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Vol. 16

A bi-monthly update of  
important upcoming events

March 19, 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:***

Mar. 21-23: Iowa Bankers Association; Ag Bankers Conference; Ames, IA.

Mar. 25-26: Montana Bankers Association; Ag Bankers Conference; Bozeman, MT.

Mar. 25-26: National Agricultural Credit Committee; Washington, DC.

Mar. 30-31: Kansas Bankers Association; Ag Bankers Conference; Manhattan, KS.

Apr. 7-8: Nebraska Bankers Association; Spring Agri-Business Conference; Kearney, NE.

Apr. 7-9: South Dakota Bankers Association; Agricultural Credit Conference; Pierre, SD.

Apr. 20-21: Wisconsin Bankers Association; Agricultural Bankers Conference; Wisconsin Dells, WI.

Apr. 20-21: Penn State Cooperative Extension, Pennsylvania Bankers Association, Pennsylvania Department of Agriculture; Agricultural Bankers Conference; State College, PA.

- May 4-5: Oregon Bankers Association, Washington Bankers Association; Washington/Oregon Agricultural Conference; Richland, WA.
- May 5-7: Idaho Bankers Association; Agricultural Bankers Education Conference; Pocatello, ID.
- May 6-7: Wyoming Bankers Association; Agricultural Bankers Conference; Torrington, WY.
- May 24-26: Indiana Bankers Conference; Mega Conference; Indianapolis, IN.
- June 13-15: Wyoming Bankers Association; Tri-State Bankers Summit; Jackson, WY.

### ***Farmer Mac Reports 2009 GAAP Earnings of \$82 Million***

Farmer Mac's 2009 fourth quarter and full year financial results were announced in a press release on March 16, 2010. Fourth quarter 2009 results brought Farmer Mac's net income for the full year 2009 to \$82.3 million (\$8.04 per diluted common share), compared to a net loss for 2008 of \$154.1 million (15.40 per diluted common share). The entire [press release](#) is posted on the Farmer Mac website, [www.farmermac.com](http://www.farmermac.com).

### ***Spring Brings a Full Schedule of Ag Lending Conferences Across the Country***

Every year, Farmer Mac participates in many state and national ag lender conferences. Generally Farmer Mac is a sponsor, an exhibitor and a presenter. Not only does Farmer Mac appreciate the opportunity to hear what's on the mind of ag lenders; it's also an excellent time for ag lenders to meet with Farmer Mac employees and learn more about all of the options available through Farmer Mac. Farmer Mac's 2010 spring conference schedule is listed at the beginning of this newsletter.

### ***Farmer Mac AgPower® LOS Continues to Be Well Received***

AgPower® LOS, Farmer Mac's new web-based loan origination system implemented on October 1, 2009, continues to be well received. Sellers are integrating the system into their loan processing routine, resulting in steady loan flow exceeding that of prior years.

Melissa Spray of Citizens Business Bank in Bakersfield, CA, reports that the system has proven to be both fast and convenient. Before beginning, Melissa listened to the recording of the educational webinar embedded in Farmer Mac's website (see under Education Center, then Recorded Webinars). Melissa reports that it helped familiarize her with the basics of the system and to know how to begin. Since Melissa is a frequent user, she has provided helpful feedback to Farmer Mac credit staff as they modify, improve and expand the system.

Wendell Mueller of The Bank of Missouri in Cape Girardeau, MO, reports that he jumped in without any prior instruction. He reports that only at one point did he call the Farmer Mac underwriters with questions. The underwriters pulled up the partially completed submission and answered his questions immediately. His loan was approved, and he is beginning another one.

Amy Durfee of D.L. Evans Bank in Rupert, ID, says that she has had a very good experience using the system. Like Wendell Mueller (see previous paragraph), she delved in before

viewing the instructions contained in the webinar. She said it was very user-friendly, faster and easier than submissions prior to the system being put in place. Half-way into her first loan, she did have a couple of questions which were answered quickly by calling the Farmer Mac underwriters who could pull up the data and help her on the spot. Amy also likes the program's ability to accept scanned documents.

Farmer Mac underwriters have a tip for Sellers submitting loans:

If you wonder if you've entered enough financial data, the "Submit Application" tab opens a screen that displays a handy 16-item checklist for the three loan submission options: Fast Track I, Fast Track II and Full Doc. (A submit button is placed at the bottom of the screen.)

Farmer Mac underwriters encourage users to step through that checklist carefully, clicking a box as completed only when careful examination proves that all of the correct information for that item has been included.

Farmer Mac designed the AgPower® LOS system to:

- build efficiencies in the underwriting function;
- enhance data integrity and security;
- support communication between Sellers and Farmer Mac (everyone working from the same secured document);
- allow Seller access to the loan file from remote locations within its geographic footprint;
- provide long-term access to historical files for efficient processing of new loans; and
- avoid cost and time delays through the ability to attach electronically retained documents to the loan information.

### ***When Capital Adequacy Becomes a Concern for Commercial Banks, Many Are Turning to Farmer Mac***

Capital adequacy requirements are a major concern of banks across the country. Low capital ratios limit a bank's ability to issue credit. With Farmer Mac's [LTSPC](#) (Long-Term Standby Purchase Commitment) product, banks have a reasonably priced option to improve a major indicator of their financial health and to help restore their ability to continue to grow their balance sheet.

The LTSPC allows ag lenders to improve their capital position by shifting the credit risk on pools of agricultural real estate loans from the institution to Farmer Mac. Loans placed in the LTSPC program are expected to receive a risk weighting of 20 percent instead of 100 percent, thereby freeing up the bank's capital for other purposes.

Farmer Mac and Morgan Keegan & Company, a regional investment firm in Memphis, Tennessee, announced in a press release issued on March 11, 2010, that the two institutions have entered into an agreement whereby Morgan Keegan will begin marketing Farmer Mac programs designed specifically for Morgan Keegan's commercial banking clients that hold agricultural mortgage loans in their portfolios. The primary program to be offered through Morgan Keegan's Fixed Income Capital Markets division will be Farmer Mac's LTSPC.

More information can be obtained by contacting [Farmer Mac's Marketing Department](#).

### ***New Index for AgEquity Revolving Line of Credit Lowers the Posted Rate for the Product***

The index for the AgEquity Revolving Line of Credit product became the 30-day Wall Street Journal (WSJ) LIBOR on March 1, 2010. The LIBOR index replaced the WSJ Prime. The change was made because of the pricing advantages for the LIBOR-based index versus the Prime.

The AgEquity Revolving Line of Credit product allows borrowers the opportunity to obtain a line of credit secured by a first mortgage on agriculture real estate. The revolving periods can be either five or ten years during which semi-annual interest is due on January 1 and July 1. Funds must be used for any business purpose. The loans are underwritten as though fully disbursed and are held to more stringent ratios that reflect the proven financial management this product demands.

The loan terms and amortizations offered for the AgEquity product are 20, 25 and 30 years. The AgEquity product description can be viewed by logging into the secured area of the Farmer Mac website, selecting "Seller/Service Guide" followed by "AgEquity Product Description."

### ***Water Matters***

Water supply continues to be a major concern in many parts of the country. When analyzing on-farm management and systems for irrigated properties, the property's water supply is a primary consideration. Successful irrigated farming operations have a sufficient, flexible, dependable, economically priced, and good quality supply of water.

Farmer Mac's Seller/Service Guide states: "If the property is irrigated, water supply rights and/or entitlements shall have a remaining economic life at least equal to the amortization period of the loan and must be of sufficient quality and volume to sustain and economically produce crops typically grown in the area." Chapter 202.5 (7) at Part 2-16:

Sellers are reminded that in the event of changes in water quality and/or water quantity, certain loan data may be affected. Those items include the following:

- Pro-forma cash flow  
The cash flow forecasts must reflect the current conditions in areas experiencing reduced water quantity or quality. It is not sufficient to simply extend historical production results; the "irrigated acres" should be adjusted to reflect current conditions.
- Yield/productivity numbers
- Irrigated acres  
The number of irrigated acres should be adjusted when the quantity of water is reduced in relation to historical periods. In the case of a reduced water supply affecting the number of irrigated acres, the formerly irrigated acres should be analyzed as non-irrigated acreage.

- Remaining economic life for permanent plantings  
In the case of permanent plantings, the remaining economic life of the planting as well as the potential yield must reflect the effect of using lower quality water for irrigation.
- Appraised value  
The appraised value must reflect the market's reaction to the current and foreseeable water supply conditions. Formerly irrigated acres should be analyzed as non-irrigated acreage. If non-irrigated acres are restored to irrigated acres through the procurement of additional irrigation water, the cost and risk of doing so should be reflected as a cost-to-cure in the market analysis and loan proposal.

The primary source of information on irrigation system capacity is the property owner/borrower or the party responsible for the property. This information can be documented using the Farmer Mac Form 1013A found on the Farmer Mac website (see "Collateral Valuation" under the "Lenders" section on the left side of the home page).

The Loan Narrative of a Farmer Mac loan submission, the portion that addresses the five C's of credit, is a good place to discuss water issues. Consult Chapter 202, Exhibit A, Part 2-24 (Capacity) and Part 2-25 (Collateral) for more direction.

### ***Servicing Actions May Be Required for Farm and Ranch Loans***

Sellers are reminded that Central Servicers are in the process of sending a communication identifying those loans requiring servicing actions. Servicing actions address selected loans only and typically include the following actions:

- property inspections
- borrower financial information
- UCC continuations
- insurance verifications
- confirmation of real estate taxes being paid

While Sellers are asked to report any early or potential problems to Central Servicers, they are also encouraged to keep in contact with customers to check for possible new lending opportunities or servicing requests.

### ***Farmer Mac Form 1018, Notice to Purchase Request, Has Been Revised for Easier Use***

Farmer Mac purchases qualified loans on any business day. Sellers notify Farmer Mac of the desired purchase date through the use of the Form 1018, "Notice to Purchase Request Form." The form is found in the secured area of the Farmer Mac website under the tab labeled "Credit Forms."

Sellers are encouraged to use the newly revised form, updated for purposes of clarity and efficiency.