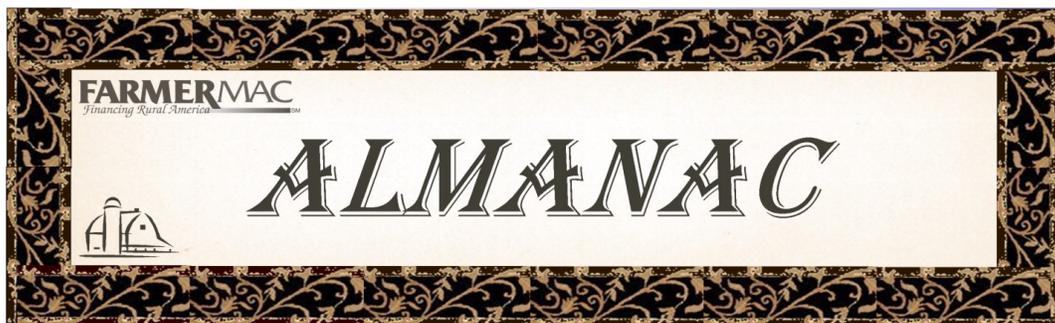


May 25, 2011

Volume 23



The Farmer Mac Almanac communicates important upcoming events and announcements to agricultural lenders. You can receive answers to your questions about Farmer Mac by calling 800-879-3276, accessing the [Quick Tip Videos](#) through a link on the homepage of the Farmer Mac website or via [opportunities@farmermac.com](mailto:opportunities@farmermac.com).

## *Upcoming Events for Farmer Mac*

### *Inside this issue:*

<i>Dave's GPS</i>	1	May 30:	Farmer Mac closed for Memorial Day
<i>Farmer Mac I Cash Window and Credit Corner</i>	2	June 1:	Community Bankers Association of Illinois Ag Lenders' Conference; Springfield, IL
<i>Alliance Update</i>	5	June 5-7:	South Dakota Bankers Association SDBA/NDBA 2011 Annual Convention; Sioux Falls, SD
<i>Education Center</i>	5	June 8:	"Farmer Mac Refresh" Webinar
<i>Farmer Mac Financial News</i>	6	June 14-15:	Minnesota Bankers Association 2011 Agriculture Conference; Minnetonka, MN
<i>Farmer Mac II</i>	7	June 19-23:	U.S. Department of Agriculture NASP/NACS/NASE National Convention; Salt Lake City, UT
		July 13-15:	Upper Midwest Agricultural Credit Council 57th Annual Summer Conference; Green Bay, WI
		July 14:	Community Bankers of Kansas Annual Trade Show; Topeka, KS
		July 21-22:	New York Bankers Association Northeast Agribusiness Seminar; Geneva, NY

### *Dave's GPS*

#### **Keep Up with Dr. David Kohl through Farmer Mac**

This month Dr. Kohl draws inspiration for "**Dave's GPS**" from an event occurring close to home in his own state of Virginia. FDIC's March symposium "How Concerned Should We Be about Farmland Prices?" took place in Arlington, Virginia, just outside of Washington, D.C. Dr. Kohl reveals that the questions addressed at the symposium reflect the same issues he hears during his travels across the country. People reacting to the upward surge in land values wonder about parallels to the 1970s with concerns of a bubble followed by a crash.



*Dr. David Kohl  
Professor Emeritus  
Virginia Tech University*

## *Farmer Mac I Cash Window and Credit Corner*

In consideration of these concerns, **“Dave’s GPS”** features a brief assessment of the current land value boom and a discussion of how it compares to the 1970s, what factors could result in a 20 percent to 30 percent land value correction and how a “crack in the risk management armor” could possibly play out.

A well known and respected leader in the world of agricultural finance, Dr. Kohl is adept at recognizing trends in the world of ag lending. Along with “Dave’s GPS,” Dr. Kohl also provides a bi-monthly **“Dashboard”** (Lender and Business Dashboard Economic Indicator Assessment). His red, yellow and green signals assigned to key economic indicators provide an easy format to help readers reach their own conclusions about the strength and future of the U.S. economy.

