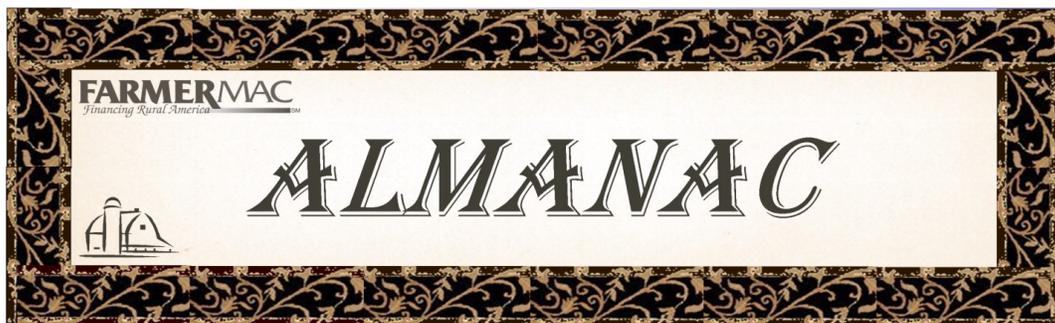


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### Inside this issue:

[Dave's GPS](#) 2

[Farmer Mac I Cash Window and Credit Corner](#) 2

[Alliance Update](#) 6

[Education Center](#) 6

[Farmer Mac Financial News](#) 7

[Farmer Mac II](#) 7

[Guide Updates](#) 8

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 I and II*

- Jan. 16: Farmer Mac closed for Dr. Martin Luther King, Jr. Day
- Jan. 26-27: Utah Bankers Association 2012 Ag Outlook; St. George, UT
- Feb. 19-22: American Bankers Association National Conference for Community Bankers; Palm Desert, CA
- Feb. 20: Farmer Mac closed for Presidents' Day
- Mar. 1: Oklahoma Bankers Association Ag Conference; Oklahoma City, OK
- Mar. 11-15: Independent Community Bankers Association National Convention and Techworld; Nashville, TN
- Mar. 14-15: Kansas Bankers Association Ag Bankers Conference; Manhattan, KS
- Mar. 18-20: Iowa Bankers Association Ag Bankers Conference; Ames, IA
- Mar. 22-23: Montana Bankers Association Ag Bankers Conference; Bozeman, MT

### **Question of "Farmland Bubble" Is Discussed During Senate Agriculture Committee Hearing for Presidential Nominees to the Farmer Mac Board of Directors**

Interesting comments regarding the steep rise in U.S. farmland values surfaced in a recent Senate Agriculture Committee hearing to consider the President Obama's nominations of Dr. Bruce Sherrick of Iowa State University and former Iowa Governor Chet Culver to Farmer Mac's Board of Directors. The comments were featured in an article in the January 4, 2012, *Agri-Pulse* newsletter. Click [here](#) to read the article: "Farmland Bubble? Senate panel questions steep rise in prices."

Agri-Pulse is a weekly newsletter produced by Agri-Pulse Communications, a diversified communications firm with offices in Washington, D.C., Little Rock, Arkansas, and Camdenton, Missouri.

## Dave's GPS



*Dr. David Kohl: Professor Emeritus  
Virginia Tech University*

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

This month, Dr. Kohl discusses several intriguing topics that caught his attention at the ABA National Agricultural Bankers Conference held in Indianapolis in November. From balancing the outcomes of highly efficient food production to innovations in grooming future ag lenders to ag banking from the viewpoint of FDIC and the politics of future farm policy, Dr. Kohl highlights his “take-aways” from the sessions and compares the conference to the first one he attended 34 years ago. He ends this month’s “**Dave’s GPS**” with a lender tip on how to avoid complacency in ag lending resulting from robust land values.

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 ten 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. Three of his ten key indicators move this month, two from yellow to green and one from green to yellow. Read Dr. Kohl’s assessment of these changes and how they bode for the future.

