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2005 ANNUAL REPORT

AN ORGANIZATION

# OF, BY AND FOR FARMERS



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# WE'RE WITH YOU TODAY

## MISSION

To be a dependable source of constructive credit and high quality service at the best possible value for farmers and rural residents.

## VISION

To be the lender and employer of choice in our marketplace.

## VALUES

Integrity, respect, commitment, customer focus, high performance and team focus.



Robert Barton



Donald Winters

## A REPORT TO THE MEMBERSHIP

Companies frequently consider mergers for convenience, synergy, operating efficiencies, or simply to achieve greater economies of scale. But mergers are difficult. They are about change and change is hard. Often, there are delays and setbacks and ultimately a proposed deal can fall through. Success of a merged entity is never guaranteed.

Twenty years ago, it wasn't just two companies considering merger. It was 83. It wasn't a merger of choice, but one driven out of necessity with a goal of survival. Against a backdrop of collapsed market prices, skyrocketing interest rates, a glut of over production and shrunken land values, the membership of 53 Federal Land Bank Associations and 30 Production Credit Associations voted to pool resources and capital and create one, streamlined financial entity doing business under the name Farm Credit Services.

In the ensuing years of the late 1980s and 1990s, a new kind of Farm Credit emerged ... a leaner, more nimble association that professed a commitment to high performance. Along the way, Farm Credit reached the billion dollar markers in loan volume - \$4 billion in 1997; \$5 billion in 2000; another billion a year later; \$8 billion in 2004 and finally over \$9 billion in 2005.

Over the last two decades, Farm Credit Services of Mid-America became a leader not only in farm finance, but also within the Farm Credit System. Your association has led the nation in growth and in the number of initiatives we began to better serve farmers and rural America. We were the one of the first to introduce individual loan pricing eliminating the 'one interest rate for all' strategy. We were one of the first in the nation to become an agricultural credit association (ACA) which combined long- and short-term lending in one entity making it easier and less costly to do business with us. We led the way for agri consumer financing programs.

That commitment - to be on the forefront and push hard for changes that raise the value to our membership - continued in 2005, and we are pleased to report that Farm Credit Services of Mid-America met and exceeded our business plan in every area during the past year.

Overall, loan volume grew 10.2%, ending the year at \$9.05 billion or 2.5% better than plan. Net earnings were \$127 million, \$12.6 million above budget. Our net operating rate dropped to .90% - beating plan by 8 basis points. Nonaccrual loan volume remains impressively low, representing less than 1% of all volume. The year ended with nonaccrual loans at \$51.2 million, \$12.7 million less than planned. The credit quality of our loans remains exceptionally sound with less than 2% of volume adversely classified.

One could look at the association's numbers today and say they are the result of good management decisions made early on, innovative rates and products that were introduced over time or even attribute a big part of the success to the members who chose to stay with the System in the early 1980s.

Certainly, all of these things played an important role in the association's achievements over the last 20 years. However, we also enjoyed good fortune due to two important developments in U.S. agriculture. The first was the faith that Congress placed in the Farm Credit System in the mid-'80s by extending a \$4 billion line of credit that helped keep the doors open and make way for other pioneering programs. The second is the simple fact that the farm economy began to improve in the late '80s and early '90s.

As we review 2005, and look back on the entire 20 years of our merged association's history, here's a perspective we see:

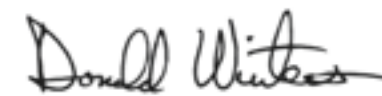
The Farm Credit System had its beginnings in the early 1900s, but in mid-America in the 1980s, it had to begin all over again. From those days, we learned to focus on the members. We learned to be innovative and make changes. We learned the value of operating at a low cost so members wouldn't have to pay more than necessary. And we learned to store capital for a rainy day.

Today, you are part of a cooperative that refused to die because it had the courage to change. That is our story and that is what the past 20 years have been about.

