

GreenStone FCS

Winter 2012

# PARTNERS

Promoting the business success of our customers and the rural community



**BUILDING A  
HOUSE  
OF GREEN**

**WINTER  
MARKET  
OUTLOOK**

**2011-2012 GOVERNMENT  
RELATIONS UPDATE**

**RECORD  
PATRONAGE  
PAYMENT**

**LAND LEASES  
AND HYDROCARBONS**

# PARTNERS

# Editor's NOTE

## Winter 2012

Published by:

GreenStone Farm Credit Services

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A new year, a new balance sheet, maybe even a new resolution. Whatever 2012 has brought, we hope it has come after a pleasant holiday season filled with fond memories and restful moments. As you turn your attention from year end details to new year planning, we hope you find this latest issue of *Partners* fresh in look and content. Like you, the magazine has engulfed in a bit of its own resolution, implementing a few subtle changes in the design while adding a selection of new features we hope you'll find to be interesting and valuable. As you read through this winter issue, you will be pleased to read about GreenStone's seventh year of patronage payments coming in March, a selection of resources for women in agriculture, along with a feature on an India native who veered into Michigan's greenhouse industry. As you turn the last page, we hope you'll take a minute to share with us any comments and ideas for future issues...happy reading, and happy New Year!



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Please note: GreenStone  
offices will be closed in  
observance of holidays  
on the following dates:

January

-Monday the 16th

February

-Monday the 20th

This newsletter is published quarterly for the customers of GreenStone Farm Credit Services.

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# COMMENTS

From CEO Dave Armstrong



**I hope this issue of Partners finds you rested and relaxed from the busy holiday season and ready to take on the challenges every New Year seems to bring our way!**

In general, the agricultural industry experienced a very profitable year in 2011 primarily by the demand for our products overseas. Likewise, GreenStone enjoyed one of its best years ever achieving record net earnings; a 95 percent customer satisfaction rating by you, our members; continued reduction of our adverse assets; and solid loan growth. Of course, none of our success would be possible without a strong membership base and talented employees. GreenStone is blessed to have some of the most loyal, honest, hardworking, and financially solid customers of any financial institution ANYWHERE and when you combine them with a professional, conscientious, hardworking, and selfless group of GreenStone staff members, how could the results be anything less?

As members of your cooperative, you have come to expect not only a high level of service, but tangible economic benefits as well. Competitive interest rates are certainly one way in which GreenStone delivers on this expectation but, over the last six years, GreenStone has also returned \$85 million in cash patronage to its members. I am pleased to announce this year, in the seventh year of the patronage program, we will raise that total to more than \$107 million by returning 20 percent of the cooperative's net earnings. That will equate to more than \$22 million in cash patronage refunds this year. Another record! On average, this translates into nearly a .50 percent reduction in the interest rate paid last year.

Some members ask why the organization doesn't simply reduce interest rates up front instead of paying patronage; the answer is simple. The board of directors believe it is critical to price loans to the market, prudently manage risk within the loan portfolio, and judiciously manage operating costs to maximize bottom line earnings performance so that the investors who buy Farm Credit System consolidated bonds will recognize GreenStone and the other System institutions as a safe and sound investment. If they become fearful about our safety and soundness due to insufficient earnings, our source of funds could be in jeopardy.

*Continues on page 6...*

# Market Outlook

By: Bob Utterback

**As we start the New Year, producers have the opportunity to start a new market plan. It is the time when we make New Year's resolutions that many times are broken at the first signs of stress. I believe that the keys to change are being brutally honest and establishing very specific objectives that can be accomplished. Set specific time horizons for actions to be completed with a very specific benefit and cost if not achieved. I'm not saying it will be easy, but having a plan and knowing where you are going and how you are going to get there can help remove a lot of those very uncomfortable feelings about the future.**

For example, let's assume the core financial business objective for the farm operation is to return at least 30 percent above all direct and variable costs, excluding family living expenses. While this broad objective is good, it can only be met if some very specific situations occur in the farm operation. Specifically, it is necessary to have a plan to control input costs from future price inflation and get the best yield for the input cost. Once a solid understanding of costs and yield are known, an expectation of the flat price that is needed to achieve the revenue goal of a 30 percent return over all costs is more evident.

The big problem with such a systematic approach to marketing is the fact that we are dealing with several domestic and global macro-economic variables that make it increasingly difficult to have any confidence as to how bullish or bearish the future will be. I have been involved with market outlooks since 1981 and I have to say things are as hard as ever to state with any sort of clarity how the marketing season will end.

Risks like those mentioned above are having an increasingly profound impact on profit margins. I have to say that it is a time to become more conservative with regard to profit expectations over the next couple of years even though 2008 and 2011 price action offered profits that many farmers had not seen for some time. Remember the old market axiom: The best cure for high prices is high prices!

