

LETTER FROM THE CEO



Dear Stockholders,

Today's Lone Star is one of the most experienced rural real estate and agricultural lenders in the state, with 16 offices covering 48 counties throughout north and central Texas. But Lone Star's humble beginnings date back to 1917, when we made the very first Farm Credit land loan in Texas. Since then, we've had a long and proud history, and last year we celebrated 100 years of serving the ag community in Texas.

Over the century, we have maintained long-standing traditions of independence, strength, stability and service in meeting the financing needs of our customers. We've learned, however, that times change, and we need to work hard to keep these same traditions, but with renewed focus and continued investments in innovation and training of our greatest asset — our people.

We've re-examined every aspect of our organization, internal controls and processes. We are implementing new procedures that improve our organization and provide a solid framework that maintains accountability throughout our system. We are adopting new technologies and allocating resources that enable us to ensure that Lone Star operates with best practices. In fact, we are striving to be a leader within the Farm Credit System with regard to the loan-making process and use of technology.

We have a renewed focus on accountability, good stewardship and investment in a better, stronger Lone Star — for the sake of our stockholders, the association and our employees.

While we're making many changes, our core values and our passion for serving the ag community have not changed. Our commitment to the people and the communities we serve is at the heart of all we do at Lone Star. We still live by the traditions established by our roots and these will only grow deeper as time progresses.

Thank you for your continued business with Lone Star and best wishes for success in the year ahead.

Troy Bussmeir
Chief Executive Officer
Lone Star Ag Credit

YOUR GUIDE TO PURCHASING LAND IN TEXAS

Purchasing property is a big decision.

If you're thinking about buying rural real estate, you probably have many questions. Inspired by some of the most common issues we hear from our customers, Lone Star Ag Credit put together a guide to help you understand the process and make an educated decision.

Here's just a glimpse of what you'll find in "The Ultimate Guide on How to Purchase Land in Texas."

WHY PEOPLE BUY

People purchase rural land primarily for recreation, building a country home, investment, or farming and ranching.

Having a clear idea about why you want to purchase property impacts other decisions you'll need to make, the features you should look for and your options for structuring financing.

If you plan to use the property for agriculture or an agribusiness such as a winery, you could qualify for special programs. Lone Star Ag Credit even offers

flexible underwriting that makes land ownership easier for young, beginning and small ag producers.

WHERE TO FIND AVAILABLE LAND

An experienced real estate agent or broker who specializes in land is a good person to have on your side.

You also can look up property listings online to research prices, see photos of land features and learn how property has been used in the past. We recommend Lands of America, the No. 1 online marketplace for rural land.

Property listings are available at LandsOfAmerica.com/Texas and on Lone Star's website, LoneStarAgCredit.com.

FACTORS TO CONSIDER

PROPERTY SIZE: Think about how you intend to use the land. Five acres might be ideal for a country home, but you'd need more for raising cattle.

AMENITIES: Make note of any existing structures, water wells and other features, including whether they're in good working order.

ROAD ACCESS: Find out whether the property is reached by a public or private road, and how that would affect your legal access, especially if the land is being subdivided.

TOPOGRAPHY: Hills, wooded areas, streams, ponds and other natural features can affect land's suitability for agriculture, wildlife or a country home.

UTILITIES: Contact utility providers to verify whether water, electricity, Internet and other services run to that particular section of land or are available in the area. The cost to secure utility services can be included in a land loan.

RIGHTS AND RESTRICTIONS: Be aware of deed restrictions, zoning and floodplains that can affect a property's use. Permits and codes vary by county.

PRICE: This varies significantly based on location, aesthetics and other factors. Appraisals and qualified real estate agents are important for determining what the land's worth.

PROPERTY TAXES: Rural real estate might qualify for a tax break, such as a homestead exemption for a principal residence. Agricultural or open space valuations for land can take time to establish, so before buying, ask the county appraisal district whether exemptions are already in place.

DOWNLOAD OUR FREE LAND-BUYING GUIDE

"The Ultimate Guide on How to Purchase Land in Texas" has eight pages of helpful information about finding the right property, financing your purchase and getting the best use out of your land. You can download the guide at LoneStarAgCredit.com/lp/general-urban.

MINERAL RIGHTS

Land ownership in Texas is divided into two separate estates: mineral estates and surface estates. Whoever owns the mineral estate has the right to explore and develop the production of oil and gas without obtaining permission from the surface owner.

If there are no prior mineral reservations and the seller isn't reserving any minerals, then the mineral ownership would transfer with the sale.

