

# PRODUCERS LIVESTOCK MARKETING ASSOCIATION

## FEEDING & GRAZING PROGRAM PROPOSAL

### SYNOPSIS

Producers Livestock Marketing Association, (“Producers”) proposes to enter into a livestock feeding program with feeder/grazer’s. Under the terms of the program, Producers will place livestock owned by Producers with selected feeder/grazer’s. A feeding contract/agreement will be entered into between Producers and the feeder/grazer. The feeder/grazer will be responsible for feeding the livestock, and for any profit or losses incurred. Producers shall receive the normal handling charge for the purchase and sale of livestock and shall receive interest (which includes the cost of capital) charged at a simple interest rate. This interest shall be accrued and charged when the livestock are sold. A non-assessable membership in Producers Livestock Marketing Association will be established upon purchase of the livestock.

Producers adheres to a concentration limit which is set forth by their lending partner. The concentration ratio is considered reached (achieved) whenever one of the following two conditions is met:

1. Total dollar amounts allowable
2. Total number of contracted head

### FEEDING PROGRAM

Under this livestock feeding program, feeder/grazer will receive all of the “net” profits from their total feeding and grazing commitment with Producers Livestock , but will encounter the same risk as feeding his own livestock and will be responsible for the actual costs incurred by Producers, including but not limited to livestock, freight, feed, veterinarian, consultation charges, market conditions, handling charges, insurance and interest.

Feeder will be required to strictly adhere to any and all laws or regulatory provisions in effect governing bovine spongiform encephalopathy (BSE). When entering into a contract/agreement to feed cattle under the feeding and grazing program, feeder will be required to execute a certificate stating that, to the best of their knowledge, none of the livestock are adulterated within the meaning of the Federal Food, Drug and Cosmetic Act (i.e., none of the cattle or other ruminants have been fed any feed containing protein derived from mammalian tissues, e.g. meat and bone meal, not in compliance with 21 CFR 589.2000 and that none of the animals presented for slaughter have an illegal level of drug residues).

### ELIGIBILITY REQUIREMENTS

Producers reserves the right to select participants in the program based on information provided by the potential feeder/grazer and the criteria described below. These criteria are set forth as guidelines only. The discretion of the feeding and grazing committee established by Producers will govern final selection.

1. Potential feeder/grazer will already be in business with experience in raising livestock. This will be verified by the feeding and grazing committee.

2. Potential feeder/grazer must provide recent financial statements and tax returns for review and consideration.
3. Potential feeder/grazer must demonstrate a cash flow which allows the livestock to be fed for the specified feeding period without advances for day to day expenses.
4. Potential feeder/grazer gives permission for a credit report to be obtained by Producers Livestock. This credit report shall be used for the sole purpose of determining eligibility for participation in the feeding and grazing program.

Potential feeder/grazer agrees to enter into a written contract/agreement with Producers Livestock outlining his duties, responsibilities and liabilities.

### **SELECTION OF LIVESTOCK**

The selection of livestock will utilize a four-step process.

1. Livestock will be placed only in lots that have adequate feed, water and equipment to care for said livestock for the specified feeding period.
2. Livestock will be placed in lots approved by the feeding and grazing committee.
3. All livestock will be approved, purchased and sold by an authorized agent of Producers Livestock unless otherwise arranged and agreed to by both parties.
4. Handling charges will be received by Producers Livestock on both the purchase and sale of the livestock.

### **PROGRAM IMPLEMENTATION, GUIDELINES, INTERNAL CONTROLS**

After selection and approval, the applicant will be required to enter into several written documents. These documents include but are not limited to: 1) a written Contract/Agreement; 2) a Creditor's Release; 3) a Feed Release; 4) Brand Certification; and, 5) an informational financing statement, commonly known as a UCC-1 and EFS. This document puts the public on notice that the livestock are the property of Producers Livestock Marketing Association.