My basic assumption starting off 2012 is a strong sense of skepticism about both domestic and global economic health. While we saw a concentrated effort by the central banks to bail out European situations in December, I view this as an effort to try to stabilize the global markets and reinstate consumer confidence. While some short-term positive impact is expected, I believe the necessary long-term resolution of global economic growth will not be seen until there is a realistic and [unfortunately] difficult adjustment of fiscal policy from a spend and tax policy to a pro-growth policy. Bottom Line: Short-term gain for 2012, but possibly long-term pain [in 2013 to 2014] if we do not get the economic engine running smoothly soon.

**CORN:** The corn market is still very tight with regard to near-term supplies. But in the long-term it appears the supply engine could possibly start to crank up and demand start to sputter. Some central questions will need to be answered over the next six months: (1) How much will corn acres increase this spring? I'm in the camp it will be at least two million. (2) What will influence ethanol [and subsequently corn] if government subsidies are cut? In light of the current climate in Washington, we know farm subsidies will be an easy target. I believe the big surge of corn usage to ethanol has peaked and will gradually retreat,

but not quickly. The key is it is not increasing; this puts all the pressure on corn exports to China to pick up the void in demand growth. While we should expect corn exports to remain firm, there is a serious limiting factor of big global wheat supplies. Thus, I am very comfortable in saying I do not expect to see any significant demand growth spurts in 2012. Let's just hope we can meet the current United States Department of Agriculture demand estimates. The defining variable for corn prices this year will be yield, in my opinion. I feel I must start out with the assumption that we will move back to a trend line yield around 164. If we see this level, carryover could move well above two billion bushels. The net result: cash markets would most likely move from the historically tight levels seen last fall, to wide basis levels this fall. The spreads should move back to carry, motivating farmers to store their crop.

I see a big risk developing. With significantly higher production costs due to such things as higher cash rents and machinery costs, we may see a 1981- to 1985-type time period sometime between 2012 and 2014. If producers are not careful, grain may be put in the bins at prices lower than the cost of production. This gives end users all the power when it comes to pricing.

**Recommendation:** I know most producers want \$7 plus for their expected 2012 and out corn crops, but I strongly urge everyone to look at what is being offered, not what they want. Going into the March/April time period, I suggest pricing 100 percent of the average yearly production between \$5.80 and \$6.25 basis the December 2012 contract. I also suggest buying as many deep-in-the-money puts as possible when pricing the expected corn crop rather than selling cash or futures contracts. If there is a summer market rally, put options can allow some ability to benefit. If anyone fails to sell the spring rally, the fall back plan would be to price between June 15 and July 4. During this time period, I would be more prone to using cash or short futures contracts because of the very strong seasonal price decline pattern into fall.

For 2013 Marketing, price between \$6 and \$7 to get at least 50 percent of the anticipated crop priced. Because of the long time period being covered, sell futures contracts rather than a forward cash contract or long put strategy.

**SOYBEANS:** All eyes will be on crop development in South America and how much influence the December monetary stimulation by China's Central Bank will have on

export demand. While we have seen lead-month soybeans find support at \$11, the market is just as concerned that long-term supplies will back up if demand slacks off anymore. I do find it interesting that through December and into the New Year that the November 2012 soybeans contract was actually as strong as the nearby contracts. With prices at \$11.50 plus, it is obvious the soybean market wants to stay strong enough to assure adequate acres are planted next year.

Looking forward, I believe we will see soybean acres up slightly, but nothing like we will see in the corn complex. The same general outlook can be suggested for soybeans as I expressed in corn. With soybean yields moving back to trend line, slightly more planted acres and a demand base that is stable at best, I believe the odds favor carryover that will increase as we move into the fall of 2012.

**Recommendation:** If the November 2012 contract can move back to \$12, producers should start implementing a gradual scale-up selling program using in-the-money puts if this price is seen between January and May. If it takes until June, use forward cash sales. Be 50 percent priced by \$12.50 or early spring and 100 percent priced by \$13 or early July. The only problem with a sit-and-wait attitude is if one does wait all the way to summer to get positions in place, they will be 100 percent right or 100 percent wrong. Just remember, prices are above the cost to production as I write this outlook. I strongly suggest 2012 and 2013 are not the years to be aggressive by taking a major unpriced strategy into fall and looking to put grain in the bin and waiting for the a seasonal price rebound.

**WHEAT:** While the market rarely repeats itself in the very same way, there is a lot to be learned from looking at historical charts or seasonal patterns. Since 1970, the new crop wheat pricing strategy from January to early June shows the July wheat contract trends lower in odds higher than a natural flip of a coin. Subsequently, to be bullish wheat over the next six months, I believe we need a fundamental price event. With world stocks high, we will need a significant winter injury kill along with major investor concern about inflation to rekindle bullish excitement for wheat.

The problem is time is not really a wheat producer's friend. If we do not have some problems by February/March, the bearish seasonal pattern will be in full control of the market. So, I must suggest placing both time and price restrictions on getting all inventory to be sold off the combine priced over the next couple of months.

While there does exist very good carry in the wheat complex, I realize most producers are not inclined to store. Pricing in forward cash contracts between \$6.80 and \$7.20 is suggested. If anyone is more bullish than I am, consider buying in-the-money puts; at this time I am not excited about anyone buying calls to insulate forward cash sales.

