



Financial Partner

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CEO's Remarks

By Greg Cole, President & CEO, AgHeritage Farm Credit Services



In 2008, we experienced one of the worst financial crises since the early 1900s, and we continue to face unprecedented events such as this year's record rainfall. The excess moisture placed pressure on planting and harvesting with negative impacts on many cotton producers and other operations located along rivers and low lying areas where flooding has occurred. Despite the challenges, customer-owners are working hard to maximize financial results. Your Association is weathering the environment well with most financial ratios either at budget or above budget through the third quarter. Board and management anticipate paying patronage on 2009 earnings at a level similar to last year. Patronage paid on 2008 earnings was \$2.5 million. Patronage for 2009 will be distributed during first quarter 2010.

The Association is accepting director nominees for the 2010 director election. Director terms are for four years. I would encourage you to consider running for the board. Please refer to page 4 for information about the upcoming director election process. A privilege of being a customer-owner is electing the governance of the Association.

As harvest draws to a close and you begin to think of plans for next year, we encourage you to contact your AgHeritage Farm Credit Services relationship manager so we can help provide solutions for your future business needs. On behalf of the Board of Directors, senior leadership team and employees, we want to thank all of our customer-owners for their business. What a privilege it is to serve the people who feed the world!



The AgHeritage Farm Credit Services Lonoke and Stuttgart staffs with the aid of Central Office employees provided lunch to farmers and their truck drivers on several occasions during this fall's harvest.



Next farmers – business skills

By Hembree Brandon, Farm Press Editorial Staff

Today's producers, and those of the future, must utilize the same management and business principles as major corporations.

The next generation of farmers will foremost have to be good businessmen — “just being a good producer won't be enough,” says Jeremy Jack.

“When my father was my age, he was able to shell 300 bushels of corn in a good day,” the Belzoni, Miss., producer said at the annual meeting of the Mississippi Agricultural Economics Association. “Today, we can harvest 40,000 bushels in a day. Who knows how things will have changed when my son is my age?”

Jack, who earned a master's degree in agricultural economics at Mississippi State University, says the next generation of producers “will no longer be farmers just growing grain and taking it to the elevator — they'll be biological manufacturers of products for specific end users.

“The knowledge tools they will need will include human resources, financial management, ability to delegate, public relations, strategic planning and positioning, macroeconomics, and good channels of information, including legislation pertinent to their business.”

Farms of the future will be of four types, Jack says:

1. **Large commodity farms**, producing as much as possible on as many acres as possible with as little equipment and labor as possible — “very aggressive producers, running farms with a manufacturing mentality, built around science and technological systems.
“There are already a lot

of 20,000-acre farms in the Mid-South; there are going to be more.”

2. **Niche markets**, focusing more on quality than quantity, producing high value specialty crops (such as vegetables) on relatively small acreages.
3. **Weekend farmers/gardeners**, who sell what they produce locally at farmer markets or perhaps through you-pick operations
4. **Those on their way out** — “people stuck in the status quo, who do things ‘because we've always done it this way’ and can't adapt to the changes required to grow and be more efficient. “In times of change,” Jack says, “the learners inherit the earth. The future belongs to those who see possibilities before they become obvious.”

Today's producers, and those of the future, must utilize the same management and business principles as major corporations, he says. They include:

Human relations: recruiting, interviewing, and keeping good employees. “To get high-quality workers, you must treat them as high-quality workers, with good wages and benefits,” Jack says. “Be sure to have detailed job descriptions, so each employee will know exactly what he's expected to do, and conduct thorough evaluations of employees. “Consider attaching goals to year-end bonuses — if an avoidable accident results in

a bonus reduction, it's amazing how that will make an employee more safety-conscious. If you can provide health insurance, that's a plus. We're now looking at college plans for our employees' children.”

Getting good labor was a major problem for their operation, Jack says. “We had good-paying jobs, but we just couldn't find reliable people locally who wanted to work. If you're confronted with an obstacle, you find a way to go around it. For us, that was the government H2A program, which allows us to use foreigners, who really want to work, and come here as temporary workers.

Budgets: “Do them again and again, and include worst-case scenarios — what will happen if everything goes wrong, as it has this year with all the rain and weather problems.