Additionally, the participants in the program will be governed by the following guidelines:

1. All livestock will be branded with a brand that is registered to or leased by to Producers Livestock Marketing Association upon arrival to the feeding or grazing location. The Livestock placed in this feeding and grazing program are to be identified separately from other non-Producers livestock, if any, currently run on the feeder/grazer's property.
2. The feeder/grazer will be expected to accept the livestock, based on price, condition, weight, health, etc., as is commonly accepted under a normal sale.
3. Producers reserves the right to recommend the appropriate feeding program and, if necessary, to appoint a consultant to advise on the feeding program or health treatment procedures in the case of excessive illness, death loss or poor rate of gain as determined by a Producers agent. In such a case, the full cost of the services provided may be added to the cost of the livestock and deducted at the time the livestock are sold.
4. Producers does not encourage placing the Livestock in the program in third party feedlots. However, any of the Livestock placed in a third-party feedlot at any time during the contract period and feeding cycle, will require a \$150 per head equity margin payment. Payment must be made to Producers prior to any of the Livestock being moved to the third-party feedlot. At all times, feeder/grazer shall maintain a margin account over and above the accruing cost of cattle

and such other feed costs and related costs. If feeder/grazer should prepay any amounts for feed, satisfactory evidence of such payments shall be provided to Producers.

5. Upon request, the feeder/grazer will be expected to return a signed inventory report to Producer's corporate office at 230 West Center, North Salt Lake, Utah 84054. A copy of this report is included with this booklet. A representative of Producers Livestock Marketing Association will inspect the livestock whenever deemed necessary.
6. Producers will include in the cost of the program a casualty insurance to guard against loss from fire, theft or another casualty. The deductible on the liability insurance program is \$10,000. Cause of death must be determined by a veterinarian. **A current 911 address location or legal description of the property being used to feed and care for the livestock must be provided to Producers at the time cattle are placed on the property for the coverage to be in effect. If current 911 address locations or legal descriptions for property where livestock are being fed and number of livestock being fed at the location is not provided to Producers, livestock loss will not be covered under Producers casualty policy.**
7. The feeder/grazer is encouraged to participate in a risk management program provided by Producers Livestock Commodity Marketing, or such other licensed commodity brokerage as approved by Producers. At the sole discretion of Producers Livestock Marketing Association, a minimum position (i.e. hedge, put-option, etc.) may be placed. Feeder/grazer shall also have the right, on his own accord, to participate in a risk management program. Producers Livestock Marketing Association advises that the risk in trading commodity futures can be substantial. Feeder/grazer should, therefore, carefully consider prior to entering the program whether such trading is suitable for feeder/grazer. To the extent feeder/grazer requests funds from Producers to participate in a risk management program, or to the extent Producers shall purchase a minimum position, the cost of funds including accrued interest shall be added to the total cost of the livestock and shall be deducted from the net sale as provided in this agreement.
8. In the event that the feeder/grazer does not use this program over a six-month period, approval will be withdrawn.

### **HANDLING CHARGES, FEES AND INTEREST RATE**

Producers shall be entitled to the following fees and handling charges:

1. **Handling Charges and Fees:** For livestock purchased out of a Producers auction facility the handling charge will be \$0.50 per cwt. For livestock purchased and/or sold involving any other transaction the handling charge will be \$1.00 per cwt with a minimum of \$5.00 per head for all stock except breeding stock and bulls. For all breeding stock and bulls, the fee will not exceed \$12.00 per head. Livestock sold through a Producers auction facility or video sales, the charge will be determined by the established tariff filed with the Packers and Stockyards Administration.
2. **Interest Rate:** The interest rate assigned to each Contract/Agreement within this feeding and grazing program, will be indexed to Producer's Base Interest Rate ("Base Rate"), as established by Producers' Lender. As such, Producers offers a 5 Rate Differential Interest Tier program. This 5 Rate Differential Interest Tier program will be utilized in the eventual assignment of the proper credit risk code for any Contract/Agreement.

**Variable Rate of Interest.** Commencing on the date that funds are first disbursed by Producers, the rate of interest applicable to the Contract is a per annum variable interest rate as determined by Producers and as set forth herein below.

