

FRESNO MADERA FARM CREDIT

CONNECTION



PRESIDENT'S MESSAGE FALL UPDATE

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MARK YOUR CALENDAR

Fresno Madera Farm Credit's **Member Appreciation BBQ** is just around the corner! We hope you and your family will be able to join us on **Friday, October 27th** for this annual gathering. The event will be held at **Holland Park West** this year. Please look for your invitation in the mail or for more information call us at (559)277-7000.

This has been an interesting year from the standpoint of a late spring, a very hot summer and now some very "fall like" weather as I write this report. Your Association has enjoyed a "steady" year which looks good although we do not expect the member profitability at levels experienced in 2004 and 2005.

This year we experienced substantial reductions in volume when members took advantage of some very significant appreciation in real estate; particularly that with residential or commercial development appeal. While we need the business nothing pleases us more than having our members experience profitability!

Based on performance to date, it appears certain that FMFC will set a new record for new business closed in 2006 for the eighth consecutive year! We are now celebrating another milestone; one billion in cumulative new member loan commitments since we began this journey in 1999. This represents over one thousand new loan relation-

ships from our FFA/4H program on up to some of the Valley's most sought after borrowers of every size and description. New member growth is more important than the dollars as our long term strategy is based on building generational relationships.

Our internal fiscal and earnings strategy compliments our growth plan. Each year the Board re-emphasizes the need for maintaining fiscal superiority while being extremely rate competitive every day of the year. Once again in 2006 we have been able to be very rate-competitive which allows us to retain our membership and attract the highest quality of new business. This month we finally passed the \$600 million in volume outstanding plateau! Given the extreme pay down from operational profits and real estate sales in 2004, 2005, and 2006 this is an exceptional accomplishment. We definitely have momentum and our expectation is that we will achieve \$700 million much quicker than we reached \$600 million. Each plateau brings more opera-



Tom Brown
President & CEO

tional efficiency which equates to lower interest rates to you.

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Our success in building a viable and efficient organization is a direct result of the efforts that our membership has made as you manage your operations. Our success is reflected in your success. Member referrals are a very significant part of our volume growth. A referral by a satisfied customer and a fellow farmer/rancher is in

(continued)

PRESIDENT'S MESSAGE CONTINUED

a word, priceless. Thank you for doing business with FMFC and for your support!

None of the above could have been achieved without the dedicated staff of FMFC. It has been my good fortune to have many tenured FMFC employees embrace our competitive strategy and become fully engaged in not only participating as the leadership, but producing themselves. Twenty six or about 40% of our total employees, have over 10 years of experience with FMFC. This includes ten of our Executive Committee Members which are the key management group of FMFC.

Included in this group is:

| | |
|------------------------|-----------------|
| <i>Sheree Gayer</i> | <i>32 years</i> |
| <i>J. Stockton</i> | <i>28 years</i> |
| <i>Martha Hugger</i> | <i>22 years</i> |
| <i>David Ylarregui</i> | <i>16 years</i> |
| <i>Randy Layne</i> | <i>16 years</i> |
| <i>Ken Brown</i> | <i>16 years</i> |
| <i>Tim Leach</i> | <i>13 years</i> |
| <i>Gina White</i> | <i>11 years</i> |
| <i>Carolyn Dukes</i> | <i>11 years</i> |
| <i>Dan Kiggins</i> | <i>10 years</i> |

All of these ten individuals, plus sixteen other essential members of our team were here when I arrived. Experienced and talented "new players" such as Nomie Kautz (24 years career experience and 6 years with FMFC) and Steve Balls (31 years career experience

and 5 years with FMFC) have been added to fill out our leadership group. An interesting fact about FMFC is that the average tenure of our entire staff is 9.47 years – which is outstanding and is not the norm in today's environment. I am very excited about the less tenured and the brand new people that have joined FMFC as well. We have increased the educational requirements and have strived to hire people with a sense of urgency and commitment. 69% of our turnover in the last eight years has been in less experienced and lower paid employee categories serving in entry level and support positions. FMFC is not for everybody; we are in the lending business, we are production orientated and we are serious about completing our mission and reaching our goals.

FMFC is essentially operating with the same number of employees that were here when the Company did less than half of the business that we do today. Part of the dynamic improvement in efficiency is due to some very advanced technology and automation but is primarily due to the fact that the employees of FMFC have a fast pace about them.

