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A New Season in Ag Lending



There is a time for everything and a season for every activity under heaven. This well-known Biblical reference seems especially fitting when you consider recent events in agriculture and the financial sector as a whole.

Over the last few years, AgTexas has experienced tremendous success. For the most part, conditions have been aligned well for rapid growth. It has been a fun and exciting time to be in agricultural lending. We've been able to grow the cooperative and, equally rewarding, we have had the opportunity to watch many of your operations grow and prosper.

That is not to say that everything has been perfect. We've witnessed adverse weather conditions at times and input costs that have continued to escalate. Commodity prices have been unusually volatile, and some ag sectors have suffered. We've had our share of difficulties, but our high level of growth has been sufficient to compensate for them. When one area of our portfolio has been weak, another has been strong.

As always, our key responsibility is to safeguard the financial integrity of the co-op, but in a season of economic weakness and financial volatility, as in seasons of prosperity and growth, we must be keenly aware of the shifting winds and prepared to adapt accordingly. Today, we can best serve the co-op and protect its financial well-being by exercising caution as we grow, and possibly by adjusting our patronage program. We must also keep a close eye on our current portfolio and watch for signs of trouble.

At AgTexas, we have a mission to serve agricultural producers and rural property owners. Our resolve to fulfill that mission is strengthened in times like these. The current economy has created a financial struggle for many agricultural producers, hitting some sectors particularly hard. If you are facing hard times, we understand and will do our best to work with you in your particular situation. We also will work hard to protect your investment in AgTexas, so that we can continue to be a dependable source of credit in the future, even when other banks pull back.

Even in the darkest, coldest months of winter, it is good to know that spring is coming. Together, let's hunker down and ride out this cold spell, as we watch for the budding of economic recovery, thankful that a new season is always just around the corner.

Sincerely,

Mitchell Harris
Chief Executive Officer



Part of the Farm Credit System

A Good Ride *and a Lot of Fun*

AgTexas members and business owners Brad and Nancy Allen share how they have diversified their business over the years.

With the economic instability of the past several years, many investment portfolio owners have wished for better diversification because they understand that being diversified reduces their risk. The same is true for business operators, especially those who are focused in agriculture. But finding the opportunities and means to diversify can be a daunting task. The concept is easy to understand but hard to implement.

AgTexas members Brad and Nancy Allen know that all too well. The Stephenville couple has been working hard to diversify since they started their business 25 years ago.

Growing a Business

In 1984, Brad and Nancy began investigating various agricultural-based opportunities, primarily to provide vocational training for people with disabilities. Brad determined that a nursery would meet their needs. He and Nancy began with crepe myrtles, training their students in methods of planting, watering, pruning and caring for their crop.

Hundreds of plants became thousands of plants, prompting Brad to search for a way to effectively market their expanding inventory. He contacted the management of Wolfe Nursery – a large commercial enterprise with more than 25 retail locations – and the nursery agreed to sell the crepe myrtles. Eventually, Brad and Nancy purchased their growing operation from Wolfe, leaving the company to focus on retail sales. Green Creek Nursery was born, with a contract for Wolfe to purchase their production.

Looking for a New Market

A few years later, Wolfe Nursery filed for bankruptcy, leaving Green Creek with a large inventory and little market. It was a struggle, but the Allens survived. Brad and Nancy recognized the need to diversify beyond their original products, so they asked themselves one question that every individual in production agriculture should ask: What can we grow that the market will buy?

While this is hardly a revolutionary idea, many business owners fail to consider



whether the market demand for a product is sufficient to result in a profit. And Brad wasn't interested in a marketing plan that relied on an unknown chance of revenue. He says, "I didn't want to simply take my product into town and see what they'd pay me for it."

After determining what could be profitably produced and sold, the next step for the Allens was to define their market. The total nursery market is divided into three primary segments: big box stores, wholesale distribution centers and retail. While all three outlets offer opportunities to move product, Brad and Nancy elected to focus on the wholesale market.

Brad says, "I'd rather have 500 customers that generate \$10,000 in annual sales than two \$2.5 million buyers." The result is a diverse market that still provides an efficient and profitable volume per transaction.



Shrubs are grown in pots inside of larger pots that are set in the ground. This eliminates the practice of digging and repotting the plants before they are sold.



Above: Joe Huddleston, left, AgTexas regional vice president in Stephenville, reviews a spreadsheet with Brad Allen.

Implementing a “Grocery Store” Concept

Green Creek’s primary buyers are commercial landscapers and independent retail outlets. Buyers can place their orders by phone, online or in person. A “grocery store” concept has recently been implemented which allows buyers to view and select from more than 200 different plant types that are displayed in a single centralized area. Customers save valuable time filling orders by eliminating the need to search more than 275 total acres of inventory.

In 2005, Green Creek further diversified its market reach by purchasing a wholesale lot in Lubbock, with inventory shipped from the Stephenville complex as needed. Brad and Nancy are planning an additional site in Midland, and, possibly, the DFW metroplex.

Promoting Xeriscapes

So what does the future hold for Green Creek Nursery? The Allens believe they will see an increased demand for

xeriscape landscaping, which makes more efficient use of available water. And with a rising Texas population and an ongoing drought, there has been more demand for their inventory of decorative grasses, cactus and other ground covers that do not require extensive watering.

“We will continue to target this growing demand,” Brad says.

Multiple crops, multiple marketing outlets, and a diverse customer base combine to reduce risk for Brad and Nancy. “It’s been an interesting 25 years,” Brad says. “We’ve made our share of mistakes, but we’ve tried to learn a lesson from every one of them. The Lord has been very good to us. With His guidance and plenty of teamwork, we’ve had a good ride and a lot of fun. We hope to be around for another 25 years.”



Long-Time Director Jakie Laughlin Passes

The AgTexas family will greatly miss the wit and wisdom of long-time director Jakie Laughlin, who passed away on June 7. He displayed a wry smile and a unique ability to relate to those around him. Jakie was one of those special people who everyone considered a friend.

He was originally elected to the Stephenville PCA board in 1975 and over the years served as both vice chairman and chairman. Of all his board actions, Jakie was most proud of the 1999 merger with Lubbock PCA and its long-term effect on

reducing portfolio risk, expanding the association's lending base, and providing growth opportunities. Jakie served as vice chairman of the newly formed AgTexas for six years until his retirement from the board in 2006.

Jakie was a tireless supporter of Farm Credit in general and AgTexas specifically. The agricultural community has lost a strong advocate. Those who knew him personally have lost a great friend. He will be sorely missed.

A NEW RESOURCE FROM AGTEXAS

AgTexas is pleased to introduce Ag Banking Online, a new online banking system that you can access from your home computer. Ag Banking Online is one of several cash management solutions offered by AgTexas.

WITH AG BANKING ONLINE, YOU CAN:

- view your account information
- make loan payments
- transfer funds externally between your AgTexas accounts and a designated commercial bank account
- transfer funds internally between your various AgTexas accounts

Ag Banking Online is another way for AgTexas to provide our borrowers with great customer service and convenient products to help them with their success.

Visit our Web site at www.agtexas.com for sign-up information, or call your local office to visit with us about all of our cash management products.

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