

Leader

A Colonial Farm Credit Member Publication

Fall 2009



Greg Farmer

President's Message

As I write this article, harvest has begun. With few exceptions across our territory, crop yields and quality will be much improved from last year. This year's profitability is highly dependent

upon a good crop, since commodity prices are well off their recent highs.

The current economic recession has adversely impacted many of our borrowers, especially those dependent upon the real estate and construction industries (sod, nurseries, greenhouses, forestry, part-time farmers, etc.) Additionally, dairy, swine and poultry producers are under stress due to weaker demand and low prices. Notwithstanding these challenges, the quality and performance of our locally-originated loan portfolio remain very acceptable thanks to the sound financial positions and proactive management strategies of our customers. Should you anticipate difficulty in making your payments or meeting other loan agreement terms, please contact your credit officer as soon as possible so that we can research all available options to work with you.

The impact of weaker credit quality, slowing demand for credit and lower interest rates will negatively impact Association earnings compared to previous years. However, we still anticipate generating adequate earnings from which to pay our full patronage refund. Our strong capital and liquidity positions, which are among the highest in the Farm Credit System, provide flexibility and "staying power" during periods of lower earnings.

The current economic problems were precipitated by the greed and poor judgment of a minority of financial institutions and consumers and by misguided government policies. Unfortunately, everyone is now paying the price in the

form of lost wealth and significantly increased federal regulations as the new administration attempts to put protections in place to prevent future similar financial debacles. In my opinion, many of these new regulations will provide little practical protection, but rather significantly increase the cost of doing business, thwart efficiency, impede our ability to provide credit to deserving customers in a timely manner and slow the pace of the economic recovery. Honesty and common sense cannot be legislated. Far too much time and effort have been expended implementing procedures to comply with new appraisal, mortgage origination and consumer protection regulations, and it will likely get worse before it gets better. We are working with our legislators and regulator to minimize the impact of these new regulations on our stockholders to the extent possible.

Director and Nominating Committee elections were held in August via mail ballot. Congratulations to the following incumbents re-elected to the board:

- John E. Bickford (New Canton, VA)
- Hugh S. Jones (Blackstone, VA)
- Clarke E. Fox (Capron, VA)

Please mark your calendars for our 2010 customer appreciation dinners to be held May 10 through 13.

You'll notice we're changing the format and frequency of this magazine in order to communicate more frequently and effectively with our stockholders. We welcome your comments.

As the end of the year approaches, we thank you for your continuing support and patronage. May your harvest be bountiful and your Thanksgiving and Christmas be safe, joyful and healthy! ■

New Leader Format

We have a new format for our *Leader* magazine. With this new layout, we can double the number of issues of the newsletter and include information that is more timely and specific to our Colonial Farm Credit members and friends. We are excited about this improvement and look forward to keeping you informed about YOUR cooperative.



HOLIDAYS

Farm Credit Offices are Closed

Thanksgiving

Thursday and Friday, November 26, 27

Christmas

Thursday and Friday, December 24, 25

New Year's Day

Friday, January 1, 2010

Leader is published for stockholders, directors and friends of Colonial Farm Credit.

Address changes, questions, comments or requests for copies of our financial reports should be directed to Colonial Farm Credit by writing P.O. Box 727, Mechanicsville, VA 23111, or calling 1-800-777-8908. Contact us by email: dwheeler@colonialfarmcredit.com. Our quarterly financial report can also be obtained on our Web site www.colonialfarmcredit.com.

Crop Insurance is for More Than Just Insuring Your Crops!

Crop insurance is an important tool for protecting the capital investment in your crops and in protecting your pre-harvest marketing plan. With today's input cost and volatile commodity markets, crop insurance is now more important than ever. While disaster programs have always required you to insure crops of economic significance in your counties, now your disaster benefits are tied to your level of crop insurance protection.

The SURE disaster program provides disaster assistance payments to individual farmers who have experienced an equal to or greater than a 50 percent loss of revenue on a whole farm basis for a crop year. The SURE program provides eligible farmers coverage payments equal to 60 percent of the difference between the Whole Farm SURE Disaster Assistance Program Guarantee and Whole Farm Expected Revenue.



Your Whole Farm Expected Revenue is determined by the following formula:

The greater of the Adjusted APH yield or the DCP yield of the eligible producer (multiplied by) the acreage planted or prevented from being planted (multiplied by) 100 percent of the RMA Established Insurance Price guarantee (equals) Your Expected Farm Income.