*Dr. David Kohl is Professor Emeritus in the Department of Agricultural and Applied Economics at Virginia Tech University in Blacksburg, VA. Prior to his current position at the university, Dr. Kohl served as Professor of Agricultural Finance and Small Business Management and Entrepreneurship for 25 years.*

View Online: [Dave’s GPS](#)

### **Beginning July 1, 2011, All Farmer Mac I Loans Must Be Supported By a Formal Appraisal**

Collateral evaluations performed by an evaluator rather than an appraiser will no longer be accepted for loans submitted to Farmer Mac after July 1. Farmer Mac will require appraisals by state licensed appraisers, just as it has for all other loans.

For a number of years, collateral evaluations have been acceptable for loans up to \$500,000 with LTVs no higher than 55%. This change is prompted by the volatility in land values in many markets, and Farmer Mac recognizes the importance in this environment of relying on the opinion of experts in the market, the licensed appraisers who monitor land values and influences on land values each and every day.

The Farmer Mac Seller/Service Guide Collateral Valuation (CV) Supplement will be revised to reflect this new procedure. An outline of those changes will appear in the July Farmer Mac Almanac.

### **Farmer Mac’s Appraiser Engagement Letter Is Easier to Access and Use**

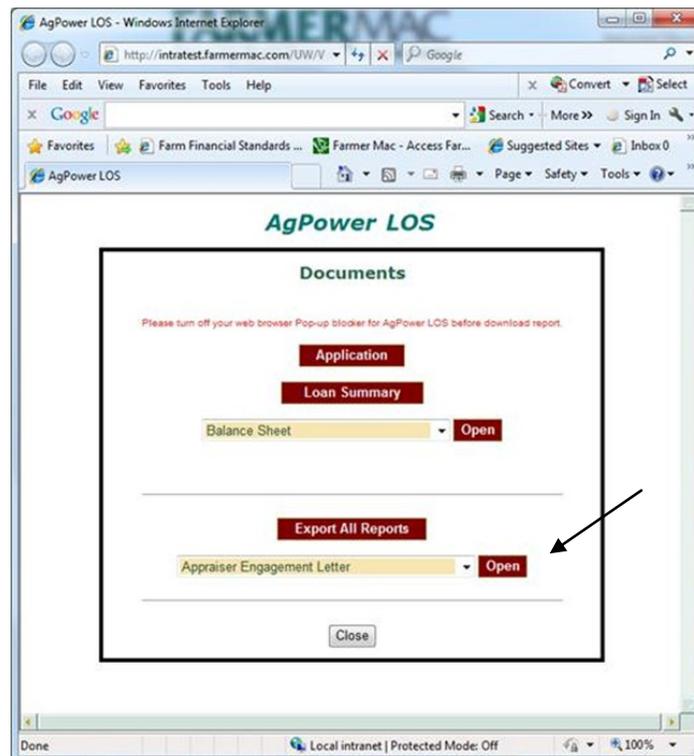
Farmer Mac recently edited the Farmer Mac Sample Fee Appraiser Engagement Letter, Form 1023A. The new streamlined form, down from four pages to two, has also been integrated into AgPower® LOS. Since key information regarding the borrower and the security will now download into the engagement letter from the

borrower’s approved loan files, users will find it much easier to access and use the letter.

