



Texas AgFinance

more than a lender...a relationship

Dear Stockholder:

There's a common saying about the weather that also applies to the economy. If you don't like it right now, wait a while and it will change.

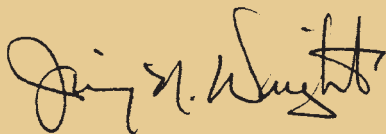
We're experiencing a little of that feeling right now. Last year presented Texas AgFinance with a lot of challenges because of the worldwide financial crisis and volatile ag markets. After years of enjoying a positive lending environment and consistently solid earnings and loan volume, our progress slowed significantly last year. The negative lending environment took a toll on our progressive bottom line. We recognize that unfortunately the economic conditions created hardship for some of our customers, too.

It was a good thing that, after more than 75 years in the business, we had experience weathering the ups and downs in the economy. We held steady, thanks in large part to the solid, conservative lending decisions by management and our board. The cooperative business model upon which Farm Credit is founded also proved to be resilient during tough times.

Thankfully, several months into 2010, the situation shows signs of improvement. Industries that rely on grain prices, such as livestock feeding operations, dairies and ethanol, suffered from a tight financial squeeze caused by extremely high corn prices last year. Now, input costs have stabilized at manageable levels, and market prices have improved, bringing some much-needed relief for many producers. The pork, cattle, poultry and ethanol industries are showing some signs of recovery right now. Unfortunately, much of this relief will come at the expense of grain producers, but commodity prices should also remain at profitable levels.

At Texas AgFinance, we look forward to better days ahead, because we can turn around and share our success with you, our customer-stockholders. As always, we thank you for your business and will strive to meet all of your rural financing needs. We hope that 2010 will be a better year both for Texas AgFinance and for each of our customers.

Sincerely,



Jimmy N. Wright
CEO



We've Got You Covered

The Texas AgFinance Insurance Department helps farmers and ranchers obtain the right coverage to meet their needs.

“What else can we do to help you today?” is a phrase often used in the Texas AgFinance insurance department.

We have been in the insurance business for more than 20 years and are dedicated to the success of our customers. With branches in Bandera, Brenham, Pleasanton, Robstown, San Antonio and Uvalde, we have the opportunity to deal with a large area and varied risks. Our department takes pride in going the extra mile to help people maintain their businesses.

“Farmers and ranchers are operating on tighter margins than ever,” says Justin Walker, insurance representative for Texas AgFinance. “Managing input costs is important, and we like to help our customers make the best decisions for their operations. Insurance not only affects a business from a cost standpoint, but it also has a huge impact on whether or not an operator may be viable for the next crop year after suffering a loss. It’s our job to assist in managing that risk.”

The insurance department has a goal of exceeding customers’ expectations. “Our customers are our bosses, and we want to work hard for them and with them,” Walker says. “If someone gives us their business, it’s our job to give them back more than a baseball cap and a free pen — but we have those too!”

Crop Insurance

Texas AgFinance works with two companies that offer Federal Crop Insurance: ProAg, in Amarillo, Texas, and NAU Country Insurance, in Ramsey, Minn. Charmain Nelson, insurance specialist, says, “Offering to place business with more than one company allows us to stay flexible and react to customers’ requests. We are excited about working with both of these companies.”

The Federal Crop Insurance program was established by Congress in 1938. It was restructured in 1994, which led to the formation of the Risk Management Agency (RMA) in 1996. In 2009, Federal Crop Insurance protected \$80 billion dollars’ worth of America’s food supply on 264 million acres of land.

Pasture, Rangeland and Forage

The pasture, rangeland and forage products have only been around for a few years, but the program is becoming more popular. What started as a pilot program by the RMA is growing into a viable option for producers who have recently experienced a drought. “I think the program is a good choice for lots of operations,” Walker says. “Typically what we have seen has been positive. As with any new product, there are some bugs to be worked out, but I think RMA is committed to doing that.” Currently Texas AgFinance insures more than 590,000 acres of pasture, rangeland and forage.

Clients select a percentage of coverage, and then select their location on a grid that covers the designated program area. They then choose two-month intervals they want to insure. The process is simple and quotes can be done in a matter of minutes.

Crop/Hail

Crop/hail coverage is unique; even perfect farming practices won’t protect you from bad weather. Pests and disease can be controlled, but the weather is different. With the ever-changing weather patterns we experience, there are pitfalls everywhere. “Most of our producers in the Uvalde and Brenham areas won’t operate without crop/hail policies,” Nelson says. “They are



concerned about a severe storm destroying a good crop. We talk to the farmers about this every year and try to help them make informed decisions on what to invest in.”

