



# AGTEXAS

FARM CREDIT SERVICES

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**Tahoka Insurance Office**

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**Stephenville Appraisal Department**

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Stephenville, Texas 76401  
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**Lubbock Appraisal Department**

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Dear Stockholder,

“It was the best of times; it was the worst of times.”

When you consider the volatility that we have witnessed in the agricultural economy lately, you might agree that this famous literary statement sums it up very well.

Rising commodity prices have helped most farmers offset their escalating input costs, but they have also put the squeeze on other agricultural operations, such as cotton farmers, animal agriculture, feedyards, farm-supply vendors and grain elevators. And, as other segments of the general economy have experienced slowdowns, agriculture has felt the effects of that, too. With all the record changes, it has certainly been an interesting time to be in agriculture.

It is also a time that has made me extra proud to work for AgTexas Farm Credit Services. The Farm Credit System was created by Congress in 1916 and was given a mission to be a reliable source of financing for agriculture and rural America. Farm Credit has fulfilled that mission for more than 90 years, and it becomes even more significant in times like these.

When markets become volatile, lending risks increase, and commercial lenders often back away from agriculture. But Farm Credit never will. We are with agriculture for the long haul. Creditworthy borrowers throughout rural America will always have access to credit through the Farm Credit System.

At AgTexas Farm Credit Services, we are committed to the agriculture industry and to the rural communities in our territory. We are proud to support agriculture and youth programs, including FFA, FFA Alumni, TALL Program, 4-H, Optimist Club, Lions Club, Rotary Club, Ag in the Bag, Young Farmers and Little League, to name just a few.

In addition, we offer a variety of lending programs to meet all of your needs. If you are looking to improve or expand your operation, give us a call. We finance improvements, facilities and equipment. We also offer lines of credit for your operating needs.

All of the loan programs at AgTexas are structured with our customers in mind. We understand the unique needs of agriculture and rural lending. Plus, we are fully aware that, because we are a cooperative, it is you — our customers — who own our business.

Once again, we thank you for your business and remind you that we are here for you. If we can help you in any way, call or come in for a visit today. We look forward to serving you.

Sincerely,



Mitchell Harris  
Chief Executive Officer



Part of the Farm Credit System

# THE FUTURE IS BRIGHT for AgTexas

As the newly elected chairman of the AgTexas Board of Directors, I want to share with you what excites me most about the future of your association.

We are in an excellent position to capitalize on today's market opportunities, and we owe a lot of our current success to our former chairman, Gary Matthews. His leadership was invaluable in making AgTexas a major competitive force in our service territory.



AgTexas has changed and matured significantly since the original merger of Lubbock PCA and Stephenville PCA in 1999. Gary guided the association through those changes, helping us to adapt to changing market conditions and to enhance our operations to meet those challenges.

## Financing Agriculture and Rural Real Estate

In 1999, the newly created association held total assets of \$120 million, divided predominantly between crops and livestock. One of the original goals of the merger — to diversify the loan portfolio — had seemingly been achieved with a mix of cotton, peanuts, and dairy and beef cattle.

However, no sooner had that goal been accomplished than the board and management faced a new challenge. Production agriculture in the eastern portion of our territory underwent a rapid and radical change. With the introduction of transferable peanut base, thousands of acres of peanut production moved from central to west Texas. At the same time, the traditionally strong central Texas dairy industry accelerated a transition to north Texas, New Mexico and Kansas. To offset this production shift, the AgTexas board sought and was granted expanded lending authority to make long-term rural real estate loans.

## Changing to Benefit Customers and the Association

Additional lending authority called for new procedures, products and services. It was necessary to meet the needs

of both the existing members involved in production agriculture and a new customer base of people buying rural land for investment and recreation.

AgTexas divided its operations into four regions, created an appraisal department and developed loan products to fit real estate transactions. The association benefited from the changes, because loan volume grew and the portfolio was diversified even more with an improved product mix.

## Then and Now: How AgTexas Has Grown

As seen in the accompanying charts, AgTexas has grown and diversified significantly since 2003. The resulting diversification of our loan pool should reduce overall risk to the association. Here are some of the highlights:

- Long-term volume has increased from 41 percent to 64 percent since 2003.
- Overall loan volume has increased \$171 million during the same period.
- In 2003, 78 percent of our loans were linked to crop and livestock production and subject to the unpredictability of production agriculture. Today, those loans have been reduced to 43 percent.
- Today, 40 percent of the portfolio is supported by off-farm income related to investors, part-time producers and ag-related businesses.

## Keeping an Eye on Efficiency

The association continues to look for ways to enhance operating efficiencies, such as the recent consolidation of three offices. Because of advances in communications technology and the widespread use of the Internet today, consolidations result in minimal service disruptions. The consolidation has also helped us mobilize our lending team.

Additionally, products like FastCa\$h and AgriLine provide a more convenient way for members to conduct business, without spending time and travel expense to come into the office. The board and management feel that these changes, gradually implemented over several years, have allowed AgTexas employees to provide better service to our members. The changes have also positioned us to be more competitive and responsive to new opportunities.

## What Does the Future Hold for AgTexas?

No one can say for sure what is ahead for AgTexas, but if trends persist, we will continue to enjoy a diversified and healthy mix of short-term production and long-term real estate assets in our loan portfolio.

It is reasonable to assume that the association will experience more rapid growth in real estate lending over the foreseeable future. We have experienced exceptional growth since we first started making real estate loans, especially during the past two years. Our credit delivery system provides for faster loan closings and allows the organization to handle more loans with greater efficiency.