**LIVESTOCK:** The cattle and hog markets have enjoyed prices at or near historically high price levels. In my opinion, the main reasons for the price strength are a significant reduction of herd sizes, good export demand and decent domestic usage. Historically, such positive profit margins would bring quick expansion in the cattle and hog sectors. With the overall concentration of production in larger units and the pressure being put on the banking sector, I expect many livestock operations to be content to stay at their current size and keep their profit margins high. However, the eventual tug of high profits will cause expansion to take place in 2013 and beyond. That is why I believe cattle and hog producers need to think more about long-term price protection, specifically late 2012 to early 2013, rather than spring and summer production.

**Recommendation:** For now, be in a sit-and-wait position. Work hard on controlling feed costs, interest costs and energy costs and maintaining an unpriced upside price bias. Do not forget to take this time to prepare to be a long-term seller of cattle in the deferred cattle contracts and hog complex once we start seeing positive signs of expansion and consumer price resistance.



#### ABOUT THE AUTHOR

**Bob Utterback** is the Economist for *Farm Journal* magazine and President/CEO of Utterback Marketing Services, Inc., located in New Richmond, Indiana. He has over 30 years of experience analyzing agricultural commodity markets, with special emphasis on the corn and soybean markets. Strategy updates are available by subscribing to Utterback Marketing Services, Inc.'s email/internet services at [www.utterbackmarketing.com](http://www.utterbackmarketing.com) or by calling 800.832.1488 (ask for Laura). The information provided is believed to be reliable. There is risk of loss associated with trading futures and options. Consult your Risk Disclosure Statements before trading. Commodity trading may not be suitable for recipients of this outlook. To comment on Outlook, email to [utterback@utterbackmarketing.com](mailto:utterback@utterbackmarketing.com).

*The opinions stated herein are not necessarily those of GreenStone FCS.*

...CEO Comments continued

Therefore, we do our best to be competitive up front on interest rates while operating the organization at an optimal level to demonstrate strong earnings to investors, and ultimately provide even greater value to you our members through higher patronage payments. I think you will agree that this balanced approach has served our members well through some very difficult economic times over the past four years by providing a very competitive source of credit while maintaining adequate earnings and financial strength to also be a dependable source of funds long term. Please see the article on page 15 of this issue for more details regarding 2012 patronage.

While 2011 is expected to be a record nationally for net farm income, 2012 could see lower commodity prices in

the rural communities they serve. In addition, GreenStone has provided over \$160,000 in financial contributions to youth programs, and offered donations and sponsorships to industry and community organizations and educational events of nearly \$275,000.

As I reference the excellent workforce here at GreenStone, I must pay kudos for the trio of awards that have recently been received throughout the organization: nationally recognized as 101 Best and Brightest Companies to Work For, ranked 20 on *InformationWeek* 500 list, and received the Hyland Software 2011 Real Solutions Award. Please join me in congratulating the many individuals who contributed to these prestigious recognitions; you can find more details on these awards on page 7.

“I am pleased to announce this year, in the seventh year of the patronage program, we will raise that total to more than \$107 million by returning 20 percent of the cooperative’s net earnings.”

some sectors and narrowing margins as input costs continue to climb. However, our current outlook and 2012 Business Plan assume profitability for most commodities with overall U.S. economic activity to pick up, albeit slower than anyone would like. Right now, the biggest wild card is the debt crisis in Europe and how it may impact global debt markets and economic growth. A recession in Europe could have a significant impact on commodities that have a heavy reliance on European exports. Barring a European sovereign debt melt down or some other unanticipated geo-political event, we are projecting similar business results for GreenStone in 2012 as we had experienced in 2011. Provisions for loan losses should continue to decline while the competitive environment intensifies due to many new and aggressive competitors entering the agriculture finance market. Projected loan growth of 5.5 percent will likely be difficult given this fact AND the “sea of cash” that rural Michigan and northeast Wisconsin have experienced due to record farm profits. We will also stay relatively conservative in lending on rising agricultural land values. Hopefully, reduced margins in 2012 will start to let some of the “air out of the balloon” slowly rather than a sudden “pop.”

While strong financial performance and patronage payments are important, they don’t tell the whole story about the value proposition GreenStone provides on a daily basis. As referenced in an article in the fall 2011 *Partners*, our staff members participate in many activities throughout the year to help make a difference in not only our industry, but all of

A former CEO of Starbuck’s coffee said that their organizations success isn’t about the coffee; it’s about relationships! The coffee is simply a “prop” in the process of connecting through meaningful conversation with another human being. I also believe that much of what we do here at GreenStone isn’t so much about the “money” either as it is the relationship our team members have with each of you. I frequently tell our staff members that GreenStone’s unique competitive advantage isn’t necessarily our interest rates, but them! Yes, our competitors have people too, but NOT OURS! Their dedication, professionalism, and selflessness in serving others is second to none. Please join me in congratulating all the members of the GreenStone team for another great year and the contributions they make to our rural communities both on and off the clock.