“Try to have monthly meetings with your banker so you'll each know where things stand throughout the year. If you see things are starting to go wrong, you can stop the bleeding before it gets too bad. Use accrual accounting to know where your business stands at all times.”

Delegate responsibilities: You can't do everything on a farm every day — but you have to know how it should be done in case someone doesn't show up,” Jack says. “Make sure you have the correct people doing the correct job. If you don't have needed skills or knowledge yourself, outsource those tasks where

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**Nomination
Period:
November 1 -
December 15**

AgHeritage FCS Accepting Director Nominations

AgHeritage Farm Credit Services will hold the 2009 Annual Shareholders Meeting on April 20, 2010. Director positions up for election are highlighted below. If you or someone you know, who is a shareholder of the Association, is interested in being considered as a director nominee, contact your local branch office or a member of the nominating committee (see listing below). We will accept director nominations from **November 1 through December 15**.

Nominee Requirements:

- Be a voting shareholder and a bona fide farmer. Bona fide means a person owning agricultural land or engaged in the production of agricultural products, including aquatic products under controlled conditions,
- Have an active loan balance with the association and an acceptable credit classification rating,
- And, cannot be 68 years of age or older at the time of election

Director positions up for election are:

- Central Region position currently held by Russell Bonner - 4 year term representing Arkansas, Lonoke, Monroe, Prairie, Pulaski and Woodruff counties
- Northern Region position currently held by Dwain Morris - 4 year term representing Cleburne, Fulton, Independence, Izard, Jackson, Lawrence, Randolph, Sharp, Stone and White counties

For additional information about the election process, please visit our website at www.agheritagefcs.com.

Nominating Committee Members

Tracy Borgognoni · 2726 S. Lakeshore Drive · Lake Village, AR 71653
Jeff Reidhar · 14590 Sandhill Road · Des Arc, AR 72040
Ernest Doyle · 143 Grange Road · Cave City, AR 72521
Larry Dutton · 362 Falcon · Star City, AR 71667
Nicky Hamilton · 184 Jim Hamilton Road · Searcy, AR 72143
Tori Hicks · 1741 Highway 91 · Walnut Ridge, AR 72476
Brandon Parker · 204 High Ridge Drive · Lonoke, AR 72086
Frank Prislovsky · 13335 Highway 63 South · Stuttgart, AR 72160
Tommy Young · 107 Young Street · Tuckerman, AR 72473

Farm Credit System Reports 2009 Third Quarter and Nine-Month Net Income

The Farm Credit System reported combined net income of \$721 million and \$2.018 billion for the three and nine months ended September 30, 2009, as compared with combined net income of \$817 million and \$2.370 billion for the same periods last year. The decline in the System's combined net income for the first nine months of 2009 primarily resulted from increases in the provision for loan losses and net noninterest expense offset, in part, by an increase in net interest income.

"Once again the Farm Credit System had solid performance despite the challenging economic environment," remarked Jamie B. Stewart, Jr.,

President & CEO of the Federal Farm Credit Banks Funding Corporation. "While credit quality in certain sectors of the loan portfolio remains under pressure, the System's profitability has allowed us to build our capital levels. Capital as a percentage of assets has grown from 12.7% at December 31, 2008 to 13.6% at September 30, 2009, supporting the System's mission to provide for the financing needs of credit-worthy farmers and ranchers throughout the United States."

(Full news release is available at www.farmcredit-ffcb.com)



Converting to a Roth IRA

By Paul Parnell, Attorney, Rose Law Firm, a Professional Association

Beginning in 2010, all taxpayers, regardless of income, will be able to convert a traditional IRA into a Roth IRA. Although this affords a tremendous tax planning opportunity, the desirability of making this conversion will depend on individual circumstances. The primary distinction between a Roth IRA and a traditional IRA is a matter of timing. Contributions to Roth IRAs are not tax deductible, but qualified distributions are not subject to income tax. Conversely, contributions to traditional IRAs are tax deductible, but qualified distributions are subject to income tax. In considering converting to a Roth IRA, a taxpayer should consider the current market value of his or her retirement account, current marginal rates and the availability of corresponding deductions, and estate planning opportunities.