*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 and Dashboard](#)

## Farmer Mac I Cash Window and Credit Corner

### Screening and Reviewing Appraisals Prior to Submission Avoids Snafus for Final Approval

As outlined in Chapter 302.4 of the Farmer Mac Seller/Service Guide, Sellers are responsible for ensuring that appraisals are conducted in accordance with Farmer Mac’s standards and guidelines. Farmer Mac now provides forms to help Sellers do just that. The new forms are found in the AgPower® LOS System under the “Appraisal Checklist” tab and alert Sellers to answer questions and remedy any deficiencies prior to submitting the appraisal to Farmer Mac.

**Greg LeCaptain at Farmers State Bank in Fox Lake, WI, and Brian Reimers at Charter West National Bank in West Point, NE,** recently stepped through the forms as they were about to submit a loan to Farmer Mac. Asked their opinion of the process, they each stated that they found it very helpful in confirming the adequacy and completeness of the appraisal they were about to submit, giving them a “heads up” on a couple of items that needed to be checked. They agreed that the

checklist is an excellent tool for reviewing appraisals not only for Farmer Mac but appraisals in general.

Once selected, the “Appraisal Checklist” tab links the Seller to the criteria that will be used by Farmer Mac to screen appraisals. After answering a few pieces of key information - such as appraiser name, value used in preliminary loan approval, acres, land value, improvement value, final appraised value - Sellers are asked to answer some “yes” or “no” questions that address the completeness of the appraisal. Finally, Sellers will see the “Appraisal Deficiency List” used by Farmer Mac to alert Sellers of issues that must be remedied prior to purchase.

Sellers that have questions can direct them to Farmer Mac’s underwriting office in Johnston, IA, at 866-452-2617.

### **F**armer Mac Provides a Helpful Document for Sellers to Use When Engaging Appraisers

Farmer Mac strongly encourages Sellers to use the Farmer Mac Assumptions and Limiting Conditions (Form 1037) during the appraiser engagement process as the form reflects the conditions that are acceptable to Farmer Mac. Assumptions address the forward-looking nature of appraisals and speak to future events; limiting conditions alert clients of defined conditions that may make it inappropriate to rely on the appraisal for certain purposes.

Sellers are reminded that if an appraiser insists on assumptions and conditions outside the scope of those listed in the Farmer Mac form, the Seller has the option to accept responsibility for them by providing a signed letter stating that they are a form commonly used by and acceptable to the Seller. This option is communicated to Sellers in the “Appraisal Deficiency List” used by Farmer Mac to alert Sellers of items in the appraisal report that must be corrected prior to final approval.

Sellers may read Form 1037 on the Farmer Mac website by selecting “Lenders” and then “Collateral Valuation.” It is also available in AgPower® LOS and appears in the “Documents” section once a loan has been approved.

Assumptions and limiting conditions are discussed in Farmer Mac’s Seller/Service Guide Collateral Valuation Supplement (Chapter CV101.9.B). The chapter has been updated to more clearly outline the process for Sellers to decide to accept responsibility for assumptions and limiting conditions that don’t match those of Farmer Mac. See the final story in this Almanac describing Guide updates.

### **A**gPower® LOS Adds New Functions: Rate Lock Confirmations and Loan Purchase Requests

The utility of Farmer Mac’s AgPower® LOS soon will continue even after a Farmer Mac I Farm and Ranch loan submission has been approved by Farmer Mac underwriters. Sometime during the first quarter of 2012, the system will also begin to function as the primary communication tool for the following:

- **Commitments to Purchase (rate lock confirmations):** Sellers will be notified of rate lock confirmations by emails automatically generated by the AgPower® LOS. The email, replacing the current faxed announcement, will alert three parties, two at the Seller level (the ag lending officer who originated the loan and the person requesting the rate lock) and one at the Central Servicer level. The message will direct each to log into the AgPower® LOS system where users will find a “Rate Lock Info” box has been added. A click on the box will take them to the document.
- **Purchase Requests:** AgPower® LOS will be the sole channel through which Sellers notify Farmer Mac of their intent to sell a rate-locked loan. This means that once a rate lock has been confirmed, a “Purchase Request” tab will appear on the AgPower® LOS user screen. Selecting that tab will allow the Seller to see all of the information on the current Farmer Mac Notice to Purchase Request form (Form 1018). After filling in the required data, the Seller will select the “Submit” button which, in turn, generates emails to both the Central Servicer and to Farmer Mac. The system will allow for modifications to the purchase request should events dictate the need to make changes.

Farmer Mac continues to build the functionality of AgPower® LOS and its ability to be the reliable hub for all processes directly related to loan submissions and sale.

Wording in the Farmer Mac Seller/Servicer Guide affected by the future changes are Chapters 303.1 Obtaining a Commitment to Purchase (Rate Lock), Chapter 303.2 Obtaining Commitment Rates and Chapter 303.7 Timing of Delivery and Purchase. See the next issue of Almanac to read about the updates to these chapters.

### **\$1 Million Is the New Minimum for Banks Establishing LTSPC Pools**

Farmer Mac recently developed a customized process for ag lenders wishing to create small LTSPC (Long-Term Standby Purchase Commitment) pools. The web-based program, available to Sellers beginning February 1, 2012, targets new LTSPC pools as well as “flow” loans being added to existing pools.

The rollout of the new system streamlines the submission process, allowing Farmer Mac to reduce the minimum LTSPC pool size for banks from \$5 million down to \$1 million. The system involves a LTSPC link added to the menu of options located in the secure area of the Farmer Mac website. The link takes Sellers to the data entry screens. To become familiar with the process, Sellers will be required to listen to Farmer Mac training webinar prior to their first submission.

A LTSPC pool of qualified agricultural real estate mortgage loans allows lenders to retain those loans in portfolio while transferring credit risk to Farmer Mac. This is especially helpful to lenders looking for benefits such as managing lending limits, concentrations (borrower, commodity, geographic) or capital relief (reduced risk weighting on pooled loans). Participation interests are allowed.

Once a pool is established, lenders commit to sell and Farmer Mac commits to purchase loans out of that pool. In return for the long-term commitment, lenders pay Farmer Mac an ongoing annual commitment fee, paid monthly. Qualified loans are those that meet Farmer Mac's Farm and Ranch underwriting guidelines and may include both new and seasoned loans.

Per-loan LTSPC fees are based on the quality of loans when placed in the program. The fee is paid on the aggregate unpaid principal balance of all loans for the term of the pool.

Annual fees for banks are as follows:

- 45 bps for "choice quality" loans. These loans include those qualifying as new and existing loans under the Fast Track I and Fast Track II criteria as well as all seasoned loans.
- 55 bps for "standard quality" loans. These loans are those qualifying as new and existing loans under all programs except Fast Track I and Fast Track II.
- Special pricing applies to processing, storage and marketing facilities.

Large LTSPC pools will continue to be initiated through lenders entering loan information into Farmer Mac's Excel-based LTSPC "set-up" files.

A LTSPC program description appears on the Farmer Mac website under the "Lenders" section (then select "Farmer Mac I" followed by "Portfolio Programs").

### **The Posted Rate for the Farmer Mac I 20-Year Fixed Rate Product Now Applies for Loans Up to \$5 Million**

The posted rate for the Farmer Mac I Farm and Ranch 20-year fixed rate product now applies for loans up to \$5 million. For loans \$5 million and greater, Sellers will need to call Farmer Mac to receive the appropriate rate. Prior to January 1, 2012, the posted rate applied for loans up to a maximum of \$2 million.