Sincerely,



Robert Barton  
Chairperson of Board of Directors



Donald Winters  
Chief Executive Officer

# AND WE HAVE BEEN FOR ALMOST A CENTURY

Not many businesses can say they have been around for almost a century. But for nearly 90 years, rural America has turned to the Farm Credit System for dependable credit at competitive costs.

From the Great Depression, to Post World War II prosperity, to the agricultural boom of the '70s and its eventual bust in the '80s, the Farm Credit System has undergone significant changes over the span of almost a century. Probably no single change has had a greater impact on the Farm Credit System than laws passed by Congress in the mid 1980s to aid in dealing with the recessionary agricultural conditions which led to the eventual consolidation of System institutions.

In December of 1985, the membership of 83 independent associations voted to create a streamlined financial entity known as the FLBA and the PCA of the Fourth District, doing business under the brand name of Farm Credit Services.

On December 31, 2005, Farm Credit Services celebrated its twentieth anniversary. Twenty years ago, critics said we wouldn't survive. After all, most businesses are created during a time of optimism and ambition. We were borne from turbulence and unrest. Thanks to many factors, including Congressional action in the mid 1980s, stronger credit standards and farmer support, we have emerged as a market leader in farm and rural finance.

Here are a few of the events that have shaped this association over the last 20 years.

## 1986

Individual Loan Pricing was introduced, offering lower interest rates and greater flexibility, giving members the opportunity to choose between fixed and adjustable rates. Rates were based on the member's financial strength – the better the credit rating, the lower the interest rate.

## 1987

Congressional legislation provided a \$4 billion line of credit to System entities to aid in the implementation of recovery programs.

Each Farm Credit office created an Advisory Committee to share its opinions about programs, services and products to the Board of Directors.

## 1988

Members voted to merge the PCA and FLCA, going one step further in consolidating the strength of the Farm Credit cooperative. Now known as Farm Credit Services of Mid-America, the merger created improved financial strength and maximum operating efficiency by consolidating both short- and long-term lending into one entity.

## 1989

FCS reduced stock from 5% for the FLBA and 8% for the PCA to 3% for all loans. As a result, a payment of \$95 million was made to members for excess stock held in the association.

## 1990

Loan volume surpassed \$3 billion. Nonaccrual loans declined to \$142 million, which was a \$400 million reduction over four years.

## 1991

Farm Credit concentrated on growing the business and did so by introducing three strategic projects to ensure long-term success: 1) streamlining business processes, 2) re-examining the office delivery network and 3) concentrating on the business of marketing and selling quality loans.

## 1992

More staff members were placed in direct customer service roles and were specialized into two groups: those serving the traditional farmer and those serving the new and emerging rural and part-time farmer markets. The move allowed staff to concentrate on building skills and expertise in their specific area.

## 1993

Our board voted to affiliate with AgriBank of St. Paul. By joining an 11-state network of associations who were funded from a strongly capitalized and innovative bank, we were in a position to expand our product lineup and introduce long-term fixed interest rates.

## 1994

The benefits from the AgriBank, FCB affiliation started to pay off. We installed a brand new line of products and rates for members including interest rates tied to Prime, Libor and Treasury indexed rates along with fixed rate products out to 30 years.

## 1995

Farm Credit Services returned over \$70 million in excess stock to members. This was the result of the association implementing a new stock policy that required 2% of the loan amount, but not more than \$1,000 for any loan.

## 1996

Farm Credit Services revolutionized its lending process with the introduction of on-the-spot financing. The process promised an immediate decision on operating loans and money out the door the same day. On the mortgage side, the promise was just as bold with a decision within 24 hours and closing within 10 business days. In one year, close to 22,000 loans totaling \$688 million were processed on the new system.

## 1997

While we mobilized staff, we also acknowledged a need to update our offices and pledged to rebuild or refurbish all branch offices over the next four years. Construction on 20 sites started in 1997.

## 1998

It's a phrase we heard over and over throughout the next several years – "long-term fixed rates at their lowest levels." Nearly 10,000 loans totaling about \$1 billion were converted to lower fixed rates in 1998.