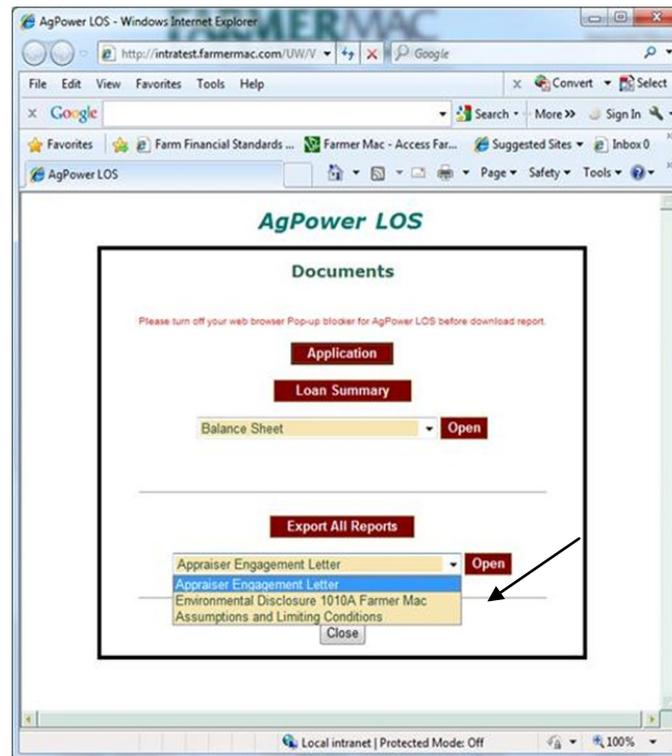
Users should note that the transfer of pertinent data into the engagement letter will not take place until the loan has been approved by Farmer Mac underwriters. Once the approval takes place, users will be able to access the form by clicking on “Documents” in the Application Queue. A click on “Open,” located below the “Export All Reports” tab, enables the user to view the engagement letter. Users need only to add the date, the appraiser’s name, and several other pieces of information (bolded in the document) related to the appraisal and property.

Sellers are expected to use a formal appraiser engagement process designed to record and communicate the appraisal requirements to the appraiser. When the appraiser is an independent contractor (fee appraiser), the engagement contract must be documented in writing. The Farmer Mac Form 1023A is the preferred form.

In addition to the Sample Fee Appraiser Engagement Letter, two other required Collateral Valuation forms are also now available in the same section of AgPower®. The Environmental Disclosure (Form 1010A) and Assumptions and Limiting Conditions (Form 1037), selected in the dropdown box that contains for 1023A, can be downloaded, saved on the user’s desktop and forwarded to the appropriate party.



(Sample)



(Sample)

### The “Blended Rate” Option Can Be a Winner for the Customer

Sometimes a single loan request can turn into two loans, benefiting the customer who is unsure whether to go variable or fixed rate, preferring to hedge their interests. The concept works because while the Farmer Mac loan must be in first position, Farmer Mac can take a second-lien position behind itself. The borrower ends up with the flexibility of a variable rate and the security of the fixed and an interest rate which is an average of the two products. A recent 50-50 split between the 15-year fixed rate and 1-month ARM would have allowed the customer to enjoy a 4.25 percent rate (including field servicing fees).

### “PPDocs-Enhanced” AgPower® Passes with Flying Colors

Amy Durfee of Idaho’s D. L. Evans Bank reports success with the new “PPDoc-enhanced” AgPower® LOS. Having just taken her first loan through the enhanced system from start to finish, Amy reports that she entered all of the pertinent data directly into the expanded AgPower® borrower information tab. Information that was required to be entered into both websites in the past is now entered only once. Easy-to-follow instructions appear for users who click on the banner stepping across the screen.

The ease of creating loan documents through the use of PPDocs, Inc.

(PeirsonPatterson, LLP, a Texas-based law firm) appeals to many Farmer Mac Sellers who also appreciate the low cost: \$100 for most loans. Continuing an upward trend which began in 2007 when PPDocs became Farmer Mac's preferred documentation preparation provider, results for 2010 show a major portion of loans sold to Farmer Mac I were closed using the services of PPDocs.

Sellers will still need to register and activate their PPDocs user accounts by accessing the PPDocs website, [www.ppdocs.com](http://www.ppdocs.com).

## *Alliance Update*

### **ABA (American Bankers Association) Members Prefer the Stability of the Longer Term Fixed Rates**

The alliance between ABA Business Solutions and Farmer Mac brings five "preferred rate" products to ABA members. The five products receiving a 1/8 percent discount are the 1-month ARM (Primed indexed), 7/1 ARM, 10/1 ARM, 10-year fixed rate and 15-year fixed rate.