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#### **Credit Tip of the Month**

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On occasion, a borrower's spouse will choose not to accept personal liability on the loan. In those situations, if there is no prenuptial agreement in place, Farmer Mac expects the credit analysis to address the potential impact of dissolution on the borrower's leverage position and debt service capability by requiring the pro forma balance sheet be prepared with 50% of the combined net worth of the individuals as a term liability with a 25-year amortization. This amortized payment must also be included in the pro form total debt coverage ratio.

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## *Alliance Update*

### **Long-Time Farmer Mac Supporter Wins Bruning Award at the American Bankers Association (ABA) National Agricultural Bankers Conference**

**Michael Grove**, a member of the ABA's Agricultural and Rural Banking Committee during Farmer Mac's formative years in the late 1980s, was awarded the 2011 recipient of the Bruning Award at the ABA National Agricultural Bankers Conference in Indianapolis November 6-9.

A strong supporter of Farmer Mac since its inception, Grove is a 38-year veteran ag banker and President and CEO of the Bank of the Rockies of White Sulphur Springs, Montana. Despite weather perils and the ag crisis of the 1980s, Grove's commitment to the area's agricultural base is reflected in his decision over the years to expand the bank's ag lending base from one office to six. Learning from the challenges of the past, each office is equipped to offer all of the tools available to help farmers and ranchers reduce risk in their operations, including access to Farmer Mac's programs.

Watching Farmer Mac evolve and grow into the size and efficiency visualized by its early supporters, Grove acknowledged his long-time support for Farmer Mac in his address to the conference's 500+ attendees.

The Bruning Award honors a lifetime of commitment to providing credit and financial guidance to farmers, ranchers and businesses in rural America.

### **Invitation for ABA Members Attending the ABA Community Bankers Conference February 19-22**

ABA member bankers who plan to attend the ABA Community Bankers Conference in Palm Desert, California, in February should stop by Farmer Mac's booth and also attend the Tuesday-morning Farmer Mac Early-Bird Breakfast Workshop. Conferences such as this provide the perfect opportunity to meet Farmer Mac staff and learn first-hand about Farmer Mac products and pricing. The Farmer Mac I Farm and Ranch program 15-year fixed product is one of several offered at a discounted rate for ABA members through the Alliance between Farmer Mac and ABA Business Solutions.

As a sponsor, exhibitor and presenter, Farmer Mac will be quite visible at the conference to help attendees learn the benefits Farmer Mac brings to community banks serving rural constituencies.

## *Education Center*

### **A Wealth of Information on Submitting Loans to Farmer Mac: AgPower® LOS "Nuts and Bolts"**

Questions about AgPower® LOS? Needing some direction before submitting your first loan through the system? You may want to listen to the Farmer Mac Refresh webinar titled "AgPower® LOS Nuts and Bolts." The hour-long webinar describes how to get started, steps to submit your loan and tips to eliminate trial and error and to keep everything flowing smoothly. To listen, go to [www.farmermac.com](http://www.farmermac.com) and select "Webinars" on the home page.

## *Farmer Mac Financial News*

### **Update from Farmer Mac's Capital Markets Team - Interest Rates. . . Where Have They Been and Where Are They Going?**

Looking back over the weeks since November, interest rates have declined in the long-end of the curve (5-15 year) more than the short-end of the curve causing Farmer Mac's rates to decrease as well. Short-term rates remained almost unchanged due to the absolute levels they were at. Historically rates typically decrease in the month of December as many money managers position their portfolios for the year-end and lower their risk profile by purchasing fixed income securities. In addition, this year in particular, market volatility and the low rate pledge by the Federal Reserve provided little incentive for market participants to engage in risk-on trade (purchase of risky assets such as stocks, commodities, currencies etc) in the month of December. This trade is correlated with increase in rates.

For early 2012, we expect rates to stay in a trading range of +/-25bps of current levels on average with the movement in rates correlated to economic data and news out of Europe. If the economy picks up then rates are expected to rise somewhat, while if there is a slowdown in the economy then rates will fall. The same pattern can be expected with news out of Europe.