## 1999

Members voted to restructure the association into two holding companies – PCA and FLCA. In the marketplace, we were still known as Farm Credit Services. But FLCAs are tax exempt which results in annual savings of about \$25 million. Those savings were passed to members in the form of interest rate rollbacks. For new loans, interest rates were lowered between .25% and .50%. For existing loans, they were lowered an average of .30%, even for members who had fixed rate loans.

## 2000

As a result of strong earnings, the board took action to lower stock requirements again. The decision was made to change the amount of Farm Credit stock required from a per loan basis to a per member basis. The number of loans a member had no longer mattered. As a result, Farm Credit Services returned almost \$20 million in equity to 16,000 members.

## 2001

Recognizing the importance of strong management skills for young producers, Farm Credit began a series of Executive Institute sessions for young farmer customers. Over 100 participants graduated from the program during the next three years.

After residing in leased facilities for 15 years, Farm Credit Services built a new central office in eastern Jefferson County, Kentucky. The 50,000 square foot building became home for approximately 125 employees and another representation of our long-term commitment to agriculture.

## 2002

Farm Credit rewrote its mission, vision and values statements to more accurately define its role and marketplace strategy. The new mission statement incorporated high quality service and constructive credit as two key elements.

## 2003

The association rededicated itself to one of its core goals: serving full-time farmers through the realignment of staff and the implementation of new credit processes. The following year, volume in the full-time farmer market increased 5.8%, reversing several years of flat or lost market position.

## 2004

During the last four years (a period that saw historically low interest rates), Farm Credit Services converted 44,000 loans to lower rates, representing \$6.4 billion in volume. This activity saved members more than \$325 million in future interest expense!

## 2005

Farm Credit clearly led in lump sum tobacco buyout settlements. Over 17,000 quota holders and producers worked with us to get some of the best settlement terms in the market. There were over \$300 million in investments processed, representing about 61% of the market who elected this option.

Farm Credit Services of Mid-America is committed to our members' success. That is why it becomes even more important to ensure our cooperative seeks innovative ways to better serve members.

Over the past 20 years, changes and steps taken to improve service were frequent. We were one of the first associations in the nation to become an ACA - Agricultural Credit Association - which combined long- and short-term lending into one entity. We led the nation in the development of long-term fixed rate products and today, over 70% of our mortgage loans are tied to fixed rates providing absolute rate security to members. We were among the first in the Farm Credit System to implement Individual Loan Pricing and to embrace the agri-consumer market.

We were on the front end of creating programs like one-step construction financing, bare land financing and more recently an equity loan for part-time farmers. We continue to make the investments in technology to assure that we will lead and drive the market. Here are a few of the initiatives that have helped members over the last 20 years:

#### **Competitively pricing loans**

In the mid-'80s, one of the first projects the association embarked upon was to eliminate the one interest rate for all members program. Individual loan pricing became essential in rebuilding and maintaining the financial strength of Farm Credit. This approach recognized the financial strengths and needs of each member and priced loans accordingly. By using individual loan pricing, we were able to attract and maintain members who offered the greatest financial strength to the association. This in turn offered more competitive rates for all members and gave the association fuel for growth.

#### **Going mobile to meet the needs of the membership**

Farm Credit could not out-brick-and-mortar our competition. We did not have the resources to put a branch location on every corner. However, we knew that we had the most experienced staff in the marketplace and we could make them available and we did so in the mid-'90s through mobilization and technology.

We equipped staff with laptop computers, printers, fax machines, cell phones and all the necessary tools to allow them to meet members outside the office setting. The new

technology allowed them to provide faster responses on loan applications and to meet the increasing demand for rapid and convenient access to loans and other financial services.

At the same time, we reviewed our current office structure and pledged to refurbish all existing offices, and build new ones in locations where it made more market sense.

#### **Performing above customer expectations**

In the mid-'90s, FCS tackled the challenge of improving market performance through a commitment to give members "Performance Above Customer Expectations" or "PACE." The PACE initiative focused on doing things as members wanted them done. One element was to reduce paperwork and streamline processes so members could get loan decisions faster. Another was to free our financial services officers from the chores of processing applications so they could spend more time listening to their members' needs and offering solutions.

