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Vol. 15

A bi-monthly update of  
important upcoming events

January 26, 2010

Farmer Mac is the Congressionally-chartered secondary market for agricultural real estate, rural housing and rural utilities loans as well as many USDA guaranteed loans. The 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 ([www.farmermac.com](http://www.farmermac.com)) or via [opportunities@farmermac.com](mailto:opportunities@farmermac.com).

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***Upcoming Events for Farmer Mac:***

- Jan. 24-26: Farm Credit Council Annual Meeting; Washington, DC.
- Jan. 29: Utah Bankers Association; 2010 Ag Outlook; Lehi, UT.
- Jan. 31-Feb. 3: American Securitization Forum; Washington, DC.
- Feb. 21-24: American Bankers Association; National Conference for Community Bankers and De Novo Forum; Hollywood, FL.
- Mar. 17-21: Independent Community Bankers Association; 2010 Convention and Techworld; Orlando, FL.
- Mar. 25-26: National Agricultural Credit Committee; Washington, DC.
- Apr. 7-8: Nebraska Bankers Association; Spring Agri-Business Conference; Kearney, NE.
- April 7-9: South Dakota Bankers Association; Agricultural Credit Conference, Pierre, SD.
- April 20-21: Wisconsin Bankers Association; Agricultural Bankers Conference; Wisconsin Dells, WI.

## ***Farmer Mac Raises \$250 Million through Sale of Preferred Stock in Newly Formed Farmer Mac II LLC***

On Monday, January 25, 2010, Farmer Mac issued press releases announcing:

- 1) Farmer Mac's transfer of its Farmer Mac II business to Farmer Mac II LLC, a newly formed limited liability company to be operated as a wholly-owned subsidiary of Farmer Mac, and
- 2) the sale of \$250 million of a new issue of preferred stock in the newly formed Farmer Mac II, LLC.

Farmer Mac will use the proceeds of the sale to redeem \$150 million of Farmer Mac's currently outstanding preferred stock, which was issued in the fall of 2008, and to further enhance Farmer Mac's regulatory capital position.

In announcing the transaction, Farmer Mac's President and CEO Michael Gerber explained that it will further strengthen Farmer Mac's financial position in support of its core business and provide additional capital at a significantly lower cost. The stated dividend rate on the new \$250 million of preferred stock is 8.875%, and after consideration of the consolidated tax benefits to Farmer Mac, the net effective cost is 5.77%.

Farmer Mac began operating the Farmer Mac II Program in 1992 after the U.S. Congress amended its statutory charter to permit Farmer Mac to buy and sell guaranteed portions of agricultural, rural development, business and industry and community facilities loans guaranteed by the USDA.

Mr. Gerber further stated, "With the completion of this transaction, Farmer Mac is well positioned to actively partner with agricultural and rural utilities lenders, as well as lenders participating in USDA's guaranteed loan programs, to provide the needed capital and liquidity to Rural America."

### ***Farmer Mac II LLC Announces Its New Website and Telephone***

As a new wholly-owned subsidiary of Farmer Mac, Farmer Mac II LLC has its own new website, [www.farmermac2.com](http://www.farmermac2.com) and telephone number, 877-770-FMII (877-770-3644). Lenders with Farmer Mac II questions are encouraged to use these new contact sources.

Lenders logging in to the Farmer Mac website, [www.farmermac.com](http://www.farmermac.com), will find links to the Farmer Mac II LLC website so rates and other information can be obtained.

Individuals who currently receive daily Farmer Mac rates via email will begin receiving those rates in two separate emails, one displaying Farmer Mac I rates and a separate one displaying Farmer Mac II rates.

### ***AgEquity Revolving Line of Credit Product Gets a New Index***

Farmer Mac's AgEquity product is a revolving line of credit secured by a first mortgage on real estate with a revolving (draw) period of five or ten years. Funds may be used for any purpose, and the loans are underwritten as though fully disbursed and held to more stringent ratios that reflect the proven financial management this product demands.

Beginning March 1, 2010, the index for the AgEquity product will become the 1-month LIBOR (London Interbank Offered Rate). The LIBOR index will replace the WSJ Prime currently serving as the index for this product. The change is being made because of the pricing advantages for the LIBOR-based index versus the Prime.

The pricing and the reset margin for the AgEquity product will be the same as Farmer Mac's 1-month ARM LIBOR product, which is also listed on the Farmer Mac I Farm and Ranch pricing grid.

Beginning March 1, 2010, the loan terms and amortizations offered for the AgEquity product will be limited to the three most popular options: 20, 25 and 30 years.

