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Dave's GPS



Dr. David Kohl: Professor Emeritus
Virginia Tech University

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.

Upcoming Events for Farmer Mac I and II

July 18-21: Community Bankers Association of Kansas Annual Convention and Tradeshow; Branson, MO

July 18-20: Community Bankers of Iowa Management and Annual Convention; Okoboji, IA

July 30-
Aug 1: Farm Credit Council Services Learning Conference; Hilton Head, SC

Aug. 14: Community Bankers of Iowa State Fair Conference; Altoona, IA

Aug. 22-23: Illinois Bankers Association Ag Banking Conference; Springfield, IL

Sept. 10-12: Missouri Independent Bankers Association Convention and Exhibition; Lake Ozark, MO

Keep Up with Dr. David Kohl through Farmer Mac

This month “**Dave’s GPS**” delves into accounting, discussing the “nuts and bolts” of cash-to-accrual conversions and the information needed to proceed. In alerting ag lenders to the possible perils of depending on cash accounting alone, Dr. Kohl cites a recent study comparing the gap in annual net farm income as calculated based on three-year average cash-based data and three-year average accrual-adjusted figures. Dr. Kohl ends his discussion with a lender tip on a side benefit of performing an accrual conversion based on the experiences of a borrower who became disabled.

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. With none of

his ten key indicators moving this month, read about Dr. Kohl's insights into both global and domestic economics and why Dr. Kohl's rating for the U.S. economy remains as a "yellow light."

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 Iowa office will be in credit training July 18th-19th. We appreciate your patience during this time as application processing will be delayed.

25-Year Fixed Rate Joins Farmer Mac I Product Array

Responding to requests from farmers and ag lenders, a Farmer Mac I 25-year fixed rate with a 25-year term and amortization was rolled out on June 7.

This new product will be incorporated into the Farmer Mac Seller/ Servicer Guide, both in Chapter 303.5 and into the Fixed Rate Product Description. All updates to the Guide and its Collateral Valuation Supplement are posted on the Farmer Mac website. See "Resources" and then scroll down to "Seller/ Servicer