

FARMER AC

ABA Partners On-the-Line Webinar Ag Economic Update

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Corporation for American Banking, L.L.C.

Today's Speakers

Jackson Takach
Economist
Farmer Mac
Washington, DC



Patrick Kerrigan
Director of Business Development
Farmer Mac
Washington, DC



Agenda

- Introduction
- Overview of Projections
- Recent Commodity Trends
- Interest Rates
- Impacts on Land Values
- Current Credit Conditions
- Opportunities with Farmer Mac
- Questions



Introduction

- Farmer Mac – ABA Alliance
 - Created in November 2005
 - Goal to increase awareness of the competitive benefits of the secondary market
 - Discounted pricing for ABA member banks
 - Over \$1 billion of ag mortgages sold by ABA member banks since 1/1/13.



ABA Banks Partner with Farmer Mac to:

Preserve existing producer relationships

Attract new customers

Grow with your larger producers

Generate fee income

Diversify portfolio risk

Improve capital position

Increase cross sell opportunities

Offer competitive fixed rate products

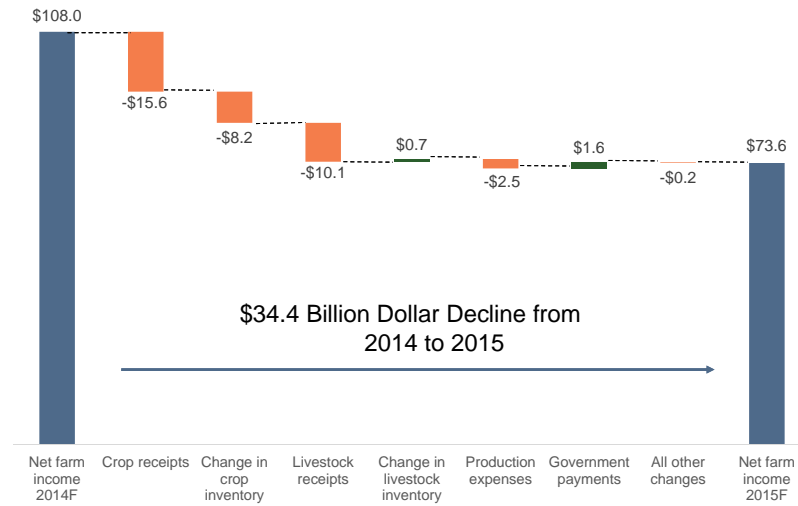


USDA 2015/16 Projections

- Farm incomes to fall for a second year
 - Net farm income projected at \$73.6 billion, down over \$34 billion from 2014
 - Driven by lower cash grain prices
 - \$3.50/bushel Corn (compared to \$6.89/bushel in 2013)
 - \$9.00/bushel Soybeans (compared to \$14.40/bushel in 2013)
- Expenses projected to increase over 2014
 - Driven by higher replacement animal costs
 - Some relief in fertilizers and fuel
- Large decline in working capital
 - Financial assets projected to decline 15%
 - Offsets productions losses