WeatherBill

Texas AgFinance is excited to announce a partnership with WeatherBill. WeatherBill is not an insurance company; rather, it is a company that writes contracts on the weather. This new partnership allows Texas AgFinance to offer rangeland/drought contracts in areas that are not allowed to participate in the Federal Pasture Rangeland and Forage program. WeatherBill provides producers with coverage based on the amount they stand to lose in the case of inclement weather.

WeatherBill offers contracts on things like spring freeze, fall freeze, corn pollination heat protection, rain on harvest, and rain on hay. “Whether it is too much heat at the wrong time, rain on hay that was just cut, too much rain during harvest, or a fall freeze that damages your winter crops, WeatherBill has a contract to protect your business,” says Walker. “We have also had some interest in counties where the Federal Pastures Policies are not available, so we are looking forward to offering this product to everyone.”

Life Insurance

Texas AgFinance also offers term life insurance through Minnesota Life. In addition to protecting your business, it’s important to provide for the well-being of your family. Texas AgFinance is glad to help with that need, and the fact that we have more than \$10 million worth of life insurance currently in force shows our dedication.

The insurance department at Texas AgFinance is excited about the future. “We provide insurance as an added benefit to our association customers. As an ag lending cooperative, we are not dependent on insurance as our only source of revenue, which makes us different from standard insurance agents. This allows us to turn our attention to the client’s needs, not just the need of generating premium dollars,” says Walker. It’s truly a department dedicated to being the leader of the customer service pack!

How WeatherBill Works

As a valued customer, we’d like to introduce you to a new product for protecting your business against adverse weather.

WeatherBill provides weather coverage — contracts that pay out based solely on specified conditions. Whether your concerns involve drought, excess rain, heat or freeze, WeatherBill offers a range of products that you can customize to protect you from specific weather risks. Some of these products are:

Spring freeze protection

Pays for a freeze that lowers yield or requires replanting

Fall freeze protection

Pays if a freeze hits before crops reach maturity

Low heat units protection

Pays if a cool summer prevents crops from maturing before the first killing freeze

Corn pollination heat protection

Pays for high temperatures that jeopardize pollination

Rain on planting protection

Pays if growers can’t plant during the ideal time

Rain on harvest protection

Pays for rain that decreases crop quality and yield

Rain on hay protection

Pays for rain that turns premium alfalfa into feeder hay

Drought protection

Pays for lack of rain that decreases crop quality and yield

Rangeland drought protection

Pays for lack of rain that reduces forage and raises feed costs

Farm Credit Young Leaders Visit Nation's Capital

The nation's financial situation was a key topic of conversation for 23 young Farm Credit borrowers who had an opportunity to interact with decision-makers and Farm Credit System leaders in Washington, D.C., as part of the third annual Farm Credit Young Leaders Program last October.

Texas AgFinance customers Tommy and Samantha Paben of Waller, Texas, and Shane and Lisa Suggs of Petronilla, Texas, attended the four-day event, which was sponsored by the Tenth District Farm Credit Council.

Tommy Paben is a fourth-generation farmer and partners with his parents and brother to farm approximately 750 acres of corn and 400 acres of Tifton 85 bermudagrass hay. The family also has about 300 cows. Samantha teaches at Waller Junior High.

The Suggs farm in two family partnerships primarily located in Nueces County consisting of approximately 7,500 acres of dryland cotton and grain sorghum.

The Young Leaders Program was designed to give young Farm Credit stockholders an up-close look at the Farm Credit System. The trip included meetings with officials of the Farm Credit Council and congressional leaders in Washington, D.C. The group also had a briefing at the Federal Farm Credit Banks Funding Corporation in Newark, N.J., and toured a Wall Street brokerage firm in New York City.

“This event was a great opportunity for these young people, who are the future leaders of the agriculture industry and their respective communities throughout our five-state territory. It gave them a firsthand look at the Farm Credit System and provided insight into our nation's financial network and legislative process,” said Jimmy Dodson, chairman of the district council.

The Tenth District Farm Credit Council is the trade association that represents the legislative and regulatory interests of the Texas Farm Credit District.



Texas AgFinance customers Shane and Lisa Suggs (third couple from left), and Tommy and Samantha Paben (fifth couple from left), participated in the 2009 Farm Credit Young Leaders Program.