As always, I want to thank you for your business and look forward to meeting the challenges of another new year with you. Feel free to contact me at 517-318-4105 or at [dave.armstrong@greenstonefcs.com](mailto:dave.armstrong@greenstonefcs.com).



**Dave Armstrong**



# NEWS WINTER UPDATE 2012

## A Trio of Recognition

### *InformationWeek 500 List-*

GreenStone found itself in the top of the 2011 *InformationWeek 500* list, holding a notable number 20 ranking among the nation's most innovative users of business technology. This was GreenStone's second consecutive year on the elite list.

The award was bestowed on GreenStone as a result of both statistical analysis and a qualitative assessment of how GreenStone innovatively leverages technology to meet ever changing business needs.

"We are honored to be named to this prestigious listing and, most notably, to be counted among the nation's top 20 most innovative companies," said Brook Walsh, GreenStone's senior vice president and chief information officer. "We are very proud of our company and the noble mission with which we have the privilege to serve. We strive to consistently develop to meet the ever-changing business needs. This recognition by *InformationWeek* is a testament to the overall dedication, drive and

success of our department, employees and the entire company."

### *101 Best and Brightest Companies to Work For-*

GreenStone has been recognized nationally as one of the 101 Best and Brightest Companies to Work For by the National Association for Business Resources. This honor comes after GreenStone was recently recognized as one of Metro Detroit's 101 Best and Brightest Companies to Work For by the Michigan Business and Professional Association.

"This award is a tremendous honor for GreenStone," said Beth Barker, GreenStone's senior vice president and chief human resources officer. "At GreenStone, we strive to develop a superior workforce at each of our 37 offices while putting an emphasis on customer service throughout our organization."

The 2011 winning companies were assessed by an independent research firm which reviewed a number of key measures relative to other nationally recognized winners. They include: communication, community initiatives, compensation

and benefits, diversity and multiculturalism, employee education and development, employee engagement and commitment, recognition and retention, recruitment and selection, small business and work-life balance.

### *Hyland Software 2011 Real Solutions Award-*

GreenStone was also awarded the Hyland Software 2011 Real Solutions Award for the most visionary customer. The GreenStone team was chosen because of its integration of the OnBase Software with the Microsoft Dynamics software solutions.

"The tightly integrated solutions allow staff to retrieve documents seamlessly without leaving the primary business applications. This solution allows users to quickly find documents in seconds," said Steve Junglas, GreenStone's director of application services. "GreenStone plans to continue integrating OnBase with the rest of the business applications to best streamline work for staff and to enhance efficiencies for customers."

## Annual Report Notice

This is an official notice that the 2011 GreenStone Farm Credit Services annual report will be available for viewing online at [www.greenstonefcs.com](http://www.greenstonefcs.com) by Thursday, March 15, 2012. In addition, the Annual Report will be mailed to all stockholders within 90 days of year-end.

## Wisconsin Crop Insurance Meeting

GreenStone will be offering a crop insurance update meeting in January. The meeting will be held at Romy's Nitingale, 5670 County Road A, Black Creek, WI 54106 on January 20. Crop insurance representatives will be present. The meeting will begin at 10:45 a.m. with registration followed by crop insurance updates starting at 11:00 a.m. running until noon. Lunch will be provided and followed by a grain marketing presentation from 12:45 p.m. until 1:30 p.m. Please RSVP no later than January 13 by calling 888-739-2996 ext. 04242 or 04219. You don't want to miss out on this great opportunity to learn about new changes and discover how they may affect your crop insurance decisions.

# Women and Agriculture

We encourage you to take note of a few upcoming events for women in agriculture. We hope to see you there!

## Ladies Day Out

February 14, 2012 at the Rock Garden Conference Center in Green Bay, WI

Join fellow women for an opportunity to laugh, learn, and be inspired. Enjoy breakfast and keynote speaker Mary Pierce, the "Laugh Lady," as she speaks about the The Joy of Connection. GreenStone customers will be receiving an invitation to this event via mail.

## Farm Women's Symposium

March 14-16, 2012 at Shanty Creek Resorts in Bellaire, MI

The purpose of the Farm Women's Symposium is to strengthen

agriculture by addressing the ever-changing needs of farm families. It will provide opportunities for leadership and professional development; enhance communication and management skills; build effective family and family teams; and develop a network of supportive friendships. For more information visit [www.farmwomenssymposium.com](http://www.farmwomenssymposium.com).

## Annie's Project

Annie's Project is an educational program dedicated to strengthening women's roles in the modern farm enterprise. The program's mission is to empower farm women to be better business partners through networks and by

managing and organizing critical information.

Find a date and location near you by visiting <http://www.extension.iastate.edu/annie/upcomingclasses.html>.

## Wisconsin Women's Ag Summit

April 27-28, 2012 at Kalahari Resort, Wisconsin Dells, WI

A premier event for women in agriculture, this conference features keynote speakers, breakout sessions, networking, and entertainment. For more information visit <http://wfbf.com/programs-event/womens-program/wisconsin-ag-womens-summit/>.