#### **Providing for the part-time farm market**

Today, associations across the nation turn to Mid-America to learn more about the products and services we offer the part-time farm market. For us it wasn't so much a "discovery" of this market as it was a "reality" of doing business with the type of farmers that comprise much of our market. By numbers, almost 96% of the farms in our four states are considered small farms by USDA definition.

In 2005, FCS grew its position in the part-time market by introducing an equity line of credit, offering purchase convenience to part-time farmers whether they buy a tractor, feed for livestock, make home improvements or send a child to college. In the first year, our Country Line Equity Loan Program generated \$45 million in new business. Interest in this product continues to top the list of downloaded brochures off our website, [www.e-farmcredit.com](http://www.e-farmcredit.com).

Rural homeowners comprise another important group to us, particularly as more and more people who work in the city consider returning to their country roots for breathing room and space to raise families. We now serve more than 15,000 members with over \$890 million in loans.

Paul and Emma Lou Miller took out their first FCS loan in 1977 to purchase seven or eight cows from Paul's father, thus buying into the business. Today the Millers operate a 150-head dairy farm near Newcomerstown, Ohio.

The dairy industry has seen sweeping changes over the last two decades. "The biggest difference is technology," said Paul. "Computers tell us what rations to use. It used to be you fed them whatever you had. The technology also tells us which ones to breed and which ones to dry off."

The Millers' personal situation has also undergone change. Five years ago, two family partners decided to leave the business and the Millers faced a decision whether to stick with agriculture.

Financial Services Officer Kelly Miller remembers well. "I had experience with them," she said. "I knew their excellent credit history, management expertise and their character. I told them they could depend on FCS to be with them if they decided to go on."

The Millers indeed decided to go on! Today their son Brendon helps run the operation, which includes an 1100-hog contract-growing business. Younger children Shelbie and Justin also help out after school.



# DRIVING THE MARKET

*Pictured is the Miller Family – Brendon, Paul, Justin, Emma Lou and Shelbie. Also pictured are Emma Lou and Paul in 1977, the year they were married and had their first loan with FCS.*

Farm Credit stands apart from other companies in one very important way – the desire to promote the unique cooperative approach that lies at the heart of our association. In 2006, we will continue to define and share the value of our cooperative. It's something that members, directors and employees feel passionately about.

Board director Ed Yanos of Indiana sums it up as follows: "When people have ownership, they take an interest in guiding the association – not only in the rates and the products they get, but how it is steered. Being a cooperative means that we are tied to rural America as our charter says, and that we are concerned with only serving rural America,"

Here are a few ways FCS continues to generate value for members:

#### **Creating value through cost savings**

Many producers are feeling the strain from higher energy prices, lower commodity prices and higher interest rates. While we cannot control prices, we can take steps to lessen the impact of higher interest rates and provide the best possible cost of financing to members. Our association pricing committee understands those pressures, and has already acted to absorb some of the recent price increases that were triggered by the Federal Reserve's tightening of money supply.

The association also acted aggressively to help producers manage interest rate cycles (for their betterment) through the development of our conversion strategy. When rates fall, members can often convert a loan to a lower rate or a different product to save money. Since 2001, members have converted 46,000 loans saving over \$334 million in expense.

Because FCS focuses on providing loans at the best possible rates, farmers in our four states - whether they do business with us or not - get better service and better rates than otherwise possible. Farmers in our territory can borrow at some of the most competitive terms around. This is possible because FCS is in the marketplace creating that competition.

#### **Creating value through education**

The federal tobacco buyout became the latest example of how important a cooperative can be to rural America and agriculture. Teaming with tobacco experts from the universities, producer groups and financial sources, FCS staff helped producers understand what was going to happen when the federal tobacco support program ended. We helped producers

and quota holders navigate the buyout program and create new opportunities through lump sum settlements.

