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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 or via [opportunities@farmermac.com](mailto:opportunities@farmermac.com).

### *Upcoming Events for Farmer Mac*

- Sept. 8-30: Farmer Mac Road Shows: IA, IN, OH, IL, MO, WI, MN, ND, SD, NE, KS
- Sept. 13-15: Missouri Independent Bankers Association Annual Convention and Exhibition; Lake Ozark, MO
- Sept. 14: "Farmer Mac Refresh" Webinar – Capital Markets Update
- Sept. 29-30: North Dakota Bankers Association 2011 Ag Credit Conference; Bismarck, ND
- Oct. 1-4: Independent Bankers Association of Texas Annual Convention; San Antonio, TX
- Oct. 12: "Farmer Mac Refresh" Webinar
- Oct. 13: "Iowa Innovations" Special Webinar
- Oct. 19: Community Bankers of Iowa Fall Community Summit; Storm Lake, IA
- Nov. 2-3: Arkansas Bankers Association 2011 Agricultural Lending Conference; Hot Springs, AR
- Nov. 6-9: American Bankers Association Agricultural Bankers Conference; Indianapolis, IN

#### **\*Farmer Mac Has a New Street Address in Washington DC**

After ten years in our former location, Farmer Mac recently moved its corporate offices in Washington, DC, to a building just a couple of blocks away. While the street address and zip code is new, the web and email addresses and telephone and fax numbers remain unchanged. Farmer Mac's new address 1999 K Street, N.W., 4th Floor, Washington, DC 20006. The Johnston, Iowa, office is not affected by this move.

Chapter 103.1 of the Farmer Mac Seller/Service Guide has been updated to list the new address.

## Dave's GPS



*Dr. David Kohl: Professor Emeritus  
Virginia Tech University*

### Keep Up with Dr. David Kohl through Farmer Mac

In the February Almanac, Dr. Kohl identified “institutional support” as one of the important traits of peak performing loan officers. How “institutional support” manifests itself in the ag lending world is described this month as Dr. Kohl identifies several best practices. One of those is the willingness to dig more deeply into analyzing customers’ operations through the use of various “what if” scenarios. Reflecting the feedback he receives daily through his travels and presentations, “**Dave’s GPS**” will provide a starting point for dialogue and discussion at your next planning meeting.

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. Along with “Dave’s GPS,” Dr. Kohl also provides a bi-monthly “**Dashboard**” (Lender and Business Dashboard Economic Indicator Assessment). His ten 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. While his key indicators don’t move this month, his assessment of issues in the global economy is insightful.

*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 and Dashboard](#)

## Farmer Mac I Cash Window and Credit Corner

### The Contributory Value of Permanent Plantings Can Now Be Included in Fast Track Loans

Lenders considering using the Fast Track program for loans on properties with permanent plantings no longer need to exclude the contributory value of the plantings when they calculate the value portion of loan-to-value (LTV) ratio for qualifying purposes. The appraised value of the entire property including all improvements, facilities and permanent plantings can be included in this value number.

Lenders are reminded that once the contributory value of all improvements except the borrower’s residence exceeds 40% of the property’s total appraised value, the property is no longer eligible for a Fast Track submission and must be submitted as a full-document loan.

Fast Track loans comprise well over half of the loans submitted to Farmer Mac.

Chapter 207, Fast Track Loan Documentation, of the Farmer Mac Seller/Service Guide has been edited to update this change by deleting #5c under Chapter 207.3 Eligible Loans, Loan Purpose.

### **Farmer Mac Documents Outlining Information Technology Security Practices Are Available to Sellers**

Farmer Mac follows applicable financial services industry best practices for website security including both electronic and physical security. Sellers wishing to receive a copy of the documentation describing this security may contact a member of the Farmer Mac Marketing Team. Sellers may also read Farmer Mac's Privacy Policy and Terms and Conditions posted on the Farmer Mac website through a link on the website's homepage. Questions should be directed to the Farmer Mac Marketing Team.