## CALENDAR OF EVENTS

Join us at these upcoming events in 2012

**FEB 23** **OUTDOORAMA**  
February 23-26, 2012  
Novi, MI  
[www.showspan.com/OUT/Home.aspx](http://www.showspan.com/OUT/Home.aspx)

**MAR 15** **ULTIMATE SPORTS SHOW**  
March 15-18, 2012  
Grand Rapids, MI  
[www.showspan.com/USG/Home.aspx](http://www.showspan.com/USG/Home.aspx)

**MAR 27** **WISCONSIN PUBLIC SERVICE FARM SHOW**  
March 27-29, 2012  
Oshkosh, WI  
[www.wisconsinpublicservice.com](http://www.wisconsinpublicservice.com)

**JUL 17** **MSU AG EXPO**  
July 17-19, 2012  
East Lansing, MI  
[www.agexpo.msu.edu](http://www.agexpo.msu.edu)

**JUL 17** **FARM TECHNOLOGY DAYS**  
July 17-19, 2012  
Outagamie County, WI  
[www.outagamiefarmtech.com](http://www.outagamiefarmtech.com)

**SEP 6** **LOGGING CONGRESS**  
September 6-8, 2012  
Oshkosh, WI  
[timberpa.com/congress/schedule-events](http://timberpa.com/congress/schedule-events)

**OCT 3** **MI ASSOCIATION OF REALTORS EXPO**  
October 3-5, 2012  
Dearborn, MI  
[www.mirealtors.com](http://www.mirealtors.com)

**DEC 4** **GREAT LAKES EXPO—FRUIT, VEGETABLE, GREENHOUSE & FARM MARKET**  
December 4-6, 2012  
Grand Rapids, MI  
[www.glexpo.com](http://www.glexpo.com)

# State Government Relations Update

Our government relations team has been working hard on your behalf in Lansing, Michigan this year. The following is a brief review of 2011 and a preview for 2012.



## 2011 REVIEW

### Raising GreenStone's Legislative Profile

On March 15, GreenStone hosted its first-ever state legislative reception in conjunction with National Ag Day. The purpose of the event was to raise awareness of GreenStone and its importance to the overall state agricultural economy with state policymakers. The event was a great success with over 50 legislators in attendance, along with many others engaged in the legislative process.

GreenStone participated in several other "brand

awareness" events such as sponsoring a legislative and Michigan Department of Agriculture and Rural Development bus tour of Eastern Market and the Better Made potato chip factory in southeast Michigan in August. Along with the Agricultural Leaders for Michigan group, we also participated in a first ever Washington, D.C. "Ag Breakfast" event this summer which included attendance by most of Michigan's Congressional delegation including Senate Agriculture Committee Chairwoman, Senator Debbie Stabenow.

### Securing Our Gains on the Tax Policy Front

On the tax front, we ensured that "farm credit association" remained in the definition of a financial institution as Michigan passed legislation to transition from the Michigan Business Tax at the end of 2011 to the new Corporate Income Tax in 2012; that is worth close to \$500,000 annually to GreenStone's bottom line.

### Success in the Great Feral Swine Debate

In early 2011, GreenStone joined such leading agricultural associations as the Michigan Pork Producers Association, the

Michigan Milk Producers Association, the Michigan Corn Growers Association, and the Michigan Agri-Business Association, in opposing legislation to regulate exotic swine hunts at game ranches.

From the outset of this debate, GreenStone supported eradication over regulation for two simple reasons: to support its customers in the agricultural commodity community and to protect the assets of its farmers.

Regulatory legislation supported by the game ranchers passed the House but died in the Senate thanks largely to



the advocacy efforts of the coalition, its members, and our professional lobbying team including Kelley Cawthorne. Thank you to all members and directors who made legislative contacts on this issue.

### **Working to Protect Consumers & Eliminate Unnecessary Regulation**

We are currently working to gain recognition of GreenStone's unique status as a federally-chartered Farm Credit Association as the Michigan Legislature considers a modification of its mortgage foreclosure moratorium law. The Farm Credit Act provides even greater consumer

protections than proposed state law, including longer loan modification periods.

Current state law unfairly singles out agricultural borrowers for the mandatory receipt of conflicting and duplicative foreclosure notices which should be streamlined to prevent customer confusion during a time of hardship. We are also working with our colleagues at the United States Department of Agriculture's Farm Services Administration to clarify state law on this important matter of consumer protection and fairness.

## 2012 PREVIEW

### **Elections**

At the federal level, President Obama is seeking re-election against a yet-to-be determined Republican opponent, which may or may not be Michigan native Mitt Romney.

Also at the federal level, U.S. Senator Debbie Stabenow (D-Lansing), the aforementioned Chairwoman of the Senate Agriculture Committee, is running for re-election. Speaking of the Agriculture Committee, it appears that the Federal Farm Bill Re-Authorization will carry over into 2012 with the failure of the so-called Super Committee process which had tentatively included a new Farm Bill. The two leading Republican contenders to face off against Stabenow are former U.S. Representative Pete Hoekstra of Holland, Michigan and former State Education Board member Clark Durant.

