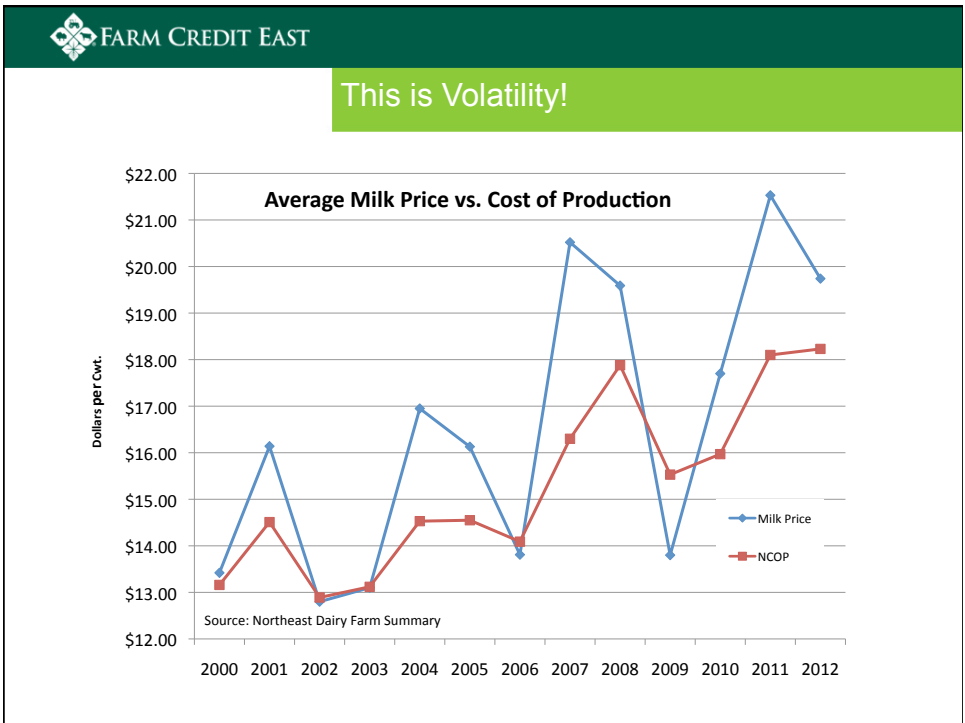
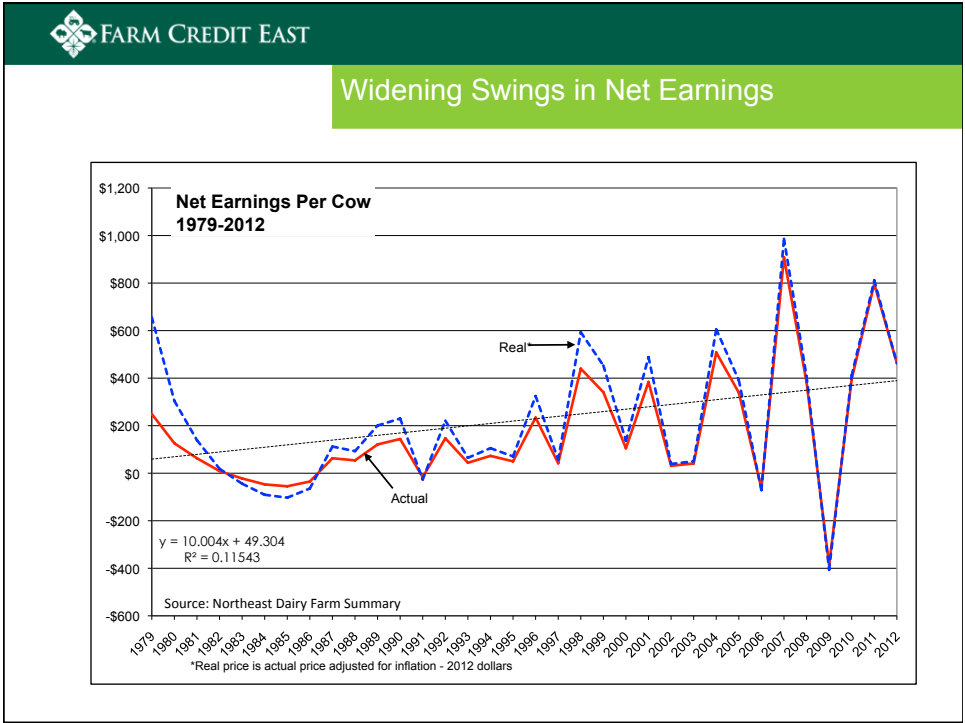