## *Farmer Mac II*

### **Farmer Mac II LLC Helps Fund a New Critical Care Access Hospital in Iowa**

Farmer Mac II LLC recently purchased a \$16.3 million loan guaranteed through USDA Rural Development's Community Facilities program, a transaction helping an Iowa community complete its goal to build a new community hospital. That hospital is the new \$31 million 25-bed critical care access Crawford County Memorial Hospital in Denison, Iowa, which opened this past June thanks in part to the diligence of bankers who were key in making sure the funding was available to bring the project to fruition.

According to **Steve Goodhue at First American**, a \$1.4 billion bank based in Fort Dodge, Iowa, the new hospital rests on a 40-acre campus and consists of 78,000 square feet all on one floor. Bids for the construction went out in the summer of 2009, four years after the launch of an extensive analysis which culminated in the recommendation of building a new facility rather than renovation of the old.

Financing for the project came from three sources: \$3 million in cash reserves, an \$18 million 90-percent USDA guaranteed loan and the sale of \$10 million of bank-qualified revenue bonds. The hospital benefitted not only from the timing of the construction during a slowing economy but also from future savings resulting from low interest rates for the revenue bonds that helped finance the construction and for the long-term fixed rate loan that the bank could offer by selling the guaranteed portion of the USDA-guaranteed loan to Farmer Mac II.

Goodhue reported that the Farmer Mac II route was a perfect fit for the hospital in terms of being accessible, flexible and, most importantly, offering the products and pricing that would help stabilize future cash flows. The hospital selected Farmer Mac's ten-year reset product.

## Guide Updates

**Darin Leach, Public Information Coordinator for USDA Rural Development in Iowa**, reports that USDA Rural Development's Community Facilities Guaranteed Loan Program provides government-backed credit enhancement to private lenders seeking to finance community-based public facilities. Eligible projects must be located in rural areas with fewer than 20,000 residents. Funds can be used for the purchase, construction or improvement of essential community facilities. Lenders nationwide can access more than \$100 million in guaranteed loan funds through the program in 2012.

### Updates for Farmer Mac Seller/Servicer Guide and Collateral Valuation Supplement:

Changes to the Seller/Servicer Guide and its Collateral Valuation Supplement are as follows:

- Chapter CV101.9.B Assumptions and Limiting Conditions:

The seventh paragraph in this section previously read:

Except by prior agreement, documented in writing between the client and the appraiser, the only Assumptions and Limiting Conditions acceptable in an appraisal submitted for use in a Farmer Mac Farm and Ranch or Specialized Production Agricultural Facility property loan or servicing action are those shown in Farmer Mac Form 1037.

It now reads: Except by written documented agreement between the client and the appraiser or by the client's written documented willingness to accept responsibility for Assumptions and Limiting Conditions outside of those listed by Farmer Mac Form 1037, the only Assumptions and Limiting Conditions acceptable in an appraisal submitted for use in a Farmer Mac I Farm and Ranch or Specialized Production Agricultural Facility property loan or servicing action are those shown in Farmer Mac Form 1037.

- Two paragraphs have been added to Chapter 303.12 of the Seller/Servicer Guide titled Calculation of Wire Amounts – Annual, Semi-Annual and Monthly Pay Loans. The new paragraphs provide further explanation of the procedure to calculate wire amounts:

Farmer Mac purchases the full principal balance of loans via a wire transfer on the purchase date. For loans that are closed in the month immediately preceding the first payment date (whether table-funded or Seller-funded), the Seller will collect the first interest payment at closing and remit that amount to the Central Servicer. For Seller-funded loans, Farmer Mac will subsequently remit to the Seller the interest covering the period of time between the date the Seller funded the loan and the date that Farmer Mac purchases the loan.

For Seller-funded loans purchased by Farmer Mac in the month following the first paid installment, Farmer Mac will remit the interest to the Seller covering the period of time between the first paid installment and the date that Farmer Mac purchases the loan.