ABA Partners On-the-Line Webinar

Ag Economic Update

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Today’s Speakers

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**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

$108.0
-15.6
-8.2
-10.1
$0.7
-2.5
$1.6
-0.2

$73.6

$34.4 Billion Dollar Decline from 2014 to 2015

Farm Incomes and Expenses

- Impact on incomes will vary by production capacity

Average net cash income for crop farm businesses

Average net cash income for livestock farm businesses

Source: USDA Outlook for the 2015 U.S. Farm Economy
**Regional Income Implications**

**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**

**Historical Average**

- **Corn**
- **Soybeans**
- **Cotton**
- **Sorghum**

**Percent Planted**

- Major Catchup
- Still Slightly Behind

**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

![Interest Rates Chart](chart利息.png)

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**Land Values**

- Lower incomes
- Stable costs
- Higher discount rate

Map: Value of Nonirrigated Cropland Fourth Quarter 2014

IA Farm Auction Results
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

Crop & 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

<table>
<thead>
<tr>
<th>Product</th>
<th>Term</th>
<th>Amort.</th>
<th>Reset Margin</th>
<th>Choice Rate</th>
<th>ABA Choice Rate</th>
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<td>Ag Equity LIBOR</td>
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<td>1.99%</td>
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<td>3.14%</td>
<td>3.01%</td>
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<td>10/1 ARM</td>
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<td>4.18%</td>
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<tr>
<td>10-Yr VRM</td>
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<td>4.29%</td>
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<tr>
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<td>25</td>
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<td>4.55%</td>
<td>4.42%</td>
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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/Servicer agreement

Thank You

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