The SURE Disaster Assistance Program Guarantee equals the Sum of:

115 percent of *Insured Crop Value* of each insurable commodity PLUS 120 percent of *Non-insurable Crop Value* of each non-insurable commodity Minus Your Whole Farm Expected Revenue Equals Your SURE payment of 60 percent of the difference if greater than zero.

Insured Crop Value = 100 percent of price election x acres planted and/or considered planted x crop insurance coverage level x yield (using the higher of the Adjusted APH yield or DCP program yield)

Non-insurable Crop Value = 100 percent of NAP price x acres planted and/or considered planted x yield (using the higher of Adjusted NAP APH Yield or DCP program yield)

Many computer models show that you will need to have a 65 percent coverage level or higher with CRC or RA (with HPO option) plans of insurance in order to generate a positive number in the formula above. APH coverage with similar coverage levels would be required for crops not eligible for CRC or RA coverage.

It's important to have a farm plan that you have reviewed with both your crop insurance agent and your local FSA officer. Changes in your plan, especially after sales closings dates, can have a material impact on your risk management plan, so plan carefully and work your plan. ■

Call our office and we will be glad to answer your questions.

WELLER AND ASSOCIATES
insurance

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Significant Tax Benefits Available Through Leasing

As year-end approaches, it's important to be looking at the significant tax advantages leasing may offer you. When it comes to acquiring certain facilities, vehicles and equipment, the final months of any calendar year present choices that can have significant tax consequences. In 2009, those choices are further complicated by temporary provisions in federal laws that expire on December 31.

▶ **4th and 40— not the best field position**

If you are planning to purchase equipment during the fourth quarter of 2009, you may want to consider leasing instead to maximize tax benefits and avoid reduced depreciation. IRS "4th and 40" rules govern depreciation deductions when 40 percent or more of a business' equipment is purchased during the fourth quarter of any tax year, and have the potential to negatively impact tax liabilities by reducing allowable write-offs.

Generally, IRS rules allow businesses to take six months' of depreciation on all assets acquired during a year. But if 40 percent or more of equipment is placed in service during the last quarter, the IRS imposes what it calls a "mid-quarter convention."

When that occurs, depreciation for all equipment acquired during the year must be recalculated from the middle of the calendar quarter in which each asset was placed in service. Total annual depreciation deductions are generally lower under the rule.

However, by leasing instead of buying, you can avoid the mid-quarter convention and still acquire use of the equipment. A properly structured lease enables you to deduct the entire lease payment regardless of when the lease was initiated.

▶ **Improving your financial scoreboard**

You also have a rare opportunity this year to increase deductions for capital expenditures for assets placed in service in fiscal 2009.

Earlier this year, the U.S. government passed the American Recovery and Reinvestment Act of 2009, which included an extension of last year's temporary amendment to IRS Section 179. Under the amendment, maximum depreciation is increased to up to \$250,000. In addition, it allows businesses that exceed the \$250,000 deduction limit to take a bonus depreciation of 50 percent on the amount that exceeds the limit, and then take normal depre-

ciation on the rest. It is important to remember, however, that when all of the deductions are taken in the first year via Section 179, you significantly reduce deductions in subsequent years. In other words, equipment that is fully expensed using Section 179 may not be depreciated for tax purposes in future years. Virtually all bonus depreciation deductions are set to expire on December 31.

Another option is the Farm Credit Leasing Bonus Buster Lease, available through December 31 on equipment costing more than \$15,000. Through this program, we'll monetize the depreciation tax benefits we receive and provide you with a lower lease payment over the term of the lease. Additionally, lease payments are 100 percent deductible and you'll increase your cash-on-hand to meet operating expenses.

If you have questions about how leasing can improve your tax position, please contact your loan officer today. ■

Consult your tax advisor to determine the right type of lease for you.

Farm Credit Supports Youth

By: Joan Hill Bearden, Hughesville office

Southern Maryland area youth are hard at work preparing their animals for show and sale at the St. Mary's and Calvert County fairs. They devote a great deal of time, effort and energy to their projects and sharing their skills with others.

Colonial Farm Credit supports these activities by providing sponsorships and volunteers. Farm Credit also offers a special loan program for active FFA or 4-H youth to help them establish and operate income producing projects. The loan program also teaches them

independent financial responsibility and valuable skills on acquiring and handling financing. The program is available to FFA or 4-H members between the ages of 9–21. The maximum loan size is \$5,000 and carries a low interest rate and no fees are charged on youth loans. The loan does require the co-signature of a parent or guardian and proof of membership or good standing in the program. Participating youth must also develop a realistic plan for project repayment. ■



Beau Hall of Chaptico makes final preparations to display his calf to fair attendees

Scholarship Program

Colonial Agricultural Educational Foundation

Colonial Agricultural Educational Foundation's scholarship application for the 2010–2011 academic year will be available the first week of January 2010, with a due date of March 1, 2010. For complete details on scholarships available and their corresponding criteria, visit our Web Site at www.colonialfarmcredit.com then click the Scholarships link.