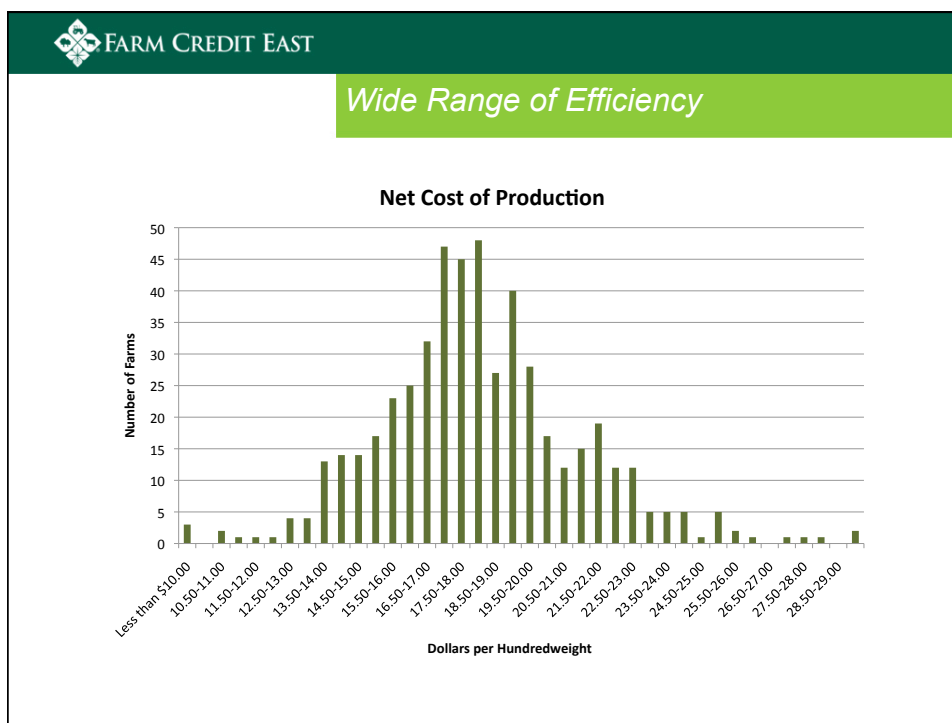
- First full report 1979
- Complete YE financial statements
  - Income & Expense
  - Balance Sheet
  - Basic farm management factors
- Permission of participating farmers
- Data collection completed by 2-28
- Thorough reconciliation & data scrubbing
- Report completed in April
- Farm accounting approach
- For customers & other stakeholders

### 2012 Sample



- 504 dairy farms
- Average operation:
  - 339 cows with production of 23,552 lbs./year
  - 7.2 FTEs of labor
  - 822 cropped acres
  - Net Cost of Production \$18.23 per cwt.
  - Average milk price \$19.74 per cwt.
  - Net earnings \$1.82 per cwt.
  - Assets of 11,408 per cow
  - Debt of \$3,136 per cow
  - Reserve debt capacity of \$2,242



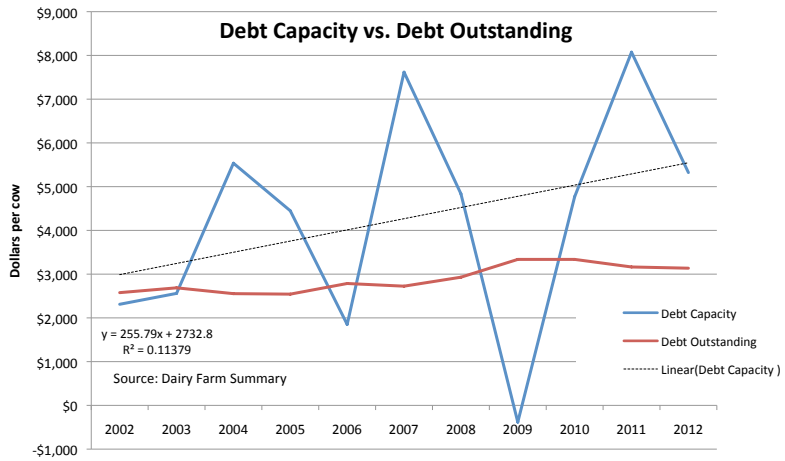


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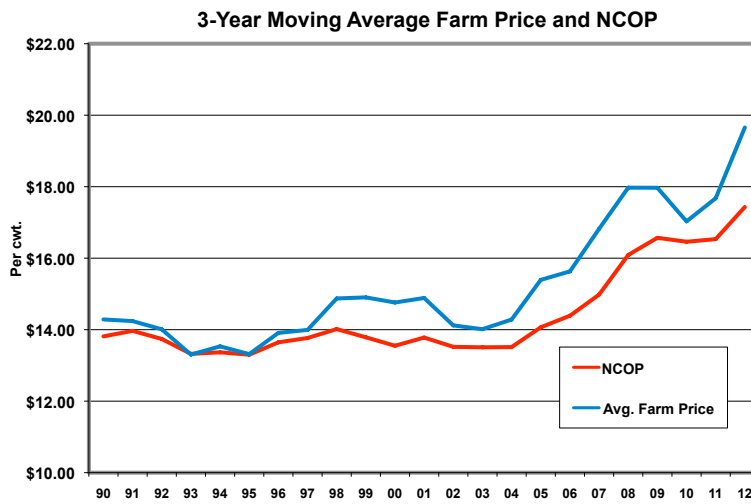
### Managing Volatility

- Low cost of production is the **single best hedge!**
- Liquidity on the balance sheet
  - Pre-paid expenses
  - Deferred milk checks
  - Cash in the bank
  - Income tax management
- Unused credit capacity / Strong lender relationship
- Disciplined margin-hedging program
- Real-time management response

Responsible Use of Credit



Micro and Macro Dairy Economics Profoundly Interconnected!



## Discussion?



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## DFS Take-Aways



### Growing

- Balance sheets are sound and growing
- Farm size & total production is growing
- Productivity is growing
- Net worth is growing = profitable

### But ...

- Maintaining same relative capital position
- Keeping more liquid
- Increased volatility
- Farming about the same acres per cow