

# Adjustable Rate Mortgages (ARMs) - Farm and Ranch Loans

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## ***Highlights***

- 1-Month, 6-Month, 1-Year, 3-Year, 5-Year, 7/1, 10/1 ARMs. All ARMs have 15-year maturities and amortizations of either 15 or 25 years.
- The initial interest rate will be in effect for the term identified in the product name and will reprice for a like term except for the 7/1 and 10/1 ARMs which, following the initial 7- or 10-year rate term, will roll over to a 1-year ARM for the remainder of the loan term.
- On any payment date, ARM loans (except the 7/1 and 10/1 ARM) are convertible to **other** Farmer Mac products. The initial rate period for the newly chosen product may not exceed the loan's remaining maturity and the product selected must be one that is both available for conversion and listed on the Farmer Mac pricing sheet. Same product conversions (e.g., converting from a 3-year ARM to a 3-year ARM) are not permitted. The conversion fee is 0.5% of the loan balance or \$1,000, whichever is greater, not to exceed \$5,000. The rate upon ARM to ARM conversions is a mark-up rate of 25 basis points over Servicing Released Net Yields on the Farmer Mac rate sheet. There is no mark-up for ARM to Fixed Rate conversions, or for ARM to VRM conversions.
- Semi-annual level payments January 1 and July 1; annual payments are due on January 1; monthly payments are due on the first of each month.
- Reamortized each reset date to the original ending amortization date.
- On the reset date, the note rate will change to the sum of the product's Rate Index (see below) plus the Reset Margin stated on the weekly rate sheet, plus the Field Servicing Fee as established at the time of loan origination, plus the mark-up rate of 25 basis points (if applicable as described above).
- Open prepayment at any time without penalty, in whole or in part, so long as interest is paid to the next payment date (or in the case of the 1-Month LIBOR product, to the next interest reset date) if payment is not made on a payment date.
- Maximum LTV of 70% for loans up to and including \$3.0 million; 60% for loans greater than \$3.0 million

## **LOAN QUALIFICATION, CLOSING AND REPAYMENT ISSUES**

- **Loan Qualification with Interest Rate Shock Assumption:** It is expected that the loans will meet the Total Debt Coverage Ratio standard after application of an interest rate shock to the payment calculation. The 1-month, 6-month and 1-year ARM loans are to be shocked at 500 basis points and the 3-year ARM loans at 300 basis points. No shock is necessary for the 5-year, 7/1 and 10/1 ARMs. The appropriate shock is to be added to the maximum rate requested; however, it is not necessary for the loan security to meet the Property Debt Coverage Ratio on the shocked basis.
- **Rate Index:** The Rate Index for the 1-Month ARM and the 6-Month ARM is LIBOR (30-day and 6-month respectively) as published daily (business days) in the Wall Street Journal. The Rate Index for the 1-year, 3-year and 5-year ARM is the weekly average yield on United States Treasury securities adjusted to a constant maturity equal to the specified rate period (i.e., 1-, 3- or 5-year CMT) as published by the Federal Reserve Board. The Rate Index for the adjustable rate period for the 7/1 and 10/1 ARM is the 1-year LIBOR as published in the Wall Street Journal.
- **ARM Reset:** For the 1-Month ARM, the interest rate will be reset to the Rate Index as published 2 business days prior to the ARM reset date, plus the Reset Margin specified in the note. For the 6-month ARM, the rate will be reset to the Rate Index as published 2 business days prior to the ARM reset date, plus the Reset Margin specified

in the note. For the 1-year, 3-year and 5-year ARM, the interest rate will reset to the Rate Index in effect 45 days prior to the ARM reset date plus the Reset Margin specified in the note, with the customer notified of the new rate approximately 30 days prior to the reset date. For the 7/1 and 10/1 ARM, the rate will reset to the Rate Index in effect on the payment date plus the Reset Margin specified in the note.

- If a partial prepayment is made, the remaining balance will be reamortized to the original amortization date at the next ARM reset date.