For the six month period from August 1 through January 31, 2011, the preferred rate product selected most frequently by ABA members (69 percent) was the 15-year fixed rate. The second most popular selection (26 percent) was the 10-year fixed rate. The remaining 5 percent chose the 10/1 ARM.

### **Farmer Mac Offered Special Webinar as Follow-up for ICBA (Independent Community Bankers Association) National Convention and Techworld**

ICBA members from across the country enjoyed the special Farmer Mac webinar offered on April 28, 2011, as follow-up for attendees of the March 2011 ICBA National Convention and Techworld held in San Diego. Many had already attended the workshop offered by Farmer Mac at the conference or visited with Farmer Mac personnel at its exhibit booth.

The highlight of the April 28 webinar was a discussion of the ICBA/Farmer Mac program that brings ICBA members special discounted pricing on selected Farmer Mac products such as the 10-year VRM.

The webinar was recorded and is available for ICBA members on the Farmer Mac website, [www.farmermac.com](http://www.farmermac.com) under Recorded Webinars.

## *Education Center*

### **Two April Webinars Proved Popular with Attendees, Now Posted on the Farmer Mac Website**

Two general unique webinars were offered by Farmer Mac during April. Both are available for Sellers' listening pleasure in the "[Recorded Webinars](#)" section of the

Farmer Mac website:

- “AgPower® LOS: ‘Nuts and Bolts’”: Farmer Mac staff steps through the AgPower® loan origination system, providing helpful hints and tips on the application software which has proven popular with Sellers submitting loans to Farmer Mac underwriters
- Iowa Innovations: Farmer Mac and the Community Bankers of Iowa: Mike Duffy, Iowa State University ag economist and professor joins Farmer Mac staff to discuss timely topics on behalf of the Community Bankers of Iowa. Discussion centers on rising prices for Iowa farmland, factors influencing those values, and Farmer Mac credit guidelines.

## *Farmer Mac Financial News*

### **Farmer Mac President and CEO Provides Expert Testimony to House Agriculture Subcommittee**

Farmer Mac CEO and President Mike Gerber was invited to provide expert testimony to the House of Representatives Agriculture Subcommittee on Department Operations, Oversight, and Credit in a hearing on April 14, 2011 designed to review credit conditions in rural America. The last review of conditions by the Subcommittee was almost two years ago.

President Gerber reported that Farmer Mac’s increase in volume in 2010 would indicate that the current economic environment in rural America is generally stable. Farmer Mac business has also grown in terms of numbers of Sellers, increasing by over 200 during the years from 2008 through 2010. While the prices of a few commodities tied to the demands of the general economy are facing challenges, others are at all-time high prices. Land values are generally stable or have increased. The challenge facing all producers regardless of geography or commodity is substantial increases in prices for farm inputs.

Others testifying before the subcommittee:

- Jason Henderson, Vice President, Federal Reserve Bank of Kansas City
- Doug Stark, President and CEO of Farmer Credit Services of America located in Omaha, NE, on behalf of the Farm Credit System
- Matt Starline, owner of Starline Organics in Athens, OH
- The Honorable Leland Strom, Chairman and CEO of the Farm Credit Administration
- Matt Williams, chairman and President of the Gothenburg State Bank, on behalf of the American Bankers Association

## *Farmer Mac II*

### **Farmer Mac II Sellers Are Encouraged to Facilitate Rate Lock by First Emailing a Copy of the Promissory Note**

Rate locks are the primary method Sellers select to price their Farmer Mac II sale transactions. While a cash sale with Wednesday pricing is available, most lenders choose the certainty of knowing exactly what the rate will be by calling Farmer Mac II to receive an interest rate commitment (rate lock).

All rate locks are three-way verbal commitments accomplished through a telephone call from the Seller that link the Farmer Mac II department (at Farmer Mac II LLC), the Farmer Mac Capital Markets desk and the caller. Once the caller confirms the terms during the call, the rate is locked. The verbal commitment is followed by a written confirmation emailed by Farmer Mac II LLC to the lender the following morning. This confirmation is reviewed by the lender, signed and emailed back to Farmer Mac II.