We worked to help farmers get the maximum value from over \$3.4 billion pledged for their quota in our four states. Our goal was to help them understand the program, the tax consequences, the competitive offers and how to best re-deploy their buyouts for the future.

Farm Credit Services of Mid-America covers a four state area, but nationally we led the market by processing 30% of all contracts and 61% of the settlements made within our territory. Over 17,000 farmers and quota holders, representing over \$300 million, worked with us to receive some of the best settlement terms in the market.

In 2006, we have already processed 1,660 buyout settlements and while many competitors are no longer around, we are still here and continue to work with and inform producers of their options.

#### **Creating value through community support**

There are many measures to a cooperative's success – earnings, loan volume and the development of new products. But there's another important measure - that is providing resources and support to groups that enrich our rural landscape.

Over the past 20 years, Farm Credit Services has contributed millions to charitable organizations, youth groups, commodity organizations, universities and other entities who help and promote agriculture.

Several new projects were added to our efforts during 2005. We partnered with the Ohio Corn Growers Association to aid increasing its membership efforts. We worked with the University of Kentucky to set up a \$25,000 endowment which is being used to award scholarships in the College of Agriculture. We also made a \$10,000 contribution to the Red Cross for Hurricane Katrina evacuee relief efforts in our association's territory.

While we are always on the lookout for new opportunities, we are proud of our ongoing and long-time affiliations with youth groups like the FFA and 4-H, commodity groups like the pork, dairy, beef-cattle and poultry producers and agricultural groups like the Farm Bureau and the Young Farmers Associations.

Finally, we are humbled by the positive actions of our staff. They devote their time, talent, money and ideas to projects that benefit communities where they live and work, doing many great things to better rural America.

Richard Lacefield has been a Farm Credit customer for over 40 years and has worked with Bob Gaslin since Bob started at Farm Credit in 1973.

Richard farms around 100 acres of tobacco and had a 145,000 lb. base, particularly large for western Kentucky. He also has around 400-500 head of cattle. Overall, Richard has about 5,000 acres in Butler, Ohio, Edmonson and Grayson Counties, a huge farm by Kentucky standards. He will continue to raise tobacco, at least for the short term. His operation is highly automated, which helps his labor situation.

Richard was one of 17,000-plus people who did a tobacco buyout with FCS. His situation was unique because he did a 1031 exchange with his buyout money. Farmers had about three weeks after buyouts began to take advantage of the 1031 exchange, which means Richard sold his quota and invested it in the purchase of a farm. He worked with Bob and Vance W. Cook, an attorney in Princeton, Kentucky, to close the deal. This year, Bob and Richard executed the remainder of the buyout, the production portion.



*Pictured is Financial Services Officer Bob Gaslin with Richard Lacefield outside his unique tobacco barn in Grayson County, Kentucky.*

# THE VALUE OF COOPERATIVE MEMBERSHIP

# TWENTY YEARS OF GROWTH

Of all the important steps we have taken over the past 20 years to strengthen and grow Farm Credit, we know that keeping focus on the member is the ultimate measure of success. Every day, members have to feel Farm Credit is bringing value to their operations.

Over the years, we have taken many strides in rekindling strong member relationships. Nurturing our business with long standing members and creating new relationships with others has led to consistent, quality growth in our portfolio.

## **Rededicating ourselves to the full-time farm market**

Our mission is to provide high quality service to farmers and other entities such as agribusinesses which ultimately improve the “market access” and fortunes of farmers. Over time, we have implemented a number of initiatives to reach newer markets including part-time farmers and rural residents. However, we were also concerned that our core delivery to full-time farmers wasn’t as strong as it needed to be, and that was verified in trends we saw.

Three years ago, FCS rededicated its resources to focusing on the full-time farm market. We called for greater diligence in looking at ways to serve members, applying judgment on loan requests beyond numbers and employing new tools to better serve members and find new ones.

In 2004, Farm Credit saw an increase in the full-time farm market of 5.8%. In 2005, that was followed by an increase of 6%. We believe our organization is effectively serving multiple market segments, and rightly putting its major emphasis on knowing every full-time farmer and trying to do business with them.

