



Agricultural Financing

An Introductory Overview

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THANK YOU FOR THE INVITATION TO BE HERE TODAY. We will give you a brief overview of what we do and then talk about the challenges that farmers in the Central Valley are having now.

- Yosemite Farm Credit is an ag lending cooperative – We are owned by the Borrower/Members that we serve. Ag lending is the only thing we do.
- We serve our farmers by providing capital (\$\$\$) for the production of food and fiber.
- We make long term ag real estate loans for buying property, construction of ag buildings, and developing irrigation systems and orchards.
- We make crop, livestock, and equipment loans.
- We work with farmers during good times and challenging times.

YFC is part of the Farm Credit System that is celebrating its 100 year anniversary this year.



We have \$2.2 billion in ag loans.

- 80% are located in Stanislaus and Merced Counties, in the heart of the Central Valley – roughly Modesto to Merced.
- We have 130 employees in 6 locations.

We finance a variety of ag operations and our loans are primarily centered in 2 commodities:

- 37% of our loans are to dairymen
- 25% of our loans are to almond farmers
- The other 38% consists of about 50 other crops grown in our area

Most of our loans are secured by real estate

- 80% long term real estate secured
- 15% operating loans, many secured by real estate also
- 5% other types of loans

2015 was a good year for most of our farmers and ranchers;

- Loan credit quality is high
 - Delinquencies at year end were 0.1%
 - No loan charge offs
- Land values remained strong
- However, farmers in our area had to work through significant reductions in irrigation water
 - Those in state and federal projects received zero water allocation from those sources
 - The Merced Irrigation District which irrigates 115,000 acres had zero surface water available. Farmers nearly doubled the amount of ground fallowed to 70,000 acres.
 - Modesto and Turlock Irrigation Districts had less than half of normal surface water available in 2015.

2016 and beyond will be even more challenging for our farmers

- In the past 6-18 months many of our commodity prices have dropped 30-60%.
 - Milk prices have dropped from \$22/cwt. to \$13/cwt. in 18 months.
 - Almonds have dropped from approx. \$4.30/lb. to \$2.00/lb. in the past 6 months.
 - Walnuts have dropped from \$1.90/lb. to \$.90/lb. in 18 months.
- Agriculture in recent decades has been heavily reliant on domestic sales and also exports for their products
 - World economy is weak – China's economy slowing and many other countries that buy farm products have struggling economies.
 - US dollar has strengthened – making our products more expensive.
- Many production input prices have increased despite lower oil prices.
- Farmers plant crops that they reasonably believe they will be able to sell at a profit. It is consumers who ultimately decide what is grown by the choices they make at the grocery store.
- Changes in consumer demand, commodity prices, input prices, and the world economy are typical items that affect the cycles of the ag economy.



Merced River that flows to Lake McClure

The fundamental change for farmers is the water situation.

4 years of drought has taken a toll on farmers, their families, and their communities

- Ground has been fallowed
- Groundwater pumping has increased

People who work on farms lose when drought reduces the number of acres farmed.

Land with water produces:

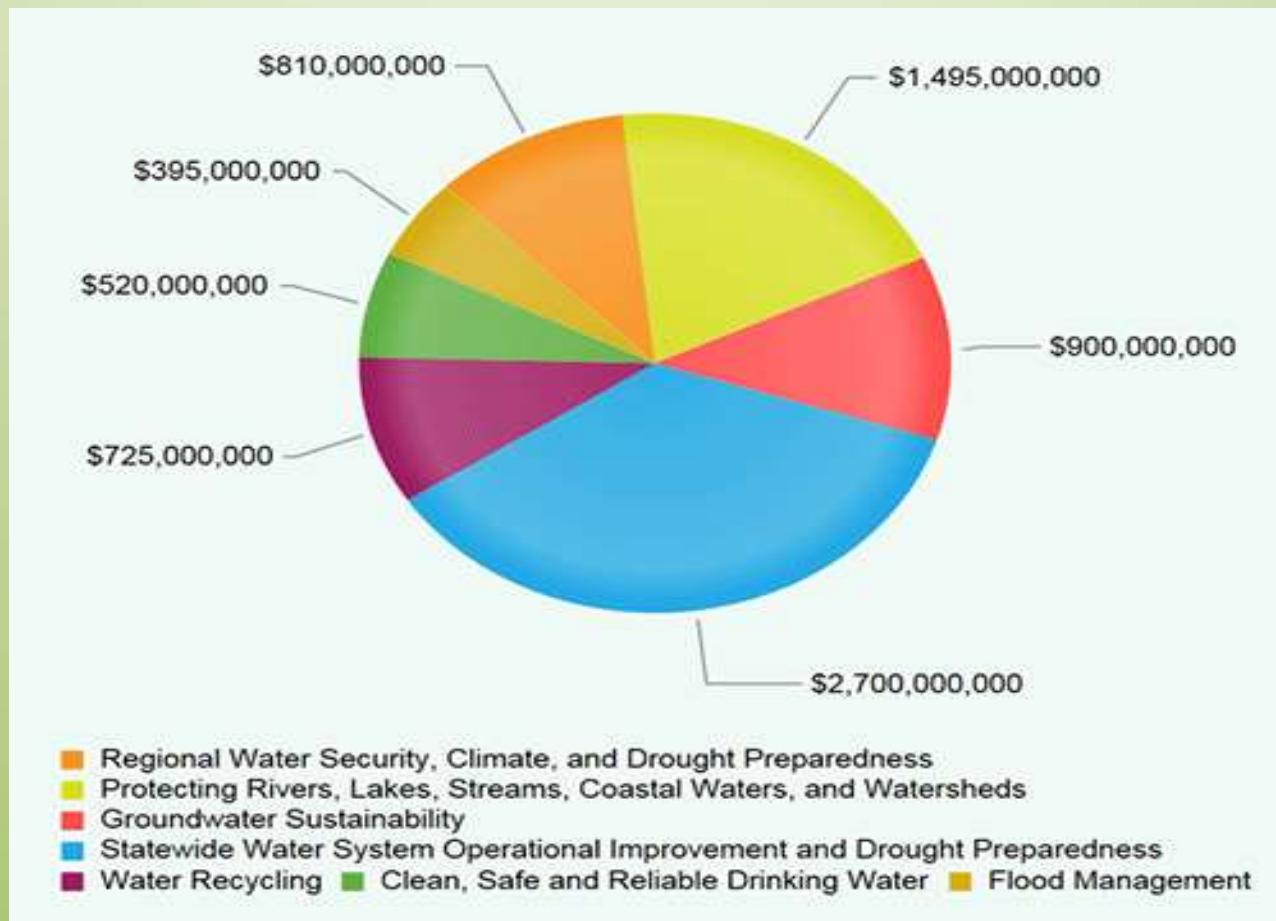
- Vegetables
- Forage crops like alfalfa and corn that goes to feed dairy cattle
- Fruit and tree nuts

Land without a water source is worth substantially less and is significantly less productive. As we mentioned earlier over 80% of our loans are secured by real estate. Our collateral is dependent on the availability of water. The availability of our farmers and the credit to support them depends on water.

Groundwater legislation passed in late 2014 will cause a major change over time in our area- AB 1739, SB 1319, SB 1168

- Many farmers and irrigation districts pump water to produce the food that comes out of the Central Valley.
- The State Water Resources Board is pressing new regulations. This will require the water districts in our area to send more water down the three major rivers in our area for the benefit of fish and the environment – up to or exceeding 40% of the unimpaired flow.
- In droughts and times when districts didn't have water, farmers have pumped even more groundwater.
- That alternative/option is going to be reduced. Groundwater over drafting and subsidence need to be controlled and less pumping is nearly the only option. State law will force this to happen.
- Less surface water available and less groundwater pumping allowed will cause fundamental changes going forward. We expect that over time, more acres will come out of production-perhaps permanently.

- This all comes despite more water efficient irrigation systems and monitoring technology.
- Conservation, technology, and better water management will be a part of the solution.
- Water supply reliability is as important as total water supply in order for farmers to make long-term investments in their operations.



