

MESSAGE FROM THE PRESIDENT

March 26, 2020

Dear member-owners:

We never forget that you own Yankee Farm Credit. Whatever we don't need to keep the association strong we will return to you. In 2019 our net income was \$13.2 million. We're giving over 50% of that back to our members in cash.

We are so fortunate to work for you. The business of agriculture has never been more complex or more rewarding. Having a strong Agriculture Credit Association (ACA) is essential to the health of the industry.

These results show how your ACA continues to grow sustainably.

In 2019:

- Net Income was \$13.2 million, of which \$6.8 million was returned to our members in patronage.
- Gross loan volume was \$892.0 million. This is up from the 2018 year-end figure of \$823.3 million by 8.3%.
- Permanent Capital was \$95.5 million. Compared to 2018 which was \$88.0 million.
- Income from business services was \$1.7 million, this is \$103 thousand more than in 2018.

In 2020, Yankee Farm Credit will celebrate our 25th year as an Agriculture Credit Association. Since our formation in 1995, we have distributed \$89.6 million back to our members.

We are very proud to continue to serve you and the amazing business of agriculture.

Sincerely,



Brenda Frank, President and CEO

BRANCH OFFICE LOCATIONS

CHAZY

9784 Route 9
P.O. Box 507
Chazy, NY 12921

DERBY

250 Commerce Way
Newport, VT 05855 (Mailing)
Derby, VT 05829 (Physical)

MIDDLEBURY

320 Exchange St.
Middlebury, VT 05753

ST. ALBANS

130 Upper Welden St.
P.O. Box 240
St. Albans, VT 05478

WHITE RIVER JCT.

52 Farmvu Dr.
White River Jct., VT 05001

WILLISTON

ADMINISTRATIVE OFFICE
289 Hurricane Lane, Suite 202
Williston, VT 05495

A RELATIONSHIP THAT PAYS



Yankee Farm Credit
800.639.3053
www.yankeefarmcredit.com

 **YANKEE FARM CREDIT**
Building Relationships That Last Generations

MEMBERSHIP MATTERS

The Association is a cooperative. One of the most important financial benefits of doing business with a cooperative is that, as a customer, you are also a member-owner. This entitles you to share in the Association's profits through patronage refunds declared by the Association's board of directors.

WHAT IS A PATRONAGE REFUND?

A patronage refund is a way of distributing the Association's profits to its members. The amount of patronage allocated to a member is based on the amount of business the member conducts with the Association.

DOES PATRONAGE AFFECT MY BORROWING COSTS?

Absolutely — in a very positive way. The Association, like other lenders, offers competitive rates and terms, which typically results in a profit. When our board of directors elects to distribute a part of those profits, the distribution is allocated to our members based on the amount of interest those members earned on their loans. As a result, patronage effectively lowers each member's borrowing costs.

HOW DOES PATRONAGE BENEFIT THE ASSOCIATION?

The Association may deduct qualified patronage, including cash and the retirement of nonqualified surplus, from taxable income when computing its taxes, resulting in more value to its members.

HOW IS THE AMOUNT OF PATRONAGE DETERMINED?

The obligation to pay patronage is established by the Association's bylaws and board resolutions. Pursuant to these governing documents, our Association's board of directors determines the overall amount of patronage and form of patronage. These determinations are based on the Association's profits

and capital needs. As a regulated financial institution, the Association must build and maintain adequate capital to ensure we have the financial strength to continue serving our market. Distributions are made only if capital requirements are achieved.

WHAT FORMS OF PATRONAGE MAY BE DECLARED?

Patronage may be paid in cash and/or any of the following forms of retained earnings, each of which is evidenced in a written notice form (usually in the patronage refund notice).

Qualified Allocated Surplus is an amount retained by the Association in the member's name. While such surplus may be retired or redeemed only at the discretion of the Association's board of directors, the board's intent is to retire or redeem qualified allocated surplus at some point in the future. The Association is allowed to deduct allocations of Qualified Allocated Surplus from its income for tax purposes for the tax year for which it was declared. As such, the member generally has to recognize such allocations as taxable income in the year the notice of allocation is received. Since the surplus is recognized as taxable income when notice is received, no taxable income is recognized by the member when the surplus is redeemed or retired (i.e., cashed out).

Nonqualified Allocated Surplus is similar to Qualified Allocated Surplus, except that the Association does not deduct allocations of Nonqualified Allocated Surplus from its taxable income until it is redeemed or retired. Consequently, the member does not recognize Nonqualified Allocated Surplus as taxable income until cash received upon the redemption or retirement of the surplus.

Nonqualified Retained Surplus is an amount retained by the Association in the member's name. However, unlike Qualified and Nonqualified Allocated Surplus, the board of directors considers Nonqualified Retained Surplus as earnings permanently invested in the Association. As such, there is no plan to retire or redeem Nonqualified Retained Surplus, except upon liquidation of the Association. The Association does not deduct Nonqualified Retained Surplus from its income for tax purposes. Consequently, the member does not have to recognize an allocation of Nonqualified Retained Surplus as taxable income.

PATRONAGE REFUND TERMS

The following are terms that may appear on the apron of your patronage refund check or notice:

Amount Paid In Cash >

the portion of your patronage refund that is being paid in cash.

Amount Distributed as Qualified Allocated Surplus >

the portion of your patronage refund placed in a Qualified Allocated Surplus account in your name.

Previous Patronage Payable Account Balance >

represents previous years' cash distributions for which a check was not issued or for which issued checks were not cashed. Checks may not be issued if the amount is less than the minimum check amount established by the board or at the direction of the member.

Withheld for Taxes >

represents the tax withheld from a patronage refund as required by applicable federal or state tax laws.

New Patronage Payable Account Balance >

if applicable, represents the amount of net cash patronage payable not distributed because it falls below the minimum check amount. Members may opt to have this amount applied to their loans or paid by check by contacting their local Association office.

Nonqualified Allocated Surplus and/or Nonqualified Retained Surplus >

represent the portions of the patronage refund allocated to these accounts in the member's name. These terms appear on the apron of your patronage refund notice only if they are applicable.

This brochure is provided to familiarize members with patronage refunds and the benefits of belonging to the Association. All matters pertaining to patronage refunds and Association equities are determined by the Association's bylaws. Please refer to the bylaws and your tax adviser for additional information.