It is also an election year at the state level with all 110 seats in

the Michigan House of Representatives up for grabs.

Election season also means political fundraising season. That means we will again be counting on you, our members, to help us fund MI GreenStone PAC, a bi-partisan committee which supports the legislator and candidates who support our industry. GreenStone has become a major player on state agricultural issues in recent years because of several factors including: professional advocacy and profile building by our executives and our lobbying firm Kelley Cawthorne, grass roots advocacy by our members and directors, and political action or contributions to MI GreenStone PAC. This three-legged stool has made us successful on your behalf and we look forward to your continued support in 2012 and beyond.

# Building a House of Green

As a boy growing up in India, Nirmal Shah had an interest in biology and botany. Plants intrigued him. He took that fascination to college and obtained a bachelor's degree in horticultural sciences before coming to the United States to pursue a master's degree. The plan was to graduate, spend some time working in the industry and then return home to India to establish his own greenhouse business.

**By Jennifer Vincent**

**T**he plan paved the road, but along the way it took a couple of turns. In just six years after graduating with a master's degree from Penn State University, and at the aspiring age of 29, he bought one of the state's largest greenhouses that now spans 800,000 square feet.

"When I graduated from Penn State in December of 2000, I had four or five job offers," he says. "I decided to work in Kalamazoo at Boven's Quality Plants under the owner, Larry Boven. It was a great opportunity and I learned everything involved in running a greenhouse. Our relationship was very good."

At that time, the business sold directly to store outlets and largely to a single customer. That changed in 2002 when Frank's Nursery & Crafts, which held almost 90 percent of their business, went into bankruptcy.

Boven's was facing bust without new customers and Nirmal, who had been a grower for two and one-half years, went to work cultivating relationships and new contracts. Those efforts filled the greenhouses that spring and started the business in a new direction as a contract grower—growing for brokers and growers.

Boven was known for his product differentiation and cutting-edge methods, which allowed the business to grow higher-dollar product per square foot with less labor than typical bedding plants.

Nirmal's ability to secure new buyers and Boven's innovation put the business back on sound footing.

Nirmal became general manager of one of two locations owned by Boven, and in 2006 when Boven wanted to sell, he went to Nirmal first.

## **Veering from the Plan**

Not part of the original plan, but "this was a great opportunity," he says.

A fork in the road presented itself and Nirmal took it.

GreenStone was Boven's lender. "So, it only made sense that we'd start the discussion there. Larry talked with Dennis (Nykamp)."

Nykamp is a vice president in commercial lending for GreenStone.

"Larry had all the paperwork, including appraisals and other financial data already in place, so for a transaction this large, it was

surprisingly smooth and easy. “One small hiccup in the process was Nirmal had only an H visa (work visa). “It added a little twist, but we were able to work through it. I have a green card now and next year I will obtain U.S. citizenship.”

Because Boven had two locations under one company name, the 14-acre facility Nirmal was buying was broken off to keep track of cash flow and renamed Plants Unlimited. The other portion of the business was also sold to a general manager at the company.

The business was officially sold to Nirmal and his wife, Rachna, in early 2007.

Nykamp says, “I worked with Larry Boven for a number of years and Nirmal was a key part of the business. He has a lot of individual motivation and is a good manager. He’s assembled a group of key people that work for him.”

#### **New Direction**

In four years, Nirmal has added 25 percent more space since purchasing the business. “I’m feeling good about the size of the business—being in the top 100 in the country as far as size,”

“I’m feeling good about the size of the business—being in the top 100 in the country as far as size.”



“I’m more of a marketer. My responsibilities have shifted, but I really enjoy what I do.”

he says. “I am concentrating more on reducing debt load and adding and subtracting customers based on profitability.”

The customer base is entirely contract with fulltime greenhouses or brokers who sell to big box stores and independent garden centers. To minimize risk, business is spread pretty evenly amongst about seven customers from the East Coast to Texas.

“Because we do not sell to any (end) customer, it reduces direct risk of total product loss at the store. However, with brokers and growers, I’m at their mercy. They will fill their own greenhouses first. The overflow comes to us.”

Communication is key in the process, as orders vary every year and start in October and continue through December.

Orders are detailed with varieties, sizes, colors and due dates. “We work backward, determining how long the product will take to be ready, what date we will need to plant, and when to order supplies. It’s all based on the finish date.”

A year-round greenhouse, spring product—including annuals, pots, hanging baskets and bedding plants—are finished by the end of June. Mums and pansies are planted to be finished by the end of October, which is followed by a holiday favorite,



As one of the largest 100 greenhouse nurseries in the U.S. Plants Unlimited ships millions of bedding plants each year.

Cyclamen. It ships around October 15 through mid-December.