### ***Maximum Loan Size for Farmer Mac I Farm and Ranch Loans Changed***

Effective immediately, the maximum loan size for Farmer Mac I Farm and Ranch loans secured by 1,000 acres or less is \$22.5 million (formerly \$15 million). The maximum indebtedness for any one borrower or related borrowers, through one or more loans, is also now \$22.5 million (formerly \$15 million). Borrowers who have primary or secondary liability and/or guarantee for a qualified loan(s) are considered to be related borrowers.

The maximum loan amount for Farmer Mac I Farm and Ranch loans secured by more than 1,000 acres remains at \$9.8 million. This number is statutorily indexed to the rate of inflation (as determined by the USDA Land Value Survey) and is subject to change every year.

### ***Sellers Are Encouraged to Place a "Hot Link" on their Desktops to the Farmer Mac I Underwriting Grid***

Sellers are reminded about the availability of the Farmer Mac I Farm and Ranch Underwriting Grid, a handy reference guide displaying the Farmer Mac Cash Window underwriting options. The grid has been redesigned so the various options are listed separately for ease of use and readability. The separate grids are available on the Farmer Mac website, as described below. Lending officers are encouraged to drag and drop links to their desktops for easy access.

The grids can be found in several locations on the Farmer Mac website:

- Embedded into the AgPower® LOS software
- Linked to the Farmer Mac homepage  
Click on "Farmer Mac I" (see under "Lenders" on the left side of the screen)  
Select "Farm and Ranch Mortgage Loans"  
Scroll down to "Underwriting Standards"
- In the secure area of the Farmer Mac website under "Seller/Service Guide"

***Reminder: Sample Yield Maintenance Calculations Available on Farmer Mac Website***

While the majority of the Farmer Mac I Farm and Ranch products are open to prepayment, the 5-year VRM and the 15-year fixed rate (at the bottom of the Farmer Mac I Farm and Ranch pricing grid) are yield maintenance products. Yield maintenance products allow early unscheduled principal payments only if accompanied by a lump-sum payment that includes the present value of unpaid future interest payments. These lump-sum payments make investors whole by providing compensation for future missed interest payments. With the prepayment risk being transferred to the borrower, yield maintenance products offer a lower rate than their comparable open prepay products.

Yield maintenance prepayment fees take the form of percentages of the payoff amount. Because the calculations depend on current market conditions, prepayment fees can be accurately calculated only at the time of the prepayment. To help lending officers discuss trade-off options with customers at the time the product selection, Farmer Mac provides estimates of what those fees might be. These estimates are listed in grids, one each for the 5-year and 15-year yield maintenance products; a few sample pay-off years are provided in each grid.

Farmer Mac has updated the two yield maintenance grids (5-year and 15 year); both are attached to this newsletter. They are also available in the secured area of the Farmer Mac website in the following locations:

- Under "Seller/Servicer Guide"
- Under "Products"

***Lending Officers Are Encouraged to Call Farmer Mac Underwriters When Submitting Loans for Complex Entities***

Farmers are increasingly utilizing multiple entities in their businesses for purposes such as tax considerations, farm programs, estate planning, liability issues, etc. When considering loans to complex operations, Sellers are encouraged to call Farmer Mac underwriters early on to discuss the various underwriting requirements and to determine ahead of time how to structure the submission as simply as possible and still meet the requirements as outlined in the Farmer Mac Seller/Servicer Guide.

Guidance for complex entities is provided in the Farmer Mac Seller/Servicer Guide in Chapter 202.2 Capital: "If a Borrower has related entities that, individually, comprise more than 10% of his total asset value or the income from which is more than 10% of his total income, financial statements for these entities are to be obtained in order to verify the existence and quality of the entity. If the entity is obligated, then the financial statements are to be combined and consolidated. If the entity is not obligated then consolidations are not required. When these consolidations are prepared, only the appropriate percentage interest of the applicant should be used for both the balance sheets and income statements."

### ***Fast Track Loan Submissions Are Streamlined but Sometimes Require Additional Information***

While the majority of Fast Track submissions are simple and straightforward, some represent loans to complex operations where, unless sufficient detail is received, multiple entities may hide inherent weaknesses in the loan's long-term potential to perform. In those cases, Sellers are reminded that Farmer Mac may require supporting information on one or more of the separate business entities.

The Balance Sheet section of Chapter 207.4 of the Farmer Mac Seller/Servicer Guide outlining Fast Track credit documentation requirements has been restructured to highlight the possibility of the need for additional information and to remind Sellers of important submission options:

"In the case of multiple entities:

- entities may be listed at net equity if detailed balance sheets are provided to support the value.
- consolidation of the balance sheets of multiple entities may be required for the purpose of calculating the debt-to-asset ratio."

Similar language has been added to the Income section of Chapter 207.4.