### **AgPower® LOS Loans Are Retrievable Indefinitely**

Due to its success, AgPower® LOS has been inundated with loans in the two years the system has been available. Archiving non-submitted or inactive loans keeps the system running smoothly and efficiently. Archived loans are not listed on the active loan queue screen. However, they are easily retrievable by clicking "Archive Status" at the bottom of the AgPower® LOS screen and selecting the appropriate year.

The Farmer Mac archiving procedures are as follows:

- New applications (loans initiated by Sellers but never submitted to Farmer Mac underwriting) are archived after they have been in the system for 90 days. Sellers will receive email notification 10 days prior to the archiving date.
- Credit-approved loans that have never rate locked will be archived when the approved loan expires 180 days after the approval date. Sellers will receive email notification 10 days prior to the archiving date and are asked to apprise Farmer Mac as to the reason the loan did not close, information that is helpful to Farmer Mac.

Archived loans can be reactivated within AgPower® LOS at any time by selecting the loan and clicking the "Duplicate Loan" button. Selecting that option results in the creation of an identical application with a new application number.

### **The "Duplicate Loan" Feature in AgPower® LOS Is a Handy Tool**

Sellers have discovered that AgPower® LOS's ability to duplicate loans can save time as they work with the same borrower for multiple loan requests. Whether the loan is still in the active queue or has been archived, ag lenders simply click "Duplicate Loan" on the application screen. Selecting that option results in the creation of an identical application with a new application number.

### **The Farmer Mac I 15-Year Fixed Rate Product Remains Most Popular in 2011**

Reflecting borrower's uncertainty about the future of the interest rate environment, the Farmer Mac I 15-year fixed rate product remains the most popular product year-to-date during 2011. In fact, to date in 2011, customers have selected a product allowing them to fix a rate for at least ten years 60% of the time.

The fixed-rate product description has been edited to reflect the fact that unlike other fixed rate products, the 20-year fixed rate is not convertible into other Farmer Mac products. Complete product descriptions for all products can be found in two places on the Farmer Mac website:

- In the Farmer Mac Seller/Service Guide (Tab 3) which can be found under the Lenders section (Farmer Mac I subsection)
- By clicking on any of the products on the Farmer Mac I Farm and Ranch rate sheet

### **Be Watching for the Announcement: Rate Locks Will Soon Be Confirmed through AgPower® LOS**

Farmer Mac will soon issue Commitments to Purchase (rate locks) through the AgPower® LOS system, ensuring a more reliable delivery to the Seller. When the new process is in place, an email announcement will alert both the loan officer as well as the person requesting the rate lock (if that is a different person). The message directs them to retrieve the confirmation by logging into the AgPower® LOS system where they will find a “Rate Lock” box has been added. A click on the box will take them to the Commitment.

Farmer Mac currently sends Commitments to Purchase by facsimile (fax) to Sellers on the business day following the rate lock.

### **A Twelve-Year Term for Swine Operations with Contracts Is No Longer Referenced in the Farmer Mac Seller/Service Guide or the Underwriting Grid**

Chapter 205.4 of the Farmer Mac Seller/Service Guide discusses the credit guidelines for a specific segment of facilities lending, that being loans with contracts. The “Swine” segment of that chapter (bullet number 3) has been edited to state that the maximum fully-amortizing loan term is 10 years for these loans; it was formerly listed as 10 or 12 years. Farmer Mac does not offer a 12-year loan product to accommodate the 12-year term.

The bullet number 3 will now read: The maximum loan term is 10 years, fully amortized, for these facilities.

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#### **Credit Tip of the Month**

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Personal balance sheets should reflect the customer’s ownership of all other entities such as Limited Liability Companies and corporations.

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## *Alliance Update*

### **Hear Directly from Bankers Who Use Farmer Mac --Come to the Workshop at the American Bankers Association (ABA) National Agricultural Bankers Conference**

Farmer Mac will be featured in one of the twelve workshops at the ABA National Agricultural Bankers Conference in Indianapolis November 6-9. The conference, produced this year by the ABA in cooperation with the Indiana Bankers Association, is always one of the primary fall forums bringing together industry leaders. This year's agenda features timely and substantive topics including:

- Building tomorrow's leaders in agriculture
- The financial needs of the CEO farmer
- Working capital: What is it good for?
- Loan covenants, conditions and restrictions: The key to better customer behavior?
- What does the financial statement not tell us?
- The role of science and technology in meeting global food demands

Farmer Mac's workshop will highlight the experiences of bankers as they recount the benefits Farmer Mac brings to their banks and their bank customers.