FMFC has nearly completed our "audit" season. Each year we receive a fiscal internal controls audit from KPMG, a credit audit from our money source, U.S. AgBank, and, on an 18

month schedule, a credit, regulatory and operational audit from our Federal Regulator, FCA. Needless to say this takes a great deal of preparation time and is a stressful period for our staff.

The good news is that your Association "passed" once again with flying colors! Our fiscal audit (Sheree, Carolyn and staff) was spotless. The two credit audits reflected perfect credit quality in the PCA (100% acceptable which has never occurred before); credit quality was 98% in the FLB. Our credit quality is simply outstanding given the

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growth in loan volume that we have experienced over the last eight years. I report on the audit results so that every member gets the message – on an objective and arms length basis – FMFC is performing exceptionally well! Your investment in FMFC is well protected as is the future ability of the organization to meet your financial needs.



-Tom Brown

FARM CREDIT SYSTEM CELEBRATES 90 YEARS OF SERVICE

ON JULY 17TH, RURAL AMERICA'S CUSTOMER-OWNED PARTNER, THE FARM CREDIT SYSTEM, CELEBRATED OUR 90TH ANNIVERSARY OF SERVICE. PRESIDENT WOODROW WILSON SIGNED THE FEDERAL FARM LOAN ACT IN 1916. TODAY, WITH MORE THAN \$108 BILLION IN LOANS FINANCING AGRICULTURE AND ITS RELATED COOPERATIVES, RURAL HOMEBUYERS, SMALL COMMUNITY WATER AND WASTE DISPOSAL SYSTEMS, RURAL ELECTRIC AND TELEPHONE SYSTEMS AND THE EXPORT OF U.S. FARM COMMODITIES, THE FARM CREDIT SYSTEM IS THE OLDEST AND LARGEST FINANCIAL COOPERATIVE IN THE NATION.

WE HOPE YOU WILL JOIN US TO CELEBRATE FARM CREDIT'S 90TH ANNIVERSARY AT FMFC'S CUSTOMER APPRECIATION BBQ ON OCTOBER 27TH!

SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

FOR THE QUARTER ENDING JUNE 30, 2006

| CONSOLIDATED BALANCE SHEET | | | |
|---|------------------|------------------|---------------------|
| (UNAUDITED) (\$ IN THOUSANDS) | | | |
| | June 30 2006 | June 30 2005 | December 31 2005 |
| ASSETS | | | |
| Cash | \$6 | \$4 | \$8 |
| Loans | 583,212 | 500,027 | 562,975 |
| Less allowance for loan losses | (5,426) | (5,403) | (5,180) |
| Net Loans | 577,786 | 494,624 | 557,795 |
| Accrued interest receivable | 11,245 | 8,367 | 7,505 |
| Investment in and receivable from the U.S. AgBank | 10,346 | 9,886 | 10,094 |
| Premises and Equipment | 5,646 | 5,931 | 5,757 |
| Deferred tax assets, net | 1,026 | 863 | 870 |
| Other assets | 1,177 | 1,025 | 1,042 |
| Total Assets | \$607,232 | \$520,700 | \$583,071 |
| LIABILITIES | | | |
| Note payable to U.S. AgBank | \$462,953 | \$390,727 | \$447,375 |
| Advanced conditional payments | 11,303 | 5,856 | 7,696 |
| Accrued interest payable to the U.S. AgBank | 2,245 | 1,259 | 1,549 |
| Other liabilities | 3,283 | 2,480 | 3,019 |
| Total liabilities | 479,784 | 400,322 | 459,639 |
| MEMBERS' EQUITY | | | |
| At-risk equity | | | |
| Capital stock and participation certificates | 898 | 947 | 939 |
| Unallocated retained earnings | 127,608 | 120,246 | 123,551 |
| Accumulated other comprehensive income (loss) | (1,058) | (815) | (1,058) |
| Total Members' Equity | 127,448 | 120,378 | 123,432 |
| Total liabilities and Members' Equity | \$607,232 | \$520,700 | \$583,071 |

