



Connection

It pays to do business with Capital Farm Credit

Since 1997, Capital Farm Credit has returned over \$125 million to our borrowers through patronage and stock reduction programs.

We've done it again! Capital Farm Credit (CFC) has declared a patronage dividend based on the cooperative's financial success in 2007.

Since 1997, Capital Farm Credit has returned over \$125 million to our customers through our patronage and stock reduction programs. We are glad to offer this level of return and look forward to strengthening the program even more in years to come.

Breakdown of Total Patronage for 2007

Cash	\$18,862,000
Allocated Equities	\$43,560,000
Total	\$62,422,000

Sharing our Success

Because of our cooperative structure, we are committed to sharing our success with you, our customers. After all, as the owners of Capital Farm Credit, you are the individuals who should benefit when the association does well.

Capital Farm Credit, the largest rural lender in Texas, is pleased to offer a patronage program that sets us apart from all other lenders.

Patronage is one of many benefits of doing business with Capital Farm Credit. The more CFC grows and prospers, the more patronage you receive.

Returning 100% of Profits to Borrowers

In 2006, the Association supplemented cash patronage payments with its allocated equity program.

In addition to the cash distribution, earnings are now allocated to a borrower's account and eligible for future distribution.

This second phase of patronage has allowed Capital Farm Credit to share more of its earnings with borrowers.

Each borrower's share of these earnings is determined by the amount of interest paid in relation to the interest received from all borrowers during the year.

Patronage Program Basics

- Capital Farm Credit's philosophy is that 100% of net profits belong to our borrower/stockholders.
- Each year, the member-elected board of directors reviews the association's financial status and decides how much patronage to pay. The board has declared a patronage payment every year for more than a decade.
- In addition to paying cash patronage, Capital Farm Credit allocates a portion of its earnings to the borrowers. The allocated equities are eligible for future distribution, based on the growth and financial condition of the association.
- The cash patronage payment is typically paid each Spring.
- Distributions from the allocated equities account are typically released each Fall.

Visit www.capitalfarmcredit.com for more information on the benefits of doing business with Capital Farm Credit.

Patronage Payments and You

Explaining benefits you see as a borrower of Capital Farm Credit

How much do I actually receive? Do I pay taxes on what I receive? Is my interest rate affected?

When is the patronage payment distributed?

The cash patronage payments are typically mailed to shareholders in the Spring.

At that time Capital Farm Credit will also allocate the remainder of patronage to be placed into each borrower's Allocated Equity account.

Borrowers can refer to the patronage check stub for the balance of their Allocated Equities account. Distributions of Allocated Equities are made later in the year, typically in the Fall.

Are patronage payments and allocated equity distributions guaranteed?

Patronage payments and allocated equity distributions are not guaranteed; however, Capital Farm Credit has continually returned a cash patronage payment for the past 10 years.

As CFC continues to exhibit strong financial performance and is able to meet capital needs, it will continue the patronage program. The association will pay back profits while meeting capital needs to ensure financial growth for years to come.

What determines how much patronage I receive?

Association Net Earnings is the primary determinant.

Capital Farm Credit intends to distribute all available earnings back to its borrower-stockholders, through cash patronage and allocated equities.

Each borrower's share of earnings is determined by the amount of interest paid by the customer during the year.

How much do I actually receive annually from my allocated equity account?

The retirement of allocated equities is determined by the Board of Directors based on the financial condition and performance of the Association.

In December 2007 approximately 15% of each member's allocated equity accounts were retired as cash payments. Past distributions are not indicative of future performance of patronage payments but are determined on an annual basis by the association's board of directors.

As a borrower's allocated equity balance increases over time, the distribution amounts may also increase. Accordingly, a borrower may continue to receive allocated equity distributions for several years after a loan is paid off.

How is my interest rate affected by patronage payments and allocated equity distributions?

On average, the cash patronage portion of 2007 earnings, paid out in 2008, will equate to a 67 basis point (0.67%) reduction or offset to interest paid. Since 2001 the average effective reduction in rates due to cash patronage has ranged from 0.45% to 0.85%.

The following table (see Example of Patronage Refund) provides an example of how the patronage payments and distributions may affect the effective interest paid on a typical loan.

Example of Patronage Refund on loan made in 2007

Loan Amount	\$200,000.00
Stated Interest Rate	7.45%

Breakdown of Total Patronage

Regular Cash Patronage Paid in 2008	\$ 1,404.04	0.70%
Allocated Equities Eligible for Future Distribution*	3,233.29	1.62%
Total Patronage Attributed to Loan	\$4,637.33	2.32%

As you can see from the table, the potential impact of patronage payments and distributions is significant.

If there are several individuals on the Note, who receives the payments?

Cash patronage and allocated equity distributions will be made payable to the primary borrower.

If the primary borrower is listed as an entity such as an LLC or partnership, checks will be payable to that entity. If the loan is made to a group of individuals, checks will be payable to the individual shown as primary borrower.

How does patronage affect my income taxes?

Patronage and allocated equity distributions are treated as taxable income only when actually paid or distributed to you. Borrowers will receive a Form 1099 for these payments. The amount of allocated equities not yet distributed is not taxable.

We suggest a tax professional be contacted for specific questions.

The information provided herein is for informational use only. For additional information please contact your local credit office.