Crops and typical water requirements per acre – (ultimately all water use in Agriculture is for a food product for a consumer)

- Alfalfa - 4 ac. ft. per acre per year
- Corn - 4 ac. ft. per acre per year
- Cotton- 4 ac. ft. per acre per year
- Almonds - 3-4 ac. ft. per acre per year
- Walnuts – 3-4 ac. ft. per year
- Tomatoes - 2 ac. ft. per acre per year
- Vegetables- 2 ac. ft. per acre per year

Water cost

- Water cost vary greatly depending on irrigation district-
 - Merced, Turlock, and Modesto – Districts
 - \$40/ac.ft. to \$225/ac.ft.
 - Exchange Contractors-(Lake Shasta/San Joaquin River Exchange)
 - \$20/ac.ft. to \$60/ac.ft.
 - Federal Water Districts
 - \$400/ac.ft. to \$1,000+/ac.ft.

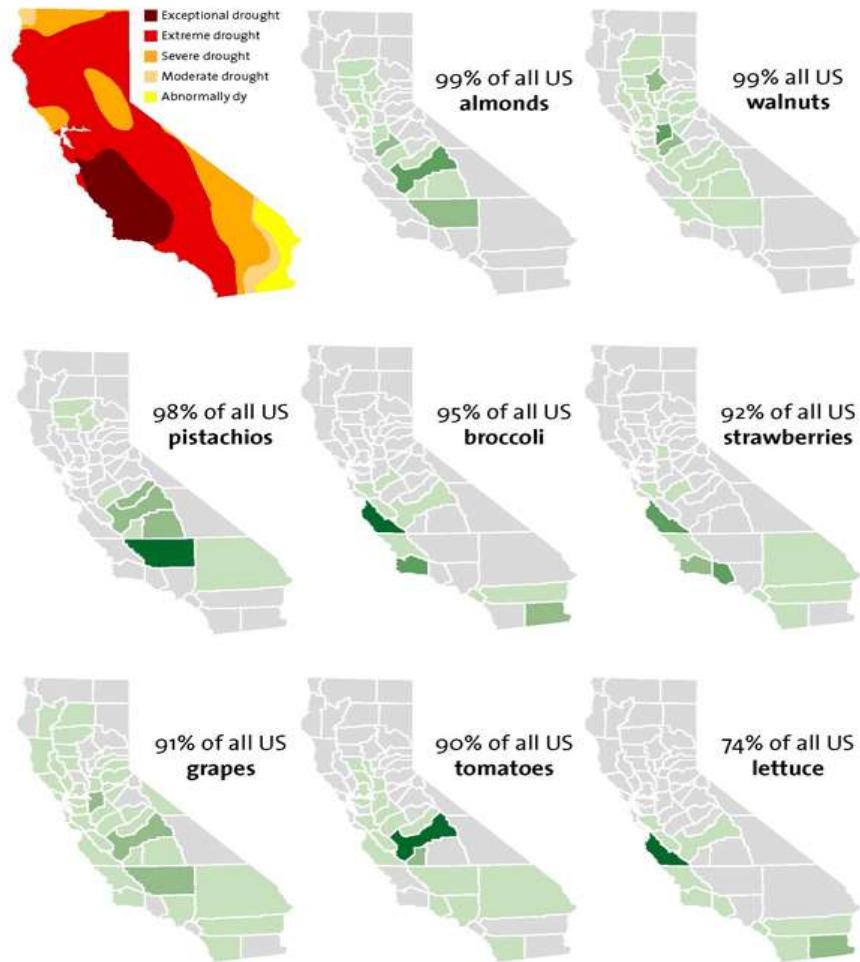
Worldwide food demand is increasing at a time when California farmland is on the decline. Our population will be competing with the growing worldwide middle class for many of the same high quality food products. It makes sense to produce food in areas of the world where it can be grown as efficiently as possible, like California.

Where Does Your Food Come From?

California's drought affects the whole country's fruits, veggies, and nuts.

Percentage of Total US Production by County

<10% 10-20% 20-30% >30%



Crop maps based on 2012 figures. Data: US Drought Monitor, California Department of Food and Agriculture, US Department of Agriculture. Art: US Drought Monitor, Wikimedia Commons.

Mother Jones



Despite that it appears we are headed on the downside of a cycle in agriculture, it is the water situation that is really a major concern and challenge going forward. It is a challenge, especially in the drought but also as farmers look forward to transitions to the next generation. Going back to the Merced Irrigation District the average farm size is 49 acres-some small and some big. Farming in our area has always been a family business. Some of these operations will need to study long and hard to decide if the operations can be viable in the long term as they look at all facets, especially water.

Thank you.