We are especially proud that, as our loan volume has grown, we have maintained strong credit quality, with 98 percent acceptable credit.

This is truly a testament to the long-held credit standards of our lending team.

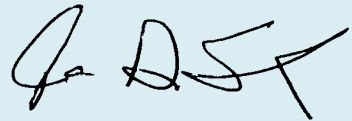
The AgTexas board and management also realize that we must continue to use our asset base

well to sustain our growth and increase our profitability. To that end, we will strategically leverage the association's capital base, while still retaining a cash-based patronage program. Furthermore, we will continue to implement new products and processes, developed both internally and in conjunction with the Farm Credit Bank of Texas.

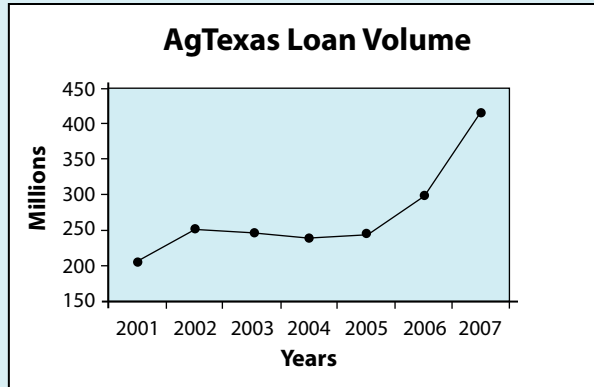
We recognize that these are uncertain times. While crop prices are generally strong, operating expenses have also seen significant increases, resulting in greater risks. Because we have managed our business well, we can and will maintain our commitment to serve quality, creditworthy members through good times and bad. We will also continue to aggressively pursue new, quality business.

We enjoy the opportunity to serve you, and look forward to even better years to come.

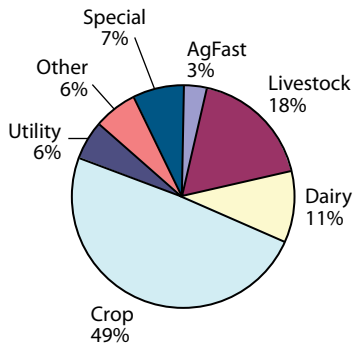
Sincerely,



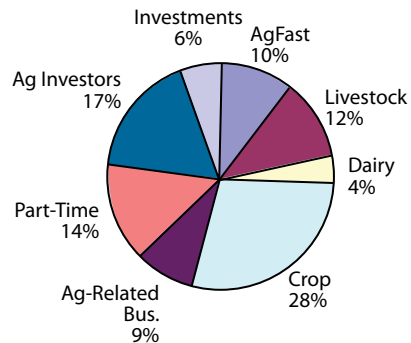
James Ray Schronk  
Chairman of the Board



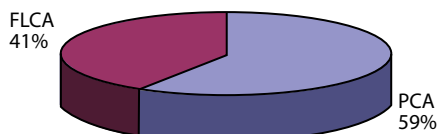
### 2003 Loan Portfolio



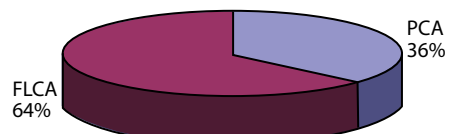
### 2007 Loan Portfolio



### 2003 Loan Type Mix



### 2007 Loan Type Mix



# FROM WALL STREET TO MAIN STREET:

Where your Loan Money Comes From

You already know that AgTexas FCS does not take deposits. Did you ever wonder where we get the money to lend to you? We're glad you asked.

The short answer is that we get money from Wall Street by selling bonds to investors. We lend the money that is raised, and as you repay your loans, we repay the investors.

However, AgTexas doesn't have to go straight to Wall Street to sell our own bonds. We get our money directly from a wholesale bank, the Farm Credit Bank of Texas, of which AgTexas is a part-owner.

It is one of five banks in the nationwide Farm Credit System.

All of the banks in the Farm Credit System work through the Federal Farm Credit Banks Funding Corporation, which sells bonds on their behalf. It's a good deal all around. Because the Farm Credit System has been doing well for so long, the investment community has a lot of faith in us, and we get a good rate.

Ultimately, all the benefits that we receive as part of the Farm Credit System are passed along to you, our valued member-stockholders.

## Top Ten Reasons to Do Business With AgTexas FCS

- 10 We are part of the Farm Credit System, the largest and oldest source of agricultural financing in the United States.
- 9 With decades of experience, we are specialists in financing agriculture and rural America. You won't find our level of expertise elsewhere.
- 8 Because we understand agriculture, we can structure a loan package to work with your production cycle.
- 7 At AgTexas, we value the relationship we have with each of our customers. We strive to know you personally, so that we can help you accomplish your goals.
- 6 We offer cash management products that can help you better manage your cash flow. In addition, we offer services, such as crop and life insurance, which can safeguard your agricultural operation in the event of a disaster.
- 5 Our customers believe in what we do; the majority of new business is a result of referrals from satisfied customers who already do business with us.
- 4 AgTexas is a cooperative, which sets it apart from other types of lenders. We are privately owned, just like other banks, but the difference is that our stockholders are our customers.
- 3 We offer competitive rates and terms, plus we provide unique benefits as a result of our cooperative structure. For example, we have co-op tax advantages and are able to pass those savings along to our customers.
- 2 AgTexas is governed by a board of directors elected by our stockholder-members. As a stockholder, you are able to vote in board elections.
- 1 Because we are a co-op, owned by borrowers like you — you share in our earnings!