Juggling changing orders that come in later and later each year leaves less time for preparation. “We have to adapt, but the good news is we’re familiar with what the market is asking for. So if one grower or broker asks for less of one product, chances are, another grower will pick that up,” Nirmal says.

During the busy planting season, December through June, the business peaks at about 75 employees and then downsizes to about 20 during slow times.

“My wife, Rachna, does payroll, all payables, all receivables—all the financials,” Nirmal says.

She undoubtedly will have to take a break soon as the couple is expecting their first child in January.

Several million plants are shipped out annually from Plants Unlimited, with 97 percent of that being bedding plants.

Although he still loves growing plants, the majority of Nirmal’s time is now devoted to customer relationships. “I’m focused on maintaining and adding business,” he says. “I’m more of a marketer. My responsibilities have shifted, but I really enjoy what I do.”

He proves that plans are sometimes made to be modified in favor of a path less traveled but full of opportunity.



## Michigan Land Owners Cash in on Hydrocarbons

Knowing that many of our members have been, or will be, presented with a land leasing proposal, GreenStone board member, Lynn Gould, offers useful insight he has gleaned from years of firsthand experience.

Geologists estimate the U.S. has enough natural gas to last for two centuries. Here in Michigan, we have our share: Michigan ranks 17th in the nation for gas and oil production.

The boom is on, and Michigan land owners have great opportunities to capitalize on this endeavor if they use good judgment on leasing their land.

Today, the leases are vastly different than what your Dad or Grandpa signed. Now, leases are completely negotiable from beginning to end. Landowners

should read and understand all terms of the entire lease, and garner expert assistance before signing.

As one might suspect, many leases being offered are often written in favor of the oil or gas company and not the landowners. As a result, Michigan landowners commonly sign leases for only a fraction of the potential value, and the lease does not protect the current landowner, future land owners or the environment.

*Continues on page 18...*



In the fall of 2007, we learned of a young grape farmer's dream of one day opening his own winery. Four years later, Rockie's dream is still vivid and is "growing" into a reality, right along side of his other business successes.

## Where are they now?

Since 2007 Rockie and his wife have:

- Expanded their operation from 10 to 70 acres, with 30 acres planted out to wine grapes.
- Opened their own winery, Gravity, and started producing small quantities of wine, which they sell directly from their vineyard.
- Continued to meet production quotas to supply other local wineries with high quality wine grapes.

- Grown their wine tour business, Fruitful Vine Tours, by adding wagon tours and soon to be adding bike tours in the spring of 2012.

So what's next? Rockie plans to continue expanding his operation and plant out more acres to grapes. He hopes that in three planting seasons, or by 2015, they will be growing 40 acres of wine grapes and producing around 16,000 gallons of wine. Rockie is also dedicated to continuing agritourism in the southwest

Michigan area by finding creative ways for people to enjoy themselves and learn about local wineries, hence his commitment to their wine tour business.



# Record Breaking Year!

## Patronage Payment of Over \$22 Million set for March 13, 2012

**W**ith spring on the horizon, it is time to wrap-up winter projects and prepare for another busy growing season. Spring also means that it is time to celebrate Patronage Day with your fellow GreenStone members. For a seventh consecutive year, GreenStone will host Patronage Day on March 13, 2012 and return 20 percent of the cooperative's net earnings to customers with qualified financial products.

The patronage payment amount is based on the strong financial performance of GreenStone in 2011 and will equate to more than \$22 million in patronage payments to customers. The

GreenStone board of directors recently approved the patronage amount, making it the largest payout in the history of the program, surpassing the previous record by approximately \$4 million.



“If you worked with a big bank, you will not get them writing you a check once a year as a member when you're working with them on your loan...That's one of the definite benefits of working with GreenStone.”

“GreenStone enjoyed a record year in 2011 thanks to the success of our members across Michigan and Wisconsin,” said GreenStone President and CEO, Dave Armstrong. “We are pleased to be able to share that success in the form of patronage payments to our loyal members.

“GreenStone continues to operate as a sound and viable organization focused on serving our members needs now, and for generations to come, and that philosophy has allowed us to continue the patronage program for 2011.”

Patronage Day at GreenStone is an example of how the member-owned cooperative is different from other lenders. Patronage payments are appreciated by members, and allow them to re-invest the money into their business, pay down a loan, or make a difference in their local community by supporting a school, church or charitable initiative.

“If you worked with a big bank, you will not get them writing you a check once a year as a member when you're working with them on your loan,” said GreenStone member Matt Thiel. “That's one of the definite benefits of working with GreenStone.”

Each year since 2006, GreenStone's board of directors has declared a patronage payment for customers with qualified products. With a record payout of more than \$22 million for 2011, GreenStone's total amount of patronage payments to customers will be more than \$107 million since the inception of the program.

“Eclipsing \$107 million in patronage funds distributed is an enormous milestone and it speaks to the focus GreenStone has on our member base of more than 20,000 customers,” said Armstrong.

We invite customers to visit with staff at their local branch and help us celebrate Patronage Day on March 13. Checks will be made available for pick up during normal business hours; all checks not picked up by close of business will be mailed the following day.