Converting to a Roth IRA is advantageous for taxpayers whose traditional IRA is likely to appreciate significantly before the taxpayer begins receiving distributions. Unlike traditional IRAs, Roth IRAs appreciate free of future income tax. For example, if a traditional account is currently worth \$100,000 and is likely to increase to \$500,000 before the taxpayer begins receiving distributions, the taxpayer will save approximately \$140,000 in incomes taxes that would have otherwise been paid on the appreciation (assuming the tax-

payer is in the highest marginal tax bracket).

The disadvantage of converting a traditional IRA into a Roth IRA is that the conversion will be a taxable distribution from the previous account. If this conversion is made in 2010, however, the income tax can, at the election of the taxpayer, be distributed over 2011 and 2012. Paying the tax over two years may reduce the burden, but it still is a significant increase in income taxes.

As a general rule, a taxpayer who expects to be in a lower tax bracket when distributions are received should not convert to a Roth IRA. If a taxpayer is in the highest tax bracket at the time of conversion, then he or she will pay taxes at a marginal rate of 35%. Depending on income levels at the time distributions are received, however, the taxpayer may be paying taxes at a marginal rate of 25% or lower. This downward change in marginal rates may negate the taxes saved on the appreciation and should be considered before converting to a Roth IRA.

Although the current taxation is a disadvantage, a taxpayer may be able to offset the increased income with increased deductions. For example, a taxpayer can plan for increased charitable contributions or increased business expenses in the year of conversion. In addition, deductible carryforwards can offset the increased income and lower taxable income.

Converting to a Roth IRA may also be an effective estate-planning vehicle. With a traditional IRA, the taxpayer's gross estate includes the deferred income taxes, and the distributions will be taxable to the recipients. With a Roth conversion, however, the income taxes paid are not included in the gross estate, and distributions to

the recipients are not subject to income tax. Moreover, Roth IRAs are not subject to the required minimum distribution rules like a traditional IRA; therefore, more assets can appreciate free of income tax. Because of these differences, Roth IRAs can be an effective vehicle to pass more wealth on to future generations.

The primary candidate for a Roth conversion is a taxpayer who is always in the highest income tax bracket and will be subject to estate tax. For others, the decision whether to convert will depend on individual circumstances. If you have any questions regarding converting to a Roth IRA, please feel free to contact your regular contact at Rose Law Firm or Paul Parnell, (501) 377-0436 or pparnell@roselawfirm.com.

This publication does not constitute legal advice and should not be relied upon as such. Any federal tax advice in this communication is not intended or written to be used, and cannot be used, to avoid penalties that may be imposed on the taxpayer under the Internal Revenue Code or to promote, market or recommend to another party any tax-related matter.

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Row Crop Production Meeting

The White County Cooperative Extension Service will conduct their annual Crop Production Meeting in January or February. The exact date has not been set, although it will likely be held near the end of January or the first week of February. This is an excellent opportunity to learn more about the latest research results and how they may be of benefit on your farm. It is also an excellent time to visit with an Extension specialist one on one to discuss any particular crop production concerns you may have. Contact the White County Cooperative Extension Service office at 501-268-5394 for further information.

(AgHeritage Farm Credit Services Searcy office is a sponsor of the Row Crop Production Meeting.)



Scholarship Program: *AgHeritage Farm Credit Services' scholarships reward high school and college students*

Since 2001, AgHeritage Farm Credit Services has offered scholarships to dependent children of AgHeritage FCS stockholder customers. Beginning with the 2007 fall semester, AgHeritage FCS opened the Scholarship Program to college students as well as high school seniors and for the fall 2010 year will also be available to grandchildren of stockholder customers.



“AgHeritage FCS is proud to make scholarships available each year,” said Greg Cole, President and CEO, AgHeritage FCS. “We see the scholarships as an investment in our future.”

Official applications will be available in AgHeritage FCS local branch offices January 1, 2010. You will also be able to print the application at www.agheritagefcs.com. Interested students should submit applications with required attachments to local branch offices by March 15, 2010.

