



Office of the State Bank Commissioner

Memorandum

Memo RM98-3

TO: All State Chartered Banks and All OSBC Examination Staff
FROM: W. Newton Male, State Bank Commissioner
DATE: July 17, 1998
RE: Assigning a value to U.S. Premium Beef stock when analyzing loans

Representatives of the OSBC recently met with representatives of U.S. Premium Beef ("USPB") to determine how this department will value stock of this entity when judging collateral quality of a particular loan.

As a very brief overview, U.S. Premium Beef is a closed cooperative that is seeking members from all segments of the beef industry (purebred producers, commercial cow-calf producers, backgrounders, farmer-feeders, and custom cattle feeders). Every member/producer who delivers cattle to USPB must be a member of the cooperative. Initial membership fees include a lifetime membership fee of \$500, or a one-year membership fee of \$100. In addition, members must purchase or lease stock from USPB stockholders. Each share of stock gives the producer the right and obligation to deliver one finished animal per year to USPB plants at Dodge City and Liberal, Kansas. Producers receive individual carcass data and have a financial incentive to improve their genetics by getting paid on an individual animal basis based on an industry-competitive grid. According to USPB literature, by participating in this cooperative, member/producers are involved in a beef processing system which operates more efficiently because of a systematic supply of cattle. This supply of cattle is higher quality which enables the company to expand consumer markets with value-added products. USPB is a partner with Farmland Industries in the ownership of Farmland National Beef Packing Company, the nation's fourth largest beef processor and a leader in the value-added arena.

When we met with USPB, the main issue discussed was what value would be assigned to USPB stock taken as collateral for a loan at a state-chartered bank. We initially had concerns about assigning any value due to the lack of a market for the stock. ***After being provided with data by USPB showing that stock was being traded among producers, we determined a value of \$38.50 per share should be assigned to the stock by examiners when analyzing loans collateralized by the stock.***

This equates to roughly 70% of what USPB was able to show as the current trading value of the stock. As USPB's operations develop, and a market further evolves, we may revisit this issue. Should you have questions about this information, please feel free to contact the office.