The fastest rate locks take place when Sellers alert Farmer Mac II of the upcoming transaction. Since the promissory note contains all the important information, the simplest way to accomplish that is for the Seller to scan and email ([ratelock@farmermac2.com](mailto:ratelock@farmermac2.com).) a copy of the note, even if it is only in draft form at that time. Receiving this information enables Farmer Mac II to log the data prior to the rate lock call, saving valuable time for the caller.

Without receipt of the promissory note prior to rate lock, Farmer Mac II will ask for the following information on the call:

- The product selection
- Amortization option (fully amortizing or balloon)
- Payment information including the first payment date and frequency of payment (Payment for monthly pay loans must always occur on the first of the month; payment for annual, semi-annual and quarterly pay loans must take place on the first of each calendar quarter.)
- Maturity and amortization dates
- Borrower's last name or company name
- Guaranteed percentage: 80, 90, 92, 95 percent
- Full loan amount

During 2010, Farmer Mac II LLC purchased \$457.9 million of USDA-guaranteed portions of loans, an increase of 32 percent over the prior year. In addition to competitive rates, many identify Farmer Mac II success is also linked to its ability to quickly and efficiently complete the purchase. The rate lock desk is open on regular business days for five hours: from 10:00 am to 3:00 pm Eastern Time.

### **Best to Overnight Farmer Mac II Documents to Servicing Company**

The final step to complete a Farmer Mac II loan sale is to send the closed loan package to Colson Services Corporation in New York, NY. These packages contain important loan information including: an original loan guarantee, an original assignment of guarantee, a copy of the promissory note (and any modifications) and two original Farmer Mac II Sale Agreements.

Prior to sending, Sellers should carefully check over the documents to ensure that all loan information is completely accurate and consistent. All fields should be filled out; none can be left blank. Covering errors with white correction tape or fluid is not allowable.

To ensure and verify safe and timely delivery, Farmer Mac II strongly recommends lenders overnight these packages via UPS or Federal Express. If regular USPS (United States Postal Service) delivery is used, a signature confirmation ensures Sellers that the package reaches not only the right address but the right person as well.

### **Selling Seasoned Guaranteed Loans to Farmer Mac II**

Recently, a bank in Farmer Mac's Farmer Mac I Seller network heard from a farm customer whose loan was being pursued by a competitor. The bank's customer had qualified for a FSA guarantee several year's earlier; the bank held the entire guaranteed loan in its portfolio on a short-term variable rate. The competing lender's 20-year fixed rate product beat the bank's variable rate by 50 bps.

Fortunately, Farmer Mac II and its ability to purchase seasoned guarantees gave the bank a long-term fixed rate arsenal and a chance to retain the customer's business.

Lenders are reminded that Farmer Mac II is not limited to the purchase of new guarantees; existing guarantees work as well. To switch the customer to a Farmer Mac II product, an amendment to the note is put in place outlining the Farmer Mac II product, subject to FSA approval. The assignment of the guarantee will need to be updated since that form can be no older than 90 days. The note rate to the customer may be kept at the current level, or lowered, depending on the circumstances. Call Farmer Mac II with questions.

### **USDA Rural Development Tunes into Farmer Mac II's Webinar Series**

At the invitation of the USDA Rural Development's National Office, Farmer Mac II conducted four secondary market training sessions for USDA state and national office employees. The sessions were specifically geared to Rural Development's flagship product, the Business & Industry guaranteed loan program.

According to Patrick Kerrigan who conducted the sessions, the purpose was to help employees learn more about the economics and operational processes of secondary market transactions. With greater comfort and knowledge of secondary market transactions, USDA can more effectively market their program to rural lenders and businesses throughout the country. A key discussion point during the sessions was the availability of long term fixed rate financing, through the secondary market, for rural business owners.

Sellers with questions about obtaining USDA guarantees in these programs should contact their state Rural Development office and talk to the Business and Community Programs Specialist.