Eligibility and Requirements

- Available to dependent children and grandchildren of AgHeritage Farm Credit Services stockholder customers.
- Fall 2010 full-time student (per college standard) at an accredited undergraduate university, college, community college, junior college or technical school will be eligible. Scholarship program is open to current college students as well as graduating high school seniors.
- Scholarship winners will be selected by an assessment of the following criteria: academic records, involvement in school related activities and extracurricular activities/work.
- Scholarship recipients must be enrolled in their chosen school during the 2010 fall semester. Scholarships will be sent to each school to be applied toward tuition, books or other school fees. Funds will be returned to the association if the recipient is not enrolled.

If you have any questions, contact Sherry Williams, Senior Vice President Human Resources, at 501-210-4028 or at sherry.williams@agheritagefcs.com.



AgHeritage Farm Credit Services, Farm Credit MidSouth and Farm Credit Services of Western Arkansas joined forces at the Arkansas Realtors Association annual convention tradeshow held in September. This year's convention was held in Hot Springs and in keeping with the spirit of the area's gambling and gangster history had a show theme of "Gunning for Success." For the third year in a row, the Farm Credit booth was awarded Best of Show.





SETUP YOUR ONLINE BANKING ACCOUNT TODAY

AgHeritage Farm Credit Services has a new online banking system. With a few simple steps you can activate your AgHeritage FCS accounts. If you have any problems during the setup process, please contact your local branch office.

System Requirements:

- Necessary browser: Internet Explorer 6.0 or 7.0. (as of August 2009 online banking is not certified to support IE 8.0)
IE browser download site: <http://www.microsoft.com/windows/downloads/>
- JAVA plug in 1.4 or higher required for Online Banking (if needed, can download from Online Banking enrollment page)

Steps to Activate Your Online Account:

1. You must add NO-REPLY@OLBFCS.COM to your email address book. Your Online Banking emails will generate from this address, including your activation email.
2. Go to www.agheritagefcs.com
3. Click on Proceed to Enrollment located under New and Improved Online Banking is Now Available.
4. To create your online account, enter your customer number and tax id or social security number.
5. Enter verification and enrollment information.
 - Verify customer number and name
 - Account number
 - Outstanding balance (within 10%) of current principal balance on account number entered
 - User name
 - Password
 - Email address
 - High-speed or dial-up internet preference
 - Press continue
6. Review and accept Master Online Banking Agreement by checking the E-Sign box and pressing continue.
7. You will be directed to the final page of enrollment indicating that your request is being processed. Upon completion, you will receive an email confirmation. After you receive the confirmation, you may use the Online Banking link on <http://www.agheritagefcs.com> to access Online Banking.



Are your investments adequately covered?

Crop insurance should be a risk management tool of every eligible grower. When you consider the major investment made in input costs like seed, fertilizer, crop protectants, irrigation systems and labor; our Arkansas weather that includes hurricanes, flooding, wind, disease and hail events, how can you afford *not* to have crop insurance?

Wise Financial Management

You don't take the risk of driving your truck without automobile insurance and you wouldn't think of dropping your life insurance policy. These are prudent risk management tools that help safeguard you against loss. Likewise, crop insurance is a valuable risk management tool to include in your long-term business plan. Knowing that there is revenue protection gives you the confidence to be a more aggressive marketer.

Maximize Profits

Around 75% of all eligible agricultural acres in Arkansas are insured and new programs are continuously being developed that will increase these numbers. Numerous benefits, including the opportunity to implement a variety of marketing strategies result from a well-balanced crop insurance portfolio. Growers can maximize their profits in good years by taking advantage of high crop markets and benefit from a predetermined minimum cash flow in bad years by using a combination of Federal crop insurance and private products. With crop insurance, growers have a choice of coverage levels ranging from 50-75% on most crops and possibly all the way up to 80 and 85% level.

Provide a Cash Flow Safety Net

Avoid the need for an emergency line of credit in a bad year. A tailored insurance program that meets individual risk management needs is an integral part of a producer's overall financial management program. Crop insurance is timely, meaningful protection that will help you in a time when your operation has suffered losses due to the perils of mother nature.

Manage Increased Risk Exposure

The numerous products and coverage levels available mean that you have the opportunity to obtain the best coverage to fit your specific operation and risk management needs.