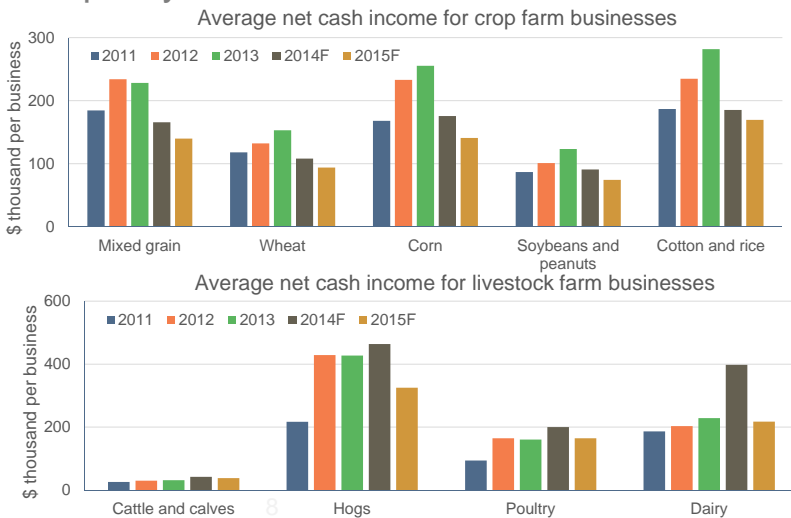
USDA Sources of Income Change



Source: USDA Outlook for the 2015 U.S. Farm Economy

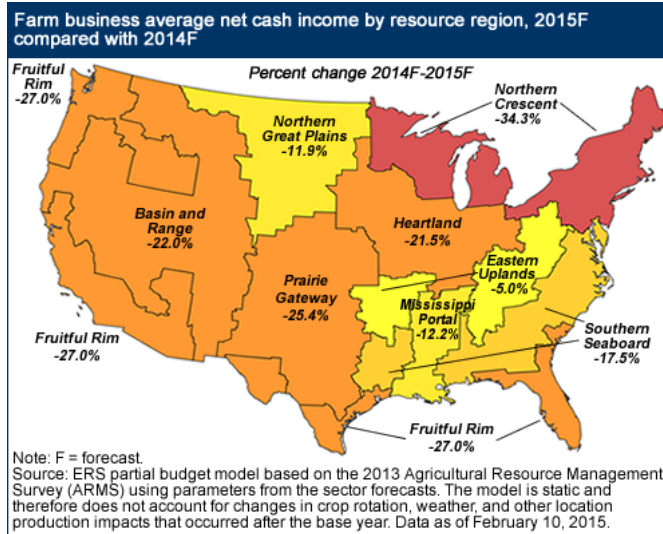
Farm Incomes and Expenses

- Impact on incomes will vary by production capacity



Source: USDA Outlook for the 2015 U.S. Farm Economy

Regional Income Implications

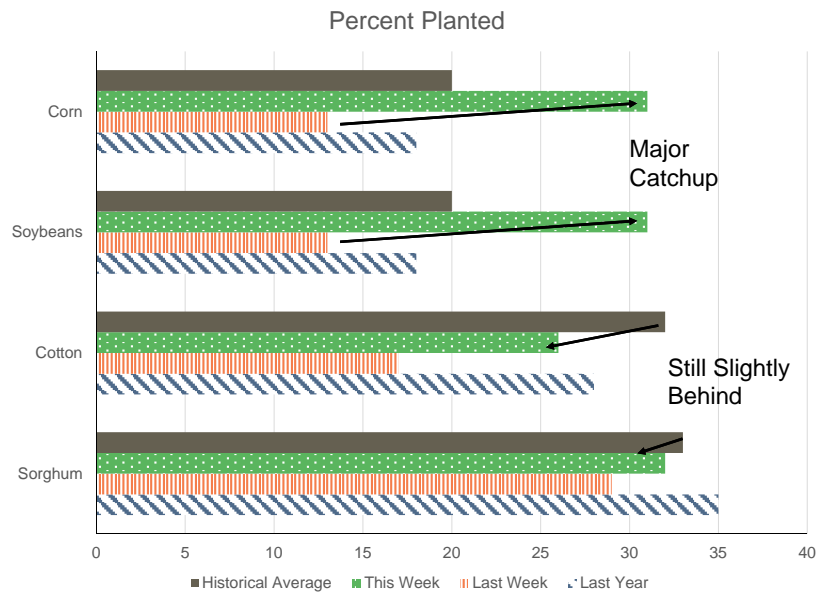


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Recent Commodity Trends

- Corn
 - Lower production than 2014
 - Yields depend heavily on weather in July
 - Lower prices are starting to spur demand
- Soybeans
 - Lower yields expected in 2015 (return to historical)
 - Stocks to remain high on global production
- Beef
 - Higher replacement animal costs eating into profits but still very good
 - Competition from lower priced pork
- Dairy
 - 2014 profits spurred increase in production
 - Increased competition from EU and New Zealand
 - Prices holding steady

Planting Progress



Avian Influenza

- Over 33 million birds affected (less than 1% of birds slaughtered each year)
- 40% of Iowa's egg-laying hens dead or euthanized
- States of emergency in IA, MN, and WI
- No human transfers



Interest Rates

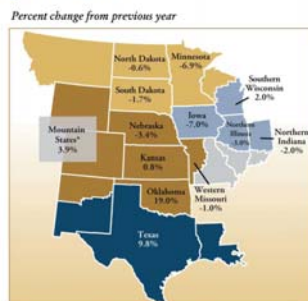
- Recent sell-off in treasuries, rates rise
- Many think Fed is almost ready to normalize
 - Futures positions imply 56% think 25 bps rate hike in June
 - By January 2016, only 7% think there is no rate increase