If you'd like to make a tax-deductible donation to assist the foundation in its mission,

please mail donations to Colonial Agricultural Educational Foundation, Attn: Sue Nicely, PO Box 1162, Mechanicsville, VA. 23111. Donations may be made in memory or in honor of someone and will be acknowledged in the Foundation's annual report.

Additionally, you can support the Foundation's fundraising efforts by dropping off newspapers, magazines, catalogs, cell phones or toner cartridges for recycling at any Colonial Farm Credit office. Thank you for supporting the Foundation! ■

New Hires



Diane Kersey



Ryan Johns

Diane Kersey joined the finance department as an associate accountant on September 8. Prior to her employment with Colonial Farm Credit, Diane worked as a retail sales manager for three years with Strange's Florist in Richmond, Virginia. Diane obtained a B.S. degree in horticulture (minor in agribusiness management) from Pennsylvania State University and grew up on a fruit and vegetable farm in Pennsylvania.

Ryan Johns began employment on October 5 as a loan officer in the Farmville office. Previously employed by Taylor-Forbes Equipment Company, Ryan has 11 years of experience in finance, marketing, and management and has built a vast network of relationships within the agricultural community. Ryan grew up on a tobacco farm in Prince Edward County and received a B.S. degree in business administration from Longwood College (now Longwood University) with concentrations in management and marketing. ■

Log A Load for Kids

By: J. T. Anderson, Mechanicsville office



Colonial Farm Credit participated in the "Fire at McEntire" softball tournament benefitting Log A Load for Kids held August 8, in Charlottesville, Virginia. This is a nationwide effort by the forest products industry to raise money for local Children's Miracle Network hospitals.

The Fire at McEntire tournament raised an estimated \$7,200 for the University of Virginia Children's Hospital. Funds were generated from a combination of sponsorships, team entry fees, raffle prizes, and concession stand sales. Approximately \$15,000,000 has been raised nationwide since the organization was established in 1988.

Farm Credit board members, employees, and family members represented Farm Credit at this year's event. Colonial competed in the "pulpwood" bracket, but fell short of reaching the Championship Game, which was won by Midkiff Logging of Buckingham, Virginia.

In addition to the great action on the field, 2009 Fire at McEntire featured a blood drive, fresh barbeque, and a disc jockey. ■





Keepin' it Rural

Driven by Holly Graves | Photo by Marlene Graves
 Southern Maryland Miniature Horse Breeder
www.whitetailminis.com
 301.536.8639



From the left: St. Mary's County Commissioner Thomas Mattingly; Donna Sasscer, agriculture and seafood specialist for St. Mary's County; St. Mary's County Commissioner Dan Raley; and the Sivak family, Lucille, Bruce, Jenny, Rose, and Mary Lu Sivak

Colonial Farm Credit teamed with the St. Mary's Economic Development Department and others interested in preservation of the rural St. Mary's County to celebrate the accomplishments of 2009, and to recognize the Sivak family for their contribution to farm preservation. ■

What's Cookin' in Colonial?

PUMPKIN NUT ROLL

2 eggs	2 tsp cinnamon
1 cup sugar	1 tsp ginger
2/3 cup pumpkin	1/2 tsp nutmeg
1 tsp lemon juice	1/2 tsp salt
3/4 cup flour	Chopped nuts
1 tsp baking powder	Powdered sugar

Beat eggs at high speed for 5 minutes. Gradually add sugar. Add pumpkin and lemon juice. Mix flour, salt and spices. Fold into pumpkin mixture. Spread in a greased and floured jelly roll pan (cookie sheet). Top with chopped nuts. Bake at 375° for 15 minutes. Turn onto a towel covered with powdered sugar. Trim edges. Starting at narrow end, roll towel and cake. Cool! Unroll and fill. Re-roll. Chill.

Filling:

Beat the following until smooth: 1 cup powdered sugar, 6 oz. cream cheese, 4 tbsp butter, and 1/2 tsp vanilla.



Colonial Farm Credit
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2009 Interest Payments

To have a loan payment credited to your account in 2009 for income tax purposes, it must be made before 1:30 p.m. on Thursday, December 31. All transactions after 1:30 p.m. will be posted effective Monday, January 4, 2010.