## **Reaching the next generation**

The next generation of farmers represents the future of agriculture. In 2005, our board of directors approved three programs to assist young farmers in entering and remaining in agriculture.

The first was providing special underwriting standards to farmers under age 35 and to those who have been in farming less than 10 years. A second waived all FCS fees (and 50% of the required FSA loan guarantee fee) to farmers under age 35 or those involved in farming less than 10 years. A third offered educational reimbursement of up to \$500 when a young or beginning farmer attended a business or ag leadership program.

## **The evolution of crop insurance protection**

Having crop insurance can certainly reduce risks farmers incur and it can help producers forward market and remove risk involved in price fluctuations.

While Farm Credit offered crop insurance 20 years ago, much of our time was spent pursuing ways to improve loan programs and basic service and marketing. In the 1990s, there was significant change, consolidation and upheaval in the crop insurance business and some major crop insurance companies even disappeared.

Farm Credit’s focus over the last five years has been to promote dependable, reliable insurance service to members through direct delivery, or through partnering with reliable partners who offer the same. Many members recognize names such as Broerman Insurance or the Joe Young Crop Insurance Agency, two of our trusted partners.

Through these improved partnerships and direct sales, we grew crop insurance income 3% last year – a very positive outcome since many projections suggested a decrease due to lower commodity prices (commodity price and insurance income are directly related). The outcome shows that we are reaching new members, providing greater acreage coverage or offering higher levels of protection.

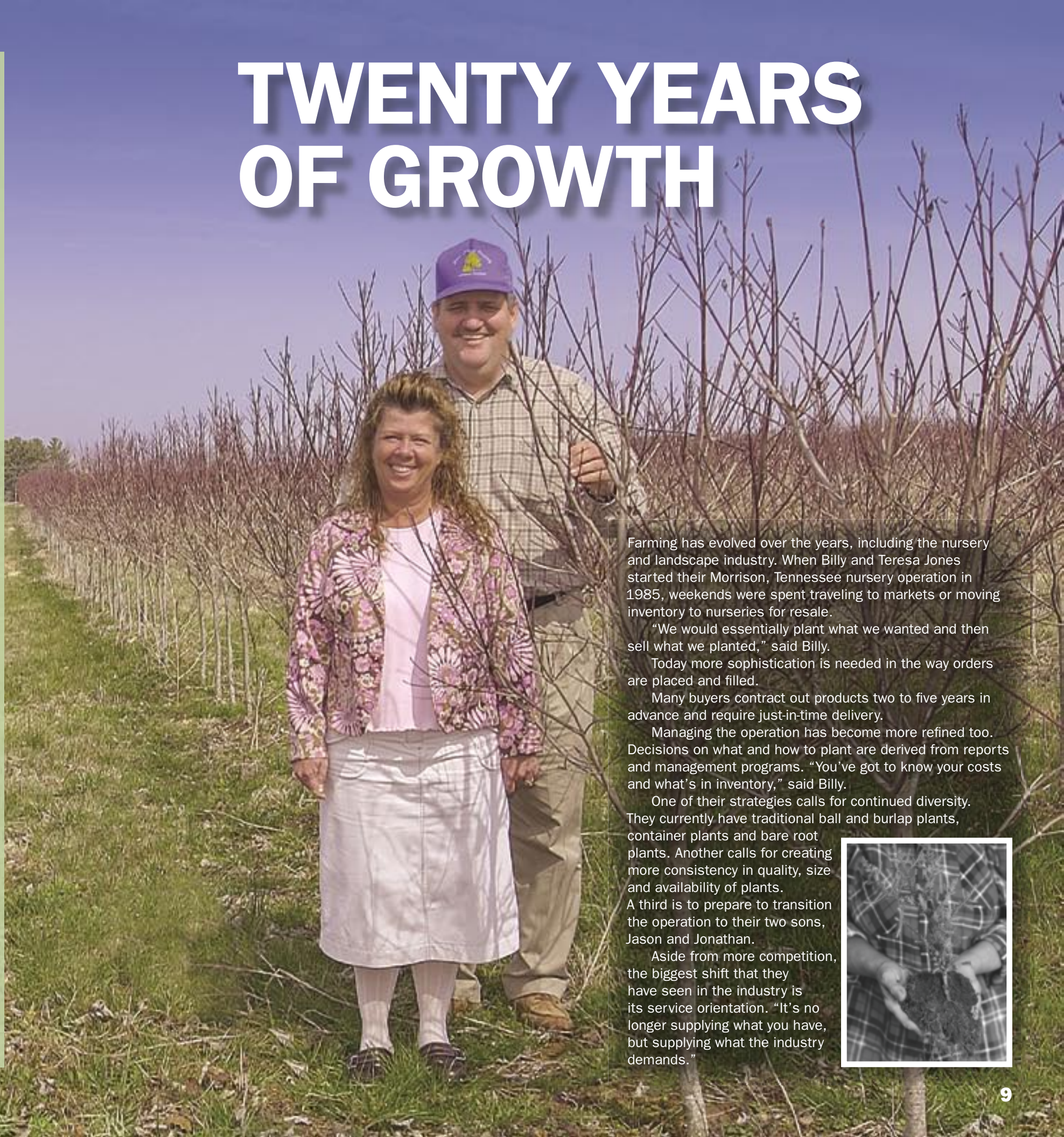
Our goal is to obtain a 10% market share of all crop insurance premium dollars in heavy row-crop markets by 2008. To do that, we have to double our current level of sales. We have committed to a more specialized delivery of crop insurance services and are hiring and training fully dedicated specialists to help achieve this goal.