| CONSOLIDATED INCOME STATEMENT | | | | |
|--|-----------------------------------|----------------|---------------------------------|----------------|
| (UNAUDITED) (\$ IN THOUSANDS) | | | | |
| | For three months ended June 30 | | For six months ended June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| INTEREST INCOME | | | | |
| Loans | \$9,401 | \$6,795 | \$17,787 | \$13,152 |
| Interest Expense | | | | |
| Note payable to U.S. AgBank | 5,480 | 3,342 | 10,103 | 6,118 |
| Other | 159 | 49 | 349 | 97 |
| Total Interest Expense | 5,639 | 3,391 | 10,452 | 6,215 |
| Net Interest Income | 3,762 | 3,404 | 7,335 | 6,937 |
| Provision for Loan Losses | 450 | 232 | 246 | 157 |
| Net interest income after provision for loan losses | 3,312 | 53,172 | 7,089 | 6,780 |
| NONINTEREST INCOME | | | | |
| Fees for financially related services | 4 | 4 | 10 | 18 |
| Patronage refund from U.S. AgBank | 494 | 418 | 941 | 769 |
| Miscellaneous | 61 | 60 | 192 | 188 |
| Total Non Interest Income | 559 | 482 | 1,143 | 975 |
| NONINTEREST EXPENSES | | | | |
| Salaries and employee benefits | 1,461 | 1,329 | 2,945 | 2,720 |
| Occupancy and equipment | 178 | 198 | 345 | 355 |
| Other operating expenses | 239 | 281 | 525 | 577 |
| Supervisory and examination | 59 | 46 | 118 | 103 |
| FCSIC insurance premium | 202 | 50 | 396 | 99 |
| Intra System financial assistance expense | - | 58 | - | 143 |
| Losses (Gains) on Foreclosed Assets | - | - | - | - |
| Total Non Interest Expense | 2,139 | 1,962 | 4,329 | 3,997 |
| Income before income taxes | 1,732 | 1,692 | 3,903 | 3,758 |
| Provision for (benefit from) income taxes | (133) | 23 | (154) | 17 |
| Net Income | \$1,865 | \$1,669 | \$4,057 | \$3,741 |



FALL CROP REPORT

The harvest is in full swing!

RAISIN, WINE & TABLE GRAPES:

The weather has been favorable for the raisin type grapes laying on trays for drying. Several growers have already picked their raisin crop up. The size of the 2006 raisin crop looks to be down about 20 percent from last year. Wine grape harvest is winding down with the crop size being about average. The yield on some of the varieties was down due to the wet spring. Harvest of the later varieties of table grapes is progressing well. The 2006 table grape season has been good with strong prices. The demand has also been good with a lighter crop being picked.

NUTS:

Most of the almond trees have been shaken and the large part of this year's crop has been delivered. For the most part this crop is coming in near the projected 1.05 billion pounds. There were a few areas on the west side of Fresno County that were hit by hail and over half of the grower's crop was damaged. Early varieties of walnuts are being shaken from the trees and delivery is under way. The crop is estimated to be down only 1% from the previous year's record crop! There is some concern that the hot summer may have damaged the kernels. This is an "on" year for the pistachio industry and harvest is well under way.

TREEFRUIT:

Harvest is all but completed. This has been a light crop year for the tree fruit industry, with the crop down about 20% from last year. Prices were better than the prior year and hopefully sufficiently better to off set the light crop.

IRRIGATED FIELD CROPS

Growers have started to apply their cotton defoliant spray. Growers substantially increased their Pima acreage by planting 274,000 acres which is expected to result in a record high crop for the 2006 crop year. Production of Upland cotton is projected to be the lowest since 1946 due to growers switching to Pima. In spite of the late

planting dates of processing tomatoes the area's growers have completed harvest. The total crop is expected to be down with prices up about 10 percent. There is a considerable amount of summer hay stacked by the alfalfa fields with a short supply of high test hay available. Harvest is progressing normally. Chopping of corn for silage has peeked and is starting to wind down. This has been a good water year for all growers.

DAIRY & CATTLE:

The high summer temperatures took its toll on the dairy sector as some herds were reported to have suffered up to 15% death loss. The heat in the first two weeks of July caused production to drop 20% from production levels prior to the heat wave. However, increased cow numbers helped in tempering the affects from the heat as total production was down only slightly from July 2005. Milk prices have hopefully reached their seasonal lows and will improve later in the fall. Beef cattle producers have been receiving relative good prices for their animals.

Early into harvest there were some reports that labor was short. The short fall in labor did not materialize as much as expected and harvest labor was adequate through much of the harvest season. Costs for fuel and its' ripple effect had put increased pressure on the bottom line. For the most part growers were effective in reducing the impact from the higher costs through tighter controls on their overall costs.