Ask about the mineral estate of land you wish to purchase, and know the rights and risks associated with that area. You also might want to ask neighboring property owners if they've observed any drilling or trucks nearby.

FINANCING

CHOOSING A LENDER: Lone Star Ag Credit was founded in 1917 with rural land in mind. It is part of the nationwide Farm Credit System, which supports agriculture and rural communities with dependable credit and financial services.

You don't have to be a farmer or a rancher to take advantage of our lending. Any person or legal entity who is purchasing rural real estate — outside the city or within a town of 2,500 people or less — is eligible to apply for a loan from Lone Star Ag Credit.

Our customers are also stockholders and members of our lending cooperative, and have the opportunity to share in the co-op's earnings and to elect members of our board of directors.

APPLICATION: Filling out an application form will give you some insight about what information a lender needs in order to qualify you for a loan. The process from application to closing usually takes 30 to 45 days depending on the credit of the borrower and the complexity of the transaction.

THINGS TO KNOW BEFORE CLOSING

SURVEY: This shows the boundaries and size of the property, and includes a description of any structures that would transfer with the sale. While an existing survey might be adequate, purchasing a new survey is usually recommended.

LIENS: A property lien is a legal claim that ensures the payment of a debt when a property is sold. A real estate agent can find out whether any liens need to be paid before title is conveyed to a buyer.

EASEMENTS: An easement grants the legal right to use someone else's property for a specific purpose, such as railroad tracks, power lines, drainage and private paths. The easement transfers with the property, meaning the new owner would be obligated to honor the agreement.

FLOOD ZONES: Whether a property lies within a flood zone impacts property insurance, as well as financing for existing or proposed improvements. Federal Emergency Management Agency (FEMA) flood insurance rate maps can help identify if property is located in a flood hazard area.

LET LONE STAR HELP

These are just some of the things to think about when you buy rural land. If you still have questions, talk to a Lone Star Ag Credit loan officer for professional guidance.

Contact information for the staff at each of our locations is available at LoneStarAgCredit.com.





Corbin and Jordan Clements of Snyder, Texas, attended the 2017 Farm Credit Young Leaders Program on behalf of Lone Star Ag Credit. They celebrated the completion of the program in New York City with Stan Ray, left, Farm Credit Bank of Texas chief administrative officer and Tenth District Farm Credit Council president.

YOUNG LEADERS CORBIN AND JORDAN CLEMENTS

Corbin and Jordan Clements of Snyder, Texas, recently learned how Farm Credit uses its cooperative structure and unique funding mechanism to lend support to rural communities and agriculture across the United States. The couple represented Lone Star Ag Credit at the 2017 Farm Credit Young Leaders Program in Washington, D.C., and New York City.

The Clements help run Clements Farm, a 4,300-acre dryland cotton operation in Ira, Texas, that Corbin's great-grandfather started in the 1920s. Today Corbin works the fields with his father, Keith, while his mother, Carla, manages the farming business. Jordan sells insurance that covers farms and ranches across several Texas counties.

The trip included meetings with agriculture industry representatives and congressional leaders in Washington, D.C. During visits to the Federal Farm Credit Banks Funding Corporation and a Wall Street brokerage firm in New York's financial district, they learned how investors purchase highly rated Farm Credit notes and bonds, supplying steady funding for loans and related services.

The Tenth District Farm Credit Council, which hosted the program, is the regional member of the national Farm Credit Council, the trade association that works on behalf of Farm Credit cooperatives and their member-owners.

BANKING AT YOUR FINGERTIPS

Lone Star Ag Credit understands how important your cash flow is to the success of your business. Our Ag Banking Online service and Ag Banking mobile application offer two great ways to manage your accounts 24/7, whenever it's most convenient. All it takes is a computer or an Apple or Android smartphone or tablet to:

- Make loan payments from your business or personal checking account
- Set up real-time, future or recurring transactions
- Track your account history, including your loan payments, online transactions, patronage and stock in the association
- Send and receive secure messages regarding your accounts
- See branch locations and hours

If you already use Ag Banking Online, you can get access to the same features on your mobile device by downloading our free app at the iTunes App Store or the Google Play Store. To use either service for the first time, simply request access through your branch office or online at LoneStarAgCredit.com.

We also offer Pre-Authorized Installment Drafting (P.A.I.D.) – This automatic withdrawal service helps you make your loan payments on time, every time. An electronic draft will draw on your bank account. If the interest rate on your loan changes, you will be notified on a billing notice, and the installment amount will be updated automatically.

If you are not already using one of these products, give us a call to discuss how they might benefit you and your business.