Ag banks of all asset sizes attend with the breakout of 2010 attendees as follows:

Less than \$250 million	36%
\$250 million to \$1 billion	22%
\$1 billion to \$5 billion	9%

## *Education Center*

### **Farmer Mac Road Shows Hit the Road**

Positive feedback has already been received as Farmer Mac staff has hit the road again, taking the Farmer Mac story to ten Midwestern states. The half-day shows began in Iowa on September 6 and will continue through the end of the month in Indiana, Ohio, Illinois, Missouri, Wisconsin, Minnesota, North Dakota, South Dakota, Nebraska and Kansas.

From every indication, it appears the 2011 shows will be every bit as successful as 2010 when 700+ attendees attended 24 Farmer Mac Road Shows. Attendees report they are a great way to begin the new lending season. This year's sessions highlight discussions on recognizing an eligible Farmer Mac borrower, loan products and pricing, appraisals, title work and Farmer Mac II. A new feature this year is the Case Study where attendees read a brief description of a farming operation's loan request and identify how they would submit the loan through AgPower® LOS. Another segment allows participants to learn how some Sellers have marketed Farmer Mac to their customer base through ads displaying the Farmer Mac Approved Lender logo.

In addition to the timely discussions about ag credit in general and Farmer Mac in particular, attendees will find these sessions to be an excellent opportunity to meet Farmer Mac staff and to visit with other farm lenders in their area. Click [here](#) to view the registration page.

Several minor clarifying edits have been made to Chapter 103.3 (Use of Farmer Mac's Name) of the Farmer Mac Seller/Service Guide.

### **The Farmer Mac Credit Team Will Offer “Beyond the Basics” Webinars to Address Credit Analysis and Tips on Submitting Loans to Farmer Mac**

The Farmer Mac Credit Team is targeting October to offer webinars featuring discussions on credit analysis and tips on submitting loans to Farmer Mac. Details concerning content and registration will be out soon. “Beyond the Basics” sessions will include topics such as:

- Breaking Down the Balance Sheet
- Estimating Repayment Capacity Using Tax Returns
- Understanding Subsidiary Entities and Consolidations
- Engaging Appraisers and Reviewing Appraisals

The AgPower® LOS manual provides an easy and handy way to understand how to input data correctly and submit loans. Sellers are encouraged to download it or print it off for reference during data entry. It is readable and user friendly, offering clear, step-by-step guides and print screens so users will know exactly what is required for each section.

## *Farmer Mac Financial News*

### **Update from Farmer Mac's Capital Markets Team**

Farmer Mac funds its loan purchases and other business activities by selling senior unsecured debt securities to investors through approved dealers in the capital markets. Farmer Mac's two primary funding vehicles are Discount Notes (with maturities out to one year) and Medium-Term Notes or MTNs (with maturities from one to twenty years).

The following are the types of questions Farmer Mac has received from customers and investors over the past month regarding capital markets issues.

#### **What has been the impact of the S&P downgrade of the U.S. Government on Farmer Mac's cost of funds?**

Farmer Mac issues its debt at a spread to U.S. Treasury securities. Since the Standard & Poor's (S&P) downgrade of the U.S. government from AAA to AA+, Farmer Mac has not seen any material change in its spreads to comparable maturity Treasury securities and its access to the capital markets has not been negatively affected. In fact, as Treasuries have rallied in the past few weeks, Farmer Mac's absolute cost of funds for most maturities has actually declined. The decline in rates has been driven by concerns with:

- weakness in the U.S. economy;
- political gridlock in Washington; and
- Euro-zone problems.

The lower rates for Farmer Mac's debt reflects the overall confidence investors have in securities issued by the government and government sponsored enterprises (GSEs) such as Farmer Mac. In times of market stress, a "flight to quality" normally occurs, which means investors seek the highest quality credits possible, often increasing the differential between Farmer Mac's cost of funds and that of other financial institutions such as commercial banks.