The 2006 crop year should be a relatively good year.





MADERA FAIR

FMFC CONGRATULATES THE 2006 GRAND CHAMPIONS



GRAND CHAMPION GOAT
RACHEL OLSTEN
YOSEMITE FFA



GRAND CHAMPION AVIAN
MARTHA MARIN
FIREBAUGH FFA



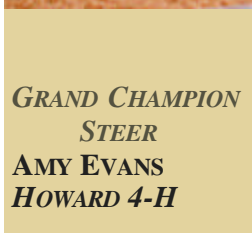
GRAND CHAMPION LAMB
CODY GAMBRIL
YOSEMITE FFA



GRAND CHAMPION RABBITS
FREEMAN WILFONG
SPRING VALLEY 4-H



GRAND CHAMPION HOG
BLAKE TASOS
DIXIELAND 4-H



GRAND CHAMPION STEER
AMY EVANS
HOWARD 4-H

AG BOOSTER'S BBQ

On September 10th, the 29th Annual Ag Booster's BBQ was held at Coombs' Riverbend Ranch in Madera. This event benefits both the Ag One Foundation at Fresno State and the California Women for Agriculture (CWA). Attendees enjoyed music by The Moonlight Jazz Combo. Attendees sampled tasty appetizers including Fresno State sausage sponsored by California Agricultural Pest Control Association (CAPCA) and varieties of cheese sponsored by Valley dairy processors. As usual, CWA's "Country Store" was a big hit with an abundance of

homemade and home grown goodies. Over the years, the Ag Boosters BBQ has raised in excess of \$510,000 for the Ag One Foundation and CWA. This event has played an important role in Ag One's ability to support students and programs in the College of Agricultural Sciences and Technology at Fresno State. Ag One has provided 2,700 students with over \$1.7 million in scholarships and grants and another \$4.6 million is endowed with the Fresno State Foundation. CWA also relies heavily on the funds raised by the BBQ as it plays a vital role in their

ability to share the story of California Agriculture through educational and legislative programs. The support of alumni, friends and others in the industry is what makes all of these things possible! Please mark your calendar for next year's Ag Booster's BBQ on Sunday, September 9, 2007.



2006 SENIOR FARMER AWARD

This year's recipient of the Madera County Senior Farmer honor was awarded to Mr. Charles Faso on July 13, 2006. The Madera Chamber of Commerce defines this program and honors "outstanding individuals for their leadership, service, and contributions to Madera County Agriculture. The Senior Farmer of the Year Award recognizes, with

great appreciation, the lifetime of an exceptional individual in the discipline of agriculture." Over the years Mr. Faso has farmed grapes, cotton, alfalfa, corn, tomatoes, pears, apricots, and kiwi and raised chickens, pigs, sheep and goats. During the last 60 years, Mr. Faso has been active in many service clubs and civic organizations in

Madera. We congratulate Charles Faso on his dedication to farming and community service and receiving the honor of Senior Farmer of the Year!



Mr. Charles Faso
2006 Senior Farmer

FRESNO MADERA FARM CREDIT
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JIM ROBERTS RETIRES FROM FMFC

The Fresno Madera Farm Credit Board of Directors and staff recognized Jim Roberts for his dedicated service to FMFC at a luncheon held on September 15, 2006. Jim retired from FMFC as of August 15th after more than 30 years of dedicated service as a Vice President - Loan Officer. Jim will be missed and the FMFC staff wishes him all the best in his future endeavors.



FMFC Board Chairman,
Allen Cosyns and
Jim Roberts

CALENDAR

We will be closed on

**October 27 from
10:30 - 2:30**
Member Appreciation BBQ

November 10
Veterans' Day

November 23 - 24
Thanksgiving Holiday

December 25
Christmas Day

UPCOMING EVENTS

October 27
FMFC Member Appreciation
BBQ *Holland Park West,
Fresno, CA*

October 27
Ag One Alumni & Friends
Wine Tasting - *CSU Fresno
Winery, Fresno, CA*

October 28
Fall Wine Cornucopia -
*Chukchansi Stadium, Fresno,
CA*

November 2
Annual Agribusiness Management
Conference & Ag Business
Award Luncheon - *Fresno
Convention Center Exhibit
Hall, Fresno, CA*

November 30
Central CA Winegrowers Wine
grape Symposium

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