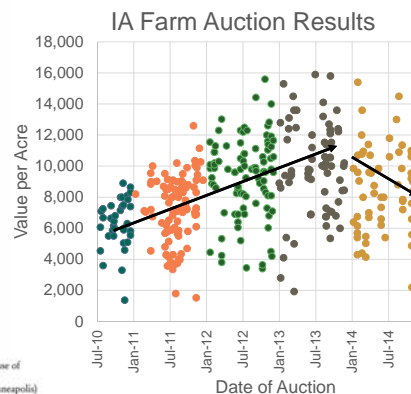
Land Values

- Lower incomes
- Stable costs
- Higher discount rate

Map: Value of Nonirrigated Cropland Fourth Quarter 2014



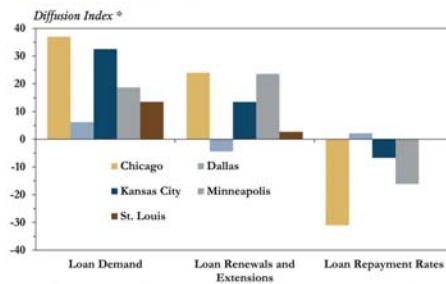
*Mountain States include Wyoming, Colorado and northern New Mexico, which are grouped because of limited survey responses from each state.
Source: Federal Reserve District Agricultural Credit Surveys (Chicago, Dallas, Kansas City and Minneapolis)



Credit Conditions

- Still strong demand
 - Need for operating lines
 - Need for refinance and liquidity
- 2014 financials are weaker
 - Still quite good
 - Not affecting approval rates

Chart 13: Selected Agricultural Credit Conditions, Fourth Quarter 2014



*Diffusion Index is calculated by subtracting the percentage of respondents who indicated "lower" from the percentage of respondents who indicated "higher."
Source: Agricultural Finance Handbook, Table 6.1

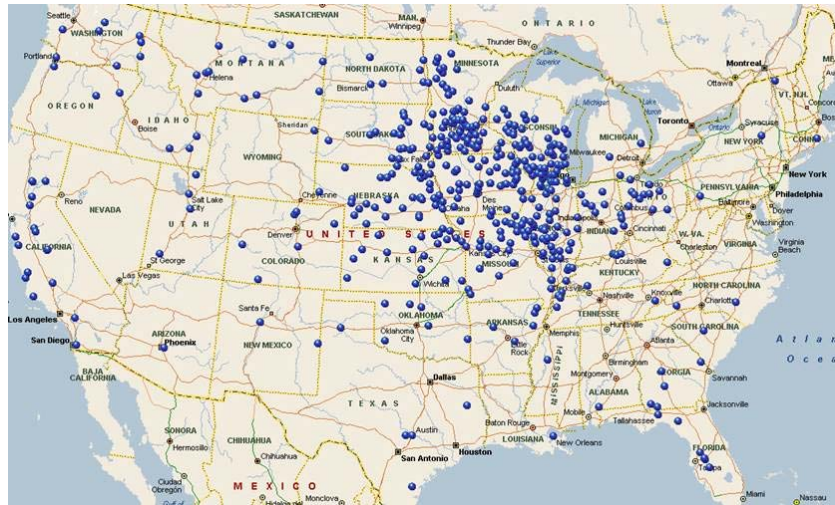
Farm & Ranch Loan Purchases

2014 Loan Purchase Volume

165 Sellers sold **903 loans** for a total balance of **\$707,000,000** and received approval within an average of **1.28 business days**

83% of submissions were approved
80% of approved loans were purchased

Active Farm & Ranch and FM2 Sellers



Farm & Ranch Popular Products

5/19/2015

Product	Term	Amort.	Reset Margin	Choice Rate	ABA Choice Rate
Ag Equity LIBOR	20/25/30	varies	1.80%	1.99%	-
1-Mo ARM LIBOR	15	15/25	1.50%	1.78%	-
5-Yr ARM	15	15/25	2.30%	3.27%	-
7/1 ARM	15	15/25	-	3.14%	3.01%
10/1 ARM	15	15/25	-	3.43%	3.30%
10-Yr VRM	15/20	15/20	-	4.18%	-
10-Yr VRM	25/30	25/30	-	4.29%	-
15-Yr Fixed	15	15	-	4.17%	4.04%
15-Yr Fixed	15	25	-	4.55%	4.42%



Conclusion

- Farmer Mac can be a dependable partner for your institution
 - Offer innovative products to your producers
 - Increase liquidity and lending capacity
 - Accommodate larger loans
- Institution is required to become a Farmer Mac Seller
 - Seller application
 - Purchase Farmer Mac stock
 - Up to \$50 million: 100 shares
 - \$50 - \$100 million: 200 shares
 - \$100 - \$500 million: 500 shares
 - +\$500 million: 2000 shares
 - Seller/Service agreement



Thank You

Contact Us: www.farmermac.com

Corporate Headquarters (DC): 800-879-3276

Underwriting Office (Iowa): 866-452-2617