## **A passion for serving agriculture**

In 1985, there were over 1,200 employees at the Federal Land Bank and Production Credit Associations handling \$4.29 billion in loans. Today, there are approximately 750 staff members handling more than double that volume. Clearly, the association’s objective to staff the organization with high performance team members who deliver high value to their members is working.

We initiated a Leadership College as a way to better develop the skills staff need to become great leaders and who will ultimately play a strong role in the guidance of this association. Forty-five employees have completed Leadership College and another 46 are participating in the program.

Today, a third of our entire workforce has been with the association for 20 years or more. Another third has been hired in the past three to five years and another third fall between those years of experience. We believe that represents a good balance of tenured and fresh experience. Moreover, among the newer faces, many are already performing at an outstanding level. This is a tremendous acknowledgement of the quality of people who have joined our team and the development and leadership they have been provided.



Farming has evolved over the years, including the nursery and landscape industry. When Billy and Teresa Jones started their Morrison, Tennessee nursery operation in 1985, weekends were spent traveling to markets or moving inventory to nurseries for resale.

“We would essentially plant what we wanted and then sell what we planted,” said Billy.

Today more sophistication is needed in the way orders are placed and filled.

Many buyers contract out products two to five years in advance and require just-in-time delivery.

Managing the operation has become more refined too. Decisions on what and how to plant are derived from reports and management programs. “You’ve got to know your costs and what’s in inventory,” said Billy.

One of their strategies calls for continued diversity.

They currently have traditional ball and burlap plants, container plants and bare root plants. Another calls for creating more consistency in quality, size and availability of plants. A third is to prepare to transition the operation to their two sons, Jason and Jonathan.

Aside from more competition, the biggest shift that they have seen in the industry is its service orientation. “It’s no longer supplying what you have, but supplying what the industry demands.”



# PLANNING FOR THE FUTURE

Frank Royalty, Jr. started farming with his father and grandfather when he was a teenager. He received his first PCA loan for a corn planter and tractor in the late 1970s. Since then, he's seen a lot of changes in farming, particularly with equipment and technology.

"The equipment today is so advanced I can't even guess what changes we'll see in agriculture over the next 20 years," he said.

One thing is certain, however, for Frank and his operation; he is looking to expand. He currently farms 1,500 acres of corn and soybeans and has a cattle operation in southern Indiana. Until recently he produced tobacco, but with the federally supported tobacco buyout program, Frank turned to Farm Credit for an up front settlement providing him funds to seek expansion opportunities.