The Professional Agent

There are vast differences in the insurance products insuring the various commodities in Arkansas. All Federal Multi-Peril crop insurance, including catastrophic and revenue coverage insurance policies, are available from our agents. Choose a crop insurance agent that is experienced and knowledgeable to help you select the best product and coverage for your operation. Sit down with an agent and discuss your operation with them well before the closing date. To aid in the claim process, agents encourage accurate record keeping and best management practices.

To learn more about crop insurance products, coverage and to find an agent in your area, contact your local AgHeritage Farm Credit Services branch.

FFA & 4-H Program

AgHeritage Farm Credit Services will donate up to \$100 to a local 4-H or FFA county chapter every time you finance an equipment purchase through either a branch office or our financing programs at participating dealerships. Donation amounts are dependent upon the amount of the loan. Donations will be made to the local 4-H or FFA of your choice and in your name. Contact your local branch for details.



From the Board Room

By Michael Taylor, Chairman, AgHeritage Farm Credit Services

This has been a rough year for many Arkansas farmers. At the time of this writing (November 13), many of our rivers are several feet above flood stage. White River is about seven feet above flood stage at Augusta. Almost all of the rice and corn were harvested before this last flood, but many soybeans were caught just before maturity. I estimate that about sixty percent of the beans in the White River bottoms were lost in my area. I believe that we'll look back on 2009 as our example of a very wet year just like many of us remember 1980 for being hot and dry.

Nominees are being sought for two AgHeritage Farm Credit Services Board of Directors positions. One position is for the northern region and is currently held by Dwain Morris of Pocahontas. The other position is for the central region, and this position is currently held by Russell Bonner of Brinkley. Both positions will be for four year terms. It is vital that our association have well qualified candidates for all director positions. If you have a desire to serve as an AgHeritage FCS director, please contact your local loan officer for details.

AgHeritage FCS continues to perform well financially. Growth is near ten percent, and earnings are good. Credit quality is strong. Thank you very much for your business.



Next farmers, *continued from page 3*

you can, whether it be office work, field work, or marketing.

“Good consultants don’t cost money. I look at our fields every day, but we also want the crops checked by other sets of eyes that may spot things we miss. Consultants also have the advantage of knowing what’s going on with other farms in the area — information that may be helpful to you.”

Public relations: With fewer and bigger farms, “everyone in an area knows who’s doing what,” Jack says. “You should make people aware of your business — how many jobs you provide, and the impact of your operation on the local economy. “You should have a plan for every disaster that might occur and how you would deal with neighbors, the press, your landlords, and public officials. Do things right, and let people know you’re doing things right. Don’t take a chance on bad publicity ruining your business.”

Strategic planning and positioning: Have a plan and constantly evaluate it, Jack says. “Challenge your standard operating procedures; continually ask, Is this the right way to do this? Can I do it better, more efficiently? “Challenge everything you do; never be ashamed to admit you were wrong. Watch

what your competitors are doing and learn from them. Always have an eye to the next generation when making infrastructure decisions.

“The main difference between being in the top 10 percent and the top 25 percent is timing,” Jack says. “Are you moving forward as fast as your leading-edge competitors who make up the top 10 percent? Don’t accept limitations — find a way to go around them, as we did with the H2A program to solve our labor problem.”

Macroeconomics: Have a briefing book of information that is important to your business and update it daily.

“Oil, fertilizer, seed, chemical, and commodity prices; inflation; land values; interest rates; dollar value; freight rates; basis prices; government policies — we input all this daily into an Excel spreadsheet so we can see where stand relative to all these factors,” Jack says. “Develop good information channels rather than listening to coffee shop talk, much of which likely isn’t reliable. Start a peer group of fellow producers to share information. I participate regularly in a group of six producers around the country to share ideas and insight. “Participate in management development programs to broaden your knowledge and skills — instead of November to February being deer camp months, use that time for continuing education and executive training seminars.

“Keep informed about legislation on local, state, and federal levels, including tax and environmental policies, trade, energy, finance, transportation, and other issues that affect agriculture. You have to be able to factor all these into your decisions.”