The cash patronage paid to each customer will be based on the proportion of net-interest income earned during 2011 on his or her loan to the total patronage based net-interest income earned by the association.

GreenStone will not only distribute a qualified cash payment to customers, but will also use non-qualified allocations to reinvest in the association to capitalize future growth.

Customers eligible to receive the patronage payments include anyone holding stock or participation certificates with GreenStone, which include rural residential home loan customers. Loan participations either sold or purchased by GreenStone, and any leasing transactions, are not eligible to receive payment. The returns to customers also will not be based on income derived from fees or any of the organization's financial services.

“Overall, 2011 was an incredibly successful year for GreenStone and we owe our customers a tremendous ‘thank you’ for making it such,” said Armstrong.



## The Rise of Farm Land Values

Farm land values continue to climb in most areas and have many farmers wondering what next week will bring. Three members of GreenStone's board provide their thoughts on how they view this trend, and what the guidance has been given to the cooperative as it works to support the successful, financially sound business growth of the membership.



**Raymond Diederich**

Land values continue to be a real challenge. They are great for an owners net worth, hard on cash flow if you are buying, and challenging if you

are a lender. As an owner, it is great to leverage the extra value, and great security for retirement. However, if you are purchasing land, it is a real cash flow issue; there is only so much income potential. I believe it is important that emotions are kept out of the decision making process.

For GreenStone, it is all about staying focused on lending standards. We have established excellent standards that must be adhered to in order to remain an asset to our customers and their businesses.



### **Gil Ritter**

I'm only one member of the board, but I will provide my perspective. I believe a farmer needs to put more down as the price of land

goes above the former normal range from three or four years ago. I say this because I feel that land prices will adjust down when commodities once again exceed world demand.

If someone can tell me when or if this will happen, then I could tell you when the end of the land boom will come. In the mean time, my voice has been to stay a little more cash heavy in order to manage through the rapid cycles we are seeing in most everything we buy or sell.



### **Cathy Webster**

Land values in most areas have been steadily climbing for a considerable amount of time.

I think that land values may possibly

climb a little more than steady and then adjust down a bit, but that may just be wishful thinking on my part. With the commodity prices where they are and the world economic situation as it is, I don't see a lot of change in the near future. But if crop prices should take a rapid dive, then land values will follow suit.

The board's message to management is to extend credit on land (or otherwise) in a financially sound manner to credit worthy customers as they have been doing in the past—but to not be overly aggressive.

It is important to make every effort to serve our member/borrowers needs, but still adhere to our credit standards and policies.

*...Michigan Land Owners continued*

The following is a partial list of cautions to consider before signing a lease:

- 1) Drilling companies want, and may even need, 80 percent of the proceeds to cover the costs and make a profit. Who do you want to get the other 20 percent? The State of Michigan gets  $\frac{1}{6}$  or 16.66 percent, isn't your prospect as good as or better than the state's? Consider asking for at least  $\frac{3}{16}$  or 18 percent.
- 2) Limit what they can do on your land. You likely do not want good agriculture land taken out of production for tank batteries, processing plant or similar objects.
- 3) Watch for post-production deductions. You should be able to negotiate a lease that only allows deduction for removal of CO<sub>2</sub>, H<sub>2</sub>S and N<sub>2</sub>.
- 4) Many leases allow for drilling 200 feet from the home or building. Michigan law specifies a minimum of 300 feet. As a knowledgeable landowner, it may be wise to require 400-500 feet or more.
- 5) Shut-in periods should be limited to one or two years with a payment much higher than the common \$1.00 offered.
- 6) Limit the length of the lease. A five year lease is very long; three years or less would be more acceptable. It is also wise to resist an option for extension or limit the length, and don't accept a top lease option. (A top lease option is one that would allow the current lessee to enact a new lease that would match any lease offered by another potential lessee at the expiration of the current lease signed by the lessor.)
- 7) Signing Bonus: Do not be fooled into thinking that dollars received for signing is the most important thing. Once you sign a lease, the land is burdened and it may be for many decades if there is production. You could be giving away most of the revenue from production (royalty payment) if you sign for the wrong terms. Remember, signing the lease affects you as the current owner, the future owners and the environment, so do not be pushed into signing something before you are comfortable with it. The hydrocarbons will not migrate out from under your land; take adequate time to get the facts and understand what you are signing, and do not hesitate to get some assistance from a qualified person who is knowledgeable about oil and gas leasing.

These are seven of the items that should be considered if you are being offered an oil or gas lease. It is ok, and now common, to negotiate on the lease. Many leases have 20-40 changes before an agreement is reached and a signature is provided.

Like oil and gas, wind power leases are becoming much more common today. The leases being presented to private land owners for wind power are much more detailed. However, they too can be negotiated and should be reviewed in detail and adjusted to protect current and future land owners.

Assistance and further references on all types of land leases can often be found through the Michigan State University Extension.

*The opinions stated herein are not necessarily those of GreenStone FCS.*



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