

## **Frontier Farm Credit 2019 Patronage Program / Cash-Back Dividends Customer Q&A**

### ***What is the 2019 patronage program?***

Frontier Farm Credit will return a portion of our 2019 net income earned from eligible customers through the 2019 patronage program. The Board of Directors intends to target a cash-back dividend of 90 basis points, barring unforeseen events and significant change in economic conditions.

### ***What changes have been made to the 2019 patronage program?***

We have historically mailed cash-back dividend checks during the month of March (i.e. 2018 cash-back dividend checks will be mailed in March of 2019). We are targeting an earlier delivery date in 2020 for our 2019 patronage checks.

### ***Why does Frontier Farm Credit offer cash-back dividends?***

Cash-back dividends are a component of Frontier Farm Credit's customer value proposition and are one of the unique benefits of doing business with a customer-owned financial cooperative. Cash-back dividends are a way to reduce the cost of borrowing from Frontier Farm Credit by sharing in the cooperative's profits.

### ***How will my 2019 cash-back dividend be calculated?***

The amount of your 2019 patronage distribution will be based on your eligible average loan volume with Frontier Farm Credit during 2019. Generally, the more a customer borrows from us, the more he or she will benefit, financially, from the program. Because your eligible average loan volume and the amount of approved patronage can change each year, your cash-back dividend likely will change from one year to the next.

### ***Is my cash-back dividend subject to tax?***

Yes. Eligible customers generally should include the cash-back dividend in their taxable income in the year that it was received. We encourage customers to consult with a tax advisor about their specific situation. Non-corporate customers will receive an IRS Form 1099-PATR early in 2020 for cash-back dividends paid in 2019. IRS regulations do not require distribution of 1099-PATR forms for corporations.

### ***Why doesn't Frontier Farm Credit distribute all of its earnings in cash?***

Retained earnings not distributed in cash-back dividends help Frontier Farm Credit build the necessary capital to fund future growth and to develop new products and services that help you, our customer-owner, succeed.

### ***Who will be the payee on the cash-back dividend checks?***

The cash-back dividend check payee will be the "payor of record" (primary customer) in our loan accounting system as of December 31, 2019. This is the same person whose taxpayer identification number appears on any IRS reporting associated with the customer's account.

### ***Why Doesn't Frontier Farm Credit Lower Interest Rates and Eliminate the Patronage Program?***

Frontier Farm Credit is dedicated to providing industry expertise, quality customer service and competitive rates. In order to attract investors for Farm Credit System funding, Frontier Farm Credit must demonstrate the ability to generate strong earnings. The program allows Frontier Farm Credit's Board to determine the amount of the cash-back dividend distribution after financial results for the year are known.

### ***Will Frontier Farm Credit distribute a cash-back dividend every year?***

Our Board currently intends to distribute cash-back dividends each year. The Board and our financial plans currently target cash-back dividends equal to 90 basis points for the foreseeable future, barring unforeseen events and significant change in economic conditions. The earnings retained by Frontier Farm Credit are used to build the cooperative's financial capacity to continue serving agriculture.

### ***Who is eligible/ineligible for cash-back dividends?***

#### **WHO IS ELIGIBLE?**

Generally, customers whose loans are capitalized by stock are eligible for cash-back dividends. These loans include operating and agriculture real estate loans, as well as some consumer-purpose loans secured with real estate (see excluded products). If a customer has paid off a loan, he/she is eligible for patronage for the period the loan was outstanding, provided it was capitalized at the time of payoff and no exclusions to eligibility apply.

#### **WHO IS INELIGIBLE?**

- Non-accrual loans past due as of December 31.
- Forbearance or restructured loan agreements that include patronage waivers.
- Charge-offs, partial or full. All the customer's loans are ineligible for seven years from the date of a charge-off, unless fully recovered.
- Bankruptcy, voluntary or involuntary. All the customer's loans are ineligible for seven years from the date of discharge or similar proceeding.
- Sales contract (Contract for Deed) resulting from a restructured loan.
- Accelerated loans. One accelerated loan makes all the customer's loans ineligible.
- A loan participation or multi-lender syndicated loan, unless the contract with the borrower specifically provides for the payment of patronage.
- A loan made expressly on a non-patronage basis.
- Cash-back dividends of less than \$50.

#### **EXCLUDED PRODUCTS**

- Crop insurance, as required by regulations prohibiting the distribution of insurance income directly to customers who generate it.
- Leasing, as required by the lease agreement with our lease processor, Farm Credit Leasing.
- AgDirect financing made after April 11, 2010.
- Young and Beginning Development Fund loans.
- Consumer-purpose loans secured by real estate:
  - Closed on or after January 1, 2018.
  - With a completed loan servicing action on or after January 1, 2018, for the following:
    - All interest rate conversions
    - Maturity/Extension of Term greater than 3 months
    - Payment Extensions or Deferrals
  - With loan servicing actions for an additional advance, closed on or after April 15, 2018.