



Vol. 22

A bi-monthly update of
important upcoming events

March 30, 2011

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 (www.farmermac.com) or via opportunities@farmermac.com.

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Upcoming Events for Farmer Mac I and II

- Apr. 5-6: Wisconsin Bankers Association Agricultural Bankers Conference; Wisconsin Dells, WI
- April 6-8: Texas Bankers Association Annual Agriculture & Rural Affairs Conference; Lubbock, TX
- Apr. 6-7: Nebraska Bankers Association Spring Agri-Business Conference; Kearney, NE
- Apr. 13-15: South Dakota Bankers Association Agricultural Credit Conference; Pierre, SD
- Apr. 19-20: Penn State Cooperative Extension/Pennsylvania Bankers Association/Pennsylvania Department of Agriculture – Agricultural Bankers Conference; State College, PA
- Apr. 19-21: Community Bankers of Iowa Spring Community Bank Summit; Waterloo, IA and Riverside, IA
- May 3-4: Washington Bankers Association Ag Conference; Walla Walla, WA
- May 5-6: Idaho Bankers Association Agricultural Bankers Conference; Twin Falls, ID
- May 16-17: Independent Bankers of Colorado Agricultural and Natural Resources Conference; Englewood, CO
- May 19-20: Wyoming Bankers Association Ag Lenders Conference; Hulett, WY

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Dave's GPS

Keep Up with Dr. David Kohl through Farmer Mac

As Dr. David Kohl travels across the country presenting at ag conferences and consulting with ag businesses, he is often asked to focus on the secrets of serious ag lenders who year after year manage to keep their competitive edge. During a recent webcast including producers, agribusiness people, and ag lenders, he was challenged to address how to compete in today's environment. His answer: "Relationship lending is back. Sound, balanced credit analysis is front and center."

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. This month, "**Dave's GPS**" features a discussion about relationship lending. Dr. Kohl identifies the five critical attributes associated with top-performing ag loan officers and addresses the importance of staying close to customers during periods of rising interest rates.

Along with "Dave's GPS," Dr. Kohl also provides a bi-monthly "**Dashboard**" (Lender and Business Dashboard Economic Indicator Assessment). His 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.

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](#)

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Alliance Update

Members of the American Bankers Association (ABA) Will Continue to Benefit from Farmer Mac Discounted Rates

Farmer Mac and Business Solutions, a subsidiary of the American Bankers Association (ABA), recently announced an alliance between the two organizations. The alliance will enable ABA member banks to continue to receive the preferred pricing and streamlined Seller processing benefits as crafted by the ABA Ag Committee and Farmer Mac and originally established in November of 2005. Farmer Mac's popular 15-year fixed rate product is one of the discounted options available to ABA members.

ABA is also in the news with John Blanchfield, Senior Vice President Agricultural and Rural Banking, providing tips to farmers as they work with ag lenders. **"Seek opportunities to lock in rates today" is one of Blanchfield's six recommendations in "GrowingPoint"® magazine.** (The article reprinted here is from the February 2011 issue of Pioneer GrowingPoint® magazine, published by Pioneer Hi-Bred.) The title of the article: "Interest rates will rise . . . eventually."

After advising growers that now is the time to look at fixed-rate opportunities, Blanchfield continues: "This is especially true for the real estate portion of your debt. Principally, the way to do it is talk to your banker about the idea of a mortgage loan that the bank would originate, then sell to Farmer Mac (www.farmermac.com). More and more banks are setting these up for 10-, 20- and 30-year loans."

Please contact the Farmer Mac Marketing Team for a copy of the entire article with Blanchfield's other five recommendations.

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Farmer Mac Was a Featured Presenter at the ICBA (Independent Community Bankers Association) National Convention and Techworld

The ICBA/Farmer Mac program that brings ICBA members special discounted pricing on selected Farmer Mac products such as the 10-year VRM was the subject of a Farmer Mac workshop, "Staying Successful in a Competitive Ag Market," at the 2011 ICBA National Convention and Techworld held in San Diego in March. Attendees also visited with Farmer Mac personnel at its exhibit booth at the conference.

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Farmer Mac I Cash Window and Credit Corner

Mortgage and Note Assignments and Insurance Designations Will Require New Wording Beginning April 1

Farmer Mac I Cash Window Sellers should be aware that Farmer Mac will require new wording on April 1 for the assignments for both the note and mortgage and the designation of the loss payee in the hazard insurance policy. The new wording will need to include the words "for Federal Agricultural Mortgage Corporation programs."

The Farmer Mac Seller/Servicer Guide will be edited to include the new wording (see bolded font) as below:

- In Chapter 302.5 for the section addressing Final Loan Approval/Final Loan File Contents:

*The mortgage note should read as follows: "Pay to the order of U.S. Bank National Association, as Custodian/Trustee **for Federal Agricultural Mortgage Corporation programs**, without recourse" and containing any specific provisions required by the Program, including those set forth in Chapter 205. (Chapter 302.5.3)*

*A certified true and correct copy of the Assignment of the Mortgage (in recordable form), sufficient under the laws of the jurisdiction where the related Mortgaged Property is located to reflect of record the Assignment of the Mortgage to the Custodian/Trustee and with the following Assignment language: "U.S. Bank National Association, as Custodian/Trustee **for Federal Agricultural Mortgage Corporation programs**." (Chapter 302.5.5)*

- In Chapter 202.5 for the section addressing Conditions/Loan Conditions Standard (Underwriting Standard 7):

*The Seller must ensure that the insurance carrier records U.S. Bank National Association, as Custodian/Trustee **for Federal Agricultural Mortgage Corporation programs** (in care of the Central Servicer or Field Servicer as designated by the Central Servicer) as loss payee. (Chapter 202.5.3)*

The new wording also will be updated in the Seller/Servicer Guide Chapters 401.4 (General Servicing Responsibilities) and 403.7 (Delinquent and Problem Loan Servicing).

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Historical TDC (total debt service coverage ratio) Should Be Examined When Pre-Screening Loans

When Sellers look at Farmer Mac's underwriting requirements in their pro forma status, they are encouraged to also pay close attention to historical TDC during the pre-screening to determine loan qualification.

TDC assesses the applicant's ability to generate sufficient net earnings, after family living expenses and taxes, to meet all debt obligations as they come due over the term of the loan and provide a reasonable margin for capital replacements and contingencies.

The ratio, in its pro forma format, projects the expected effect of the new loan on the applicant's operation. However, such projections may be misleading if large swings in commodity prices and/or yields result in unrealistic expectations for the long term. During these volatile periods, the historical TDC may be considerably less favorable than the pro forma TDC.

When this is the case, Farmer Mac will examine other ratios on a pro forma and historical basis data, such as the income/expense ratio, to better understand the situation and to consider whether the pro forma TDC would be feasible for the long run.

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PDC's (property debt coverage) New Calculation Creates a Consistent Standard

Farmer Mac's AgPower® LOS now applies the information provided by the Seller in a manner that achieves greater consistency when the PDC is considered. Previously, the PDC calculation involved dividing property income by property principal and interest payments *for the specific product selected by the applicant*. The denominator in the new calculation is *the property principal and interest payment for the loan amount amortized for 25 years at a 6.5% interest rate*.

The new calculation standardizes the PDC across all products, allowing the calculation to remain constant even though applicants may change their selection of a particular Farmer Mac product.

Although a minimum 1:1 PDC is a target for all fully underwritten loans considered by Farmer Mac for purchase, Farmer Mac underwriters may allow an exception if the loan demonstrates compensating strengths in other areas.

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Tree Nut Operations Require Four Years of Tax Returns

Farmer Mac now requires a minimum of four years of tax returns for fully-underwritten Farm and Ranch loan applications where the operations involve the production of tree nut crops, including walnuts, pecans, pistachios, hazelnuts and almonds.

Tree nut production is typically alternate-bearing, rotating annually between heavy and light crops. Analysis of four years of tax returns along with a four-year average TDC (total debt coverage) provides underwriters a more complete picture of the operation's repayment capacity.

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AgPower® LOS Upgrades Loan Duplication Feature

The loan duplication feature in AgPower® LOS has been upgraded to save time for Sellers with applicants requesting new loans. The feature applies to cases where Farmer Mac purchased a loan in the past from an applicant who is buying new land and applies for another Farmer Mac loan. Former tax return data is now automatically shifted to the left and columns for new data simultaneously appear.

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Proper Procedures Facilitate Appraisal Report Acceptance by Farmer Mac

Effective use of the selection and engagement process and the appraiser's best efforts should result in collateral valuation information suitable for use in Farmer Mac's underwriting and servicing actions for Farm and Ranch loans. Farmer Mac underwriters performing the final acceptance of appraisal reports encourage Sellers as follows:

- When engaging an appraiser, use the Farmer Mac Engagement Letter (Farmer Mac form 1023A) outlining the Farmer Mac appraisal requirements
- Include only Farmer Mac's Assumptions and Limiting Conditions (Farmer Mac form 1037).
- Obtain a completed and signed Environment Disclosure Form (Farmer Mac form 1010A) from the landowner (applicant or seller)
- Obtain a flood search for properties with improvements
- Provide a legal description from the Preliminary Title Report to the appraiser

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PPDocs Documentation Preparation Service Now Easier to Access

Document preparation for Farmer Mac I Farm and Ranch loans just got easier. A new link to PPDocs in AgPower® LOS, saves time for Sellers accessing the document preparation service by allowing most data entry directly into the AgPower® LOS system. An expanded AgPower® LOS borrower information tab lets users enter pertinent data directly into the AgPower® system rather than into the PPDocs website. Information that was required to be entered into both websites in the past will now have to be entered only once. The button that completes the link to PPDocs appears to AgPower® LOS users once the loan has been rate locked.

The ease of creating loan documents through the use of PPDocs, Inc. (PeirsonPatterson, LLP, a Texas-based law firm) appeals to many Farmer Mac Sellers who also appreciate the low cost: \$100 for most loans. Continuing an upward trend which began in 2007 when PPDocs became Farmer Mac's preferred documentation preparation provider, results for 2010 show a major portion of loans sold to Farmer Mac I were closed using the services of PPDocs.

Sellers will still need to register and activate their PPDocs user accounts by accessing the PPDocs website, www.ppdocs.com.

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Smooth Sailing for Rate Locks When Sellers Follow Two Important Steps

While Sellers may rate lock loans after they receive a Preliminary Loan Approval, they are strongly encouraged to wait to request rate locks until they have received two additional items:

- The Farmer Mac instruction letter
- Confirmation from the applicant as to the rate and terms of the loan

Communication with the applicant prior to rate lock is extremely important to confirm all terms including the loan amount, product and amortization as **revisions to rate-locked loans are not allowed.**

Rate-locking a loan obligates the Seller to deliver the loan to Farmer Mac for purchase under the terms outlined in the commitment to purchase.

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Security Procedures Now Allow Users to Unlock Farmer Mac Access Accounts

For security purposes, access to the secured area of Farmer Mac's website is disabled when a user enters an incorrect password a certain number of times over a specified period. This account lockout policy deters attackers from guessing users' passwords and accessing the network. However, authorized users can inadvertently lock themselves out of an account by mistyping passwords or remembering a password incorrectly.

Newly implemented procedures at Farmer Mac enable authorized users to unlock their own accounts in a secure manner, facilitating the renewal process and eliminating the need to call someone else to unlock the account. User instructions appear at the time the lockout period goes into effect.

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Education Center

Capital Markets Webinar

Farm customers often turn to their ag lending officer for help as they select their product of choice from the Farmer Mac rate sheet. To help loan officers in those discussions, Farmer Mac held its first Capital Markets Update on February 16. The goal was to provide a greater understanding of how Farmer Mac funds its purchases, hedges its risk and sees the future of interest rates in the coming year based on today's economic environment.

Richard Eisenberg, Farmer Mac's lead funding strategist was joined by Patrick Kerrigan, Director of Business Development, to host the session which was recorded and placed on Farmer Mac's website. See "Recorded Webinars" on the homepage of www.farmermac.com.

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Farmer Mac Financial News

Farmer Mac recently reported fourth quarter and 2010 results:

Core earnings of \$6.7 million for fourth quarter 2010 (compared to \$5.4 million for fourth quarter 2009)

Core earnings of \$25.4 million for 2010 (compared to \$16.1 million in 2009)

As reported in the [press release](#) announcing the results, the 58% increase in core earnings for 2010 was due to increased business volume and an increased effective net interest spread. Farmer Mac President and Chief Executive Officer Michael Gerber commented: "Growth in our outstanding portfolio of loans, guarantees, and commitments was significant, as we did \$3.0 billion of new business in 2010, increasing the total outstanding portfolio at year end 2010 to \$12.2 billion - - 14 percent net growth for the year."

Other results announced:

Farmer Mac I loan purchases increased by nearly 100 percent for the year, exclusive of the purchase of \$900.0 million of Farmer Mac I AgVantage securities in seven transactions involving four different issuers.

Purchases of USDA-guaranteed portions of loans by Farmer Mac's subsidiary Farmer Mac II, LLC were up 32 percent over the prior year.

The increase in loan purchase activity was due to attractive interest rates offered by Farmer Mac as well as Farmer Mac's commercial bank business partners' reaching their self-established sector or borrower exposure limits.

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