From left, Neal Wimberley, Jack Dalton, Jimmy Winemiller, Greg Cole and Eddie Fuhrman.

Beginning in the fall of 2008, AgHeritage Farm Credit Services Central Office staff were given the opportunity to visit customer operations. The 2nd Annual Employee Field Day took staff to the Winemiller's.

Jimmy and Becky Winemiller have a large cow/calf operation with state of the art facilities. Their integrated operation begins with the feed that they grow and results in the heavier weight cattle produced.



From left, Lana Guthrie, Anna Paul, Kameela Lee, Deanna Speer and Ruth Spiller, Ranch Manager.





Board of Directors

Michael Taylor, *Chairman*
Dwain Morris, *Vice Chairman*
Russell Bonner
Jerry Burkett
Mike Burkett
Chuck Culver, *Outside Director*
J.O. "Neil" Daniels
Mike Ellis
Olan H. Mencer
Terry L. Richardson, *Outside Director*
Thomas M. "Ken" Shea
Keith Watkins

Branch Locations

Batesville 255 East College Street
Batesville 72501
870-698-9044 · 800-572-8165

Brinkley 498 Broadmoor Drive
Brinkley 72021
870-734-4561 · 800-689-1304

Dermott 106 South Freeman
Dermott 71638
870-538-5205 · 800-689-6978

Lonoke Hwy 70 & Academy Street
Lonoke 72086
501-676-3144 · 800-689-1309

Newport 2800 Stegall Road
Newport 72112
870-523-5867 · 800-698-5867

Pocahontas 1105 Pace Road
Pocahontas 72455
870-892-4579 · 800-689-6976

Searcy 2620 South Main Street
Searcy 72143
501-268-3524 · 800-689-6977

Star City 904 North Drew Street
Star City 71667
870-628-4218 · 800-689-1306

Stuttgart 1102 East 22nd Street
Stuttgart 72160
870-673-1558 · 800-689-1307

Central Office 119 East Third Street
Suite 200
Little Rock 72201
501-210-4000 · 800-299-2290

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Events Calendar

2009

November 26-27: AgHeritage Farm Credit Services offices closed in observance of Thanksgiving.
December 1: Searcy Office Customer Christmas Dinner Celebration, Dondie's White River Princess, Curran St., Des Arc, 6 p.m.
December 4: Stuttgart Office Customer Christmas Celebration, 1102 E. 22nd, Stuttgart, 11 a.m.-1 p.m.
December 7: Brinkley Office Customer Christmas Dinner Celebration, Mallard Pointe Lodge, 1097 Hallum Cemetery Road, Brinkley, 7 p.m.
December 8: Pocahontas Office Customer Christmas Dinner Celebration, Black River Technical College, 1410 Hwy 304 East, Pocahontas, 6 p.m.
December 9-11: USA Rice Outlook Conference, New Orleans, LA. For more information, go to www.usarice.com.
December 15: AgHeritage Farm Credit Services director nomination deadline. See page 4 for details.
December 24-25: AgHeritage Farm Credit Services offices closed in observance of Christmas.

2010

January 1: AgHeritage Farm Credit Services offices closed in observance of New Year's Day.
January 4-7: Beltwide Cotton Conference, New Orleans, LA. For more information, visit <http://beltwide.cotton.org> or call 901-274-9030.
January 10-12: Arkansas Agricultural Aviation Association Annual Convention, Wyndham Riverfront Hotel, North Little Rock. For conference details, go to www.agaviation.net.
Late January or Early February: White County Cooperative Extension Services Row Crop Production Meeting. See page 5 for more information.
February 10: 2010 ASU Agribusiness Conference, Fowler Center & Convocation Center, Arkansas State University, Jonesboro. For conference details, contact Dr. Bert Greenwalt at bertg@astate.edu or 870-972-2085.
February 15: AgHeritage Farm Credit Services offices closed in observance of President's Day.
February 26-27: Mid-South Farm & Gin Show, Cook Convention Center, Memphis, TN.
March 1-2: Arkansas Women in Agriculture Conference, Wyndham Riverfront Hotel, North Little Rock. For more details, visit www.arkanaswomeninag.com.

Visit us at www.agheritagefcs.com.