Frank has been a member of FCS for over 25 years and has served on the Scottsburg Advisory Committee at least half that time. Frank's operation is successful through the help of his wife Cindy, a teacher in Madison and his two daughters, Carrie Simpson and Cassie Royalty, a senior at Franklin College. He also has one grandson, Tyler.

*Pictured above are Frank and Financial Services Officer Matt Oberlies. The small picture is Frank on the tractor he financed with the PCA in the late '70s. He's pulling a 6-bottom moldboard plow which was the predominant tillage method then, but you don't see much of that in today's agriculture.*



A strong history of serving agriculture provides even more experience, credibility and resource to help shape farming's future and position Farm Credit Services to adapt and change with its customers for the challenge of tomorrow.

### **Better positioning for the Farm Credit System**

Farm Credit's mission has been and always will be to help maintain the quality of life in rural America and on the farm by ensuring the availability of sound, dependable credit for a variety of financing needs. Today's legislation outlining how we meet that mission was largely drafted in 1971 – 35 years ago. And frankly, the regulations implementing that legislation are in many cases even more dated.

The changes that have taken place in agriculture and rural America since the '70s have been staggering. And as a result, the Farm Credit System frequently encounters legislative and regulatory restrictions when attempting to carry out the mission we have been assigned.

In 2005, the System undertook the HORIZONS project—a grass roots initiative that will help us meet the changing needs of agriculture and rural America. Horizons has involved members, outside-the-System experts, and employees who were all engaged in looking at the future needs of our market and determining if and how current restrictions may limit our ability to meet those needs.

The conclusion was that agriculture and rural America need a specialized and focused lender as much today as ever. With modest, incremental changes in legislation and regulations, the System is well positioned to meet those needs now and in the future. While specific legislative or regulatory proposals have not been finalized, the areas needing to be addressed have been identified.

The proposal is not a change to the System's mission. Rather, it is an attempt to better position Farm Credit to meet its mission in light of changes in the marketplace.

The farmer-directors of the Farm Credit System and your association have overwhelmingly supported the HORIZONS initiative. And in doing so, they reiterate a decades old pledge that rural America has the resources and access to credit that it needs to be as successful as it can be in the future.

### **Expanding our presence in the marketplace**

In the 1990s, Farm Credit Services of Mid-America undertook a major building campaign to modernize most of its field facilities. Today, our delivery network continues to evolve. In 2005, in addition to opening a new office in Eaton, Ohio, a team looked at current space needs and growth opportunities in our marketplace. A key finding was business could be enhanced by reaching into some markets that we are not serving well today.

In some situations, the team's recommendation was to increase our current office space through remodeling and increase staff to capture growth opportunity. In others, their recommendation was to open new offices. In 2006, Farm Credit will open new offices in Chattanooga, Tennessee and Richmond, Kentucky. Based on our continuing market research, we will evaluate the need for additional offices on an annual basis.

### **Being the lender of choice**

One of the most significant efforts made in 2005 was a commitment to pursue an approach called the Balanced Scorecard. The initiative calls for recommitting ourselves to core strategies that have made us successful in the past and will enable us to maximize value to our members in the future.

Our Balanced Scorecard's primary driving statement "is to be the lender of choice in our marketplace." Within the scorecard, there are a number of strategies which were designed from feedback from members and employees. The strategies are logical and straightforward. For example, one strategy is to "be a reliable source of credit." A second is to "understand our market better than anyone." Still a third is to "promote our cooperative and the value we offer." All of these strategies are built on a base of skilled, knowledgeable and high performing employees which will require your cooperative to be the employer of choice in our marketplace as well.

Our Balanced Scorecard doesn't guarantee success, but it does become our map to the future. It helps us be a learning organization and it keeps us disciplined in deciding what we choose to undertake, what we will achieve and how that can benefit our members. Ultimately, we want our members to see value in doing business with us every day.