Initial Rate. The interest rate initially assigned to this Contract will be indexed to the Producers Based Interest Rate (“Base Rate”) as established by Producers’ Lender, plus a spread over or under the Base Rate in effect at that time. As such, the interest rate as of the date of this contract/agreement is calculated as follows:

FOR ILLUSTRATION ONLY:

Producers Base Rate in effect	0.00%	Actual in effect
Applicable Margin	<u>0.00%</u>	Added to above
Initial Per Annum Interest Rate	0.00%	Stated Interest Rate

Interest Rate Calculations. Interest charges on any livestock purchased and/or placed into the Feeding and Grazing Program by Feeder, will be calculated as follows: Total Cost; times the Interest Rate assigned; times the number of days divided by 360.

The Total Cost can be determined by taking the cost of the load of livestock or the specific lot of livestock invoices, including all **trucking and miscellaneous charges, purchase handling charges, and all other costs and fees as set forth in this Contract and Agreement.**

Applicable Margin. The Applicable Margin assigned to this Contract may be adjusted from time to time based on changes in the Feeder’s ability to care for the livestock placed in the Feeding and Grazing Program, financial ability and credit worthiness, costs of servicing the Contract and other factors as determined by Producers in its sole and absolute judgment and based on such financial information as may be required by Producers. Failure to remit financial information as and when requested by Producers may result in higher Applicable Margins.

Changes to Interest Rate. The rate of interest applicable to this Contract is subject to change whenever there is an increase or decrease in the Base Rate of Interest as established by Producers’ Lender. Upon such increase or decrease in the Base Rate, the interest rate assigned to this Contract will then be increased or decreased on the first day of the following month following any increase or decrease in the Base Rate of Interest as established by Producers’ Lender. Thereafter, the unpaid principal balance owing on the Contract and due thereunder, shall then bear such rate of interest from said date of change, until if any, the next Change Date. Each date on which the rate of interest changes, is called a “Change Date.”

**TERMINATION**

The contract/agreement may be terminated by the feeder/grazer and thereby terminate the feeding arrangement at any time by giving thirty (30) days written notice and paying Producers for all costs incurred to the date of termination.

In the event of termination, the full and normal fees and handling charges that Producers normally receives for the purchase and sale of livestock will be charged. Also charged against the livestock will be the interest charges.

This Agreement may be terminated by Producers upon ten (10) days written notice to Feeder. Feeder/grazer hereby waives the ten (10) day notice period and acknowledges that Producers may terminate the feeding/grazing program at any time, if such conditions exist that, will endanger Producers' equity position in the Livestock placed in this feeding and grazing program.

Producers further reserves the right to terminate the feeding program at any time if it is determined by Producers that their equity is in jeopardy.

**FEEDER/GRAZER RISKS AND BENEFITS**

**THIS RISK THE FEEDER/GRAZER WOULD ENCOUNTER IS THE SAME AS FEEDING HIS OWN LIVESTOCK.** All death loss and related sickness are the responsibility of the feeder/grazer. Consequently, the feeder/grazer must indemnify Producers in an amount equal to the full replacement value of the livestock, for any loss, including death loss, arising from fire, theft, sickness, act of God, or any other risks and casualties normally covered by a broad farm insurance policy.

The feeder/grazer must supply feed, supplement, medication, veterinarian and consultation fees, trucking, liability insurance, and any other miscellaneous costs incurred in the normal course of feeding livestock. The potential benefit to the feeder/grazer is the ability to profit from the overall gain of the livestock. Unlike other feeding contracts, which are based on a per pound of gain formula, the program provides that the FEEDER/GRAZER CAN RECEIVE ALL OF THE "NET" PROFIT FROM THE SALE.

The feeder/grazer also has the option of purchasing Producer's interest at any time deemed beneficial to the feeder/grazer by giving Producers thirty (30) days' notice and paying Producers for all costs incurred to date.

By signing below, Feeder/Grazer acknowledges they have read the proposal and do understand and agree to the terms set forth in pages one through seven titled Livestock Feeding/Grazing Program Proposal.

By: \_\_\_\_\_

Date: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_