Even with the S&P downgrade of the U.S. government to AA+, the other two major rating agencies, Moody's and Fitch, have maintained AAA ratings on the government. Because of this and certain other factors, Farmer Mac believes very few investors have been forced to sell Treasuries or GSE securities. Even foreign investors have continued to actively participate in these markets because of the large and liquid features of the Treasury and GSE markets.

**Will the S&P government downgrade have any impact on investors' use of Farmer Mac securities as collateral for various secured transactions?**

Based on reports from Farmer Mac's dealers, there has not been any noticeable decrease in the use of Farmer Mac securities as collateral in repo or other secured transactions in the capital markets. Also, Farmer Mac debt securities continue to be eligible collateral for Federal Reserve Bank advances and discounts and continue to be 20% risk weighted when purchased by federally regulated entities. Under the Dodd-Frank legislation, trading in Farmer Mac securities (and other GSE securities) is one of the few exceptions to the general prohibition on "proprietary trading" by banking entities.

**What is the market view on where interest rates are going in the future?**

The Federal Reserve Chairman, Ben Bernanke, has said he expects the Fed to keep short-term interest rates low until the middle of 2013. At the recent Fed meeting in Jackson Hole, Wyoming, Chairman Bernanke stressed "joblessness" and said it was critical to reduce unemployment, but he stopped short of signaling further Fed easing (QE 3).

Many economists now see rates as lower than is warranted by what many view as a slow growth economy for the foreseeable future. The general expectation is that interest rates will stay low with some modest increases over the next 12 months. Given the historically low current interest rates, now may be a good time to lock in fixed rates over the intermediate term.

**What are the recent trends in the spread between Farmer Mac's callable and non-callable debt?**

Farmer Mac issues callable MTNs to fund loan products with an open prepayment feature. Thus, if a 5-year ARM loan prepays in year 2, Farmer Mac can call a 5-year callable bond at about the same time as the prepayment.

Over the past few years, Farmer Mac's callable to non-callable debt spreads have compressed a great deal, thereby causing Farmer Mac's open prepayment product rates to be very close in rate to its yield maintenance products (for which Farmer Mac uses non-callable debt to fund loan purchases). Recently, however, Farmer Mac has seen a widening of the spreads between callable and non-callable debt due to high volatility and high redemptions of callable debt. Although spreads between callable and non-callable debt are still close to historic lows, the widening will likely continue as more uncertainty creeps into the capital markets and investors demand more yield in a volatile and low interest rate environment. This widening will lead to more disparity between open prepay products and yield maintenance products.

## *Farmer Mac II*

### **The Farmer Mac II 25-Year and 30-Year Fixed Rate Products Are Being Discontinued**

As originally announced on the Farmer Mac website, on October 1, Farmer Mac II LLC is no longer offering the 25-year and 30-year fixed rate products due to the lack of volume for the two options. All loans involving these two products must be settled prior to October 1, 2011.

So far in 2011, the three most popular Farmer Mac II products are the 20-year fixed rate, the 5-year Reset and the 15-year fixed rate.

### **FSA Guaranteed Loan Program - Guarantee Loan Origination Fee Increase**

As recently communicated by USDA, effective October 1, 2011, the one-time loan origination fee charged on FSA guaranteed Farm Ownership and Operating loans will increase from 1 percent to 1.5 percent of the guaranteed portion of the loan (loan amount x percent guaranteed x .015). This represents the first loan origination fee increase since the program's inception. The fee increase, necessitated by budget constraints, will help FSA maintain the amount of guaranteed credit available. The rule for the fee increase is expected to be published in the Federal Register in September 2011.

### **USDA notes that loans obligated prior to October 1, 2011, will be charged the current 1 percent fee, regardless of when the loan is closed.**

Consistent with current policy, the loan origination fee will not be charged on guaranteed loans issued to farmers or ranchers participating in FSA's Downpayment Program, a qualified State Beginning Farmer Program, refinancing FSA direct loans, or participating in the Guaranteed Operating Loan - Interest Assistance Program.

*For more information, view the Farm Loan Program Website at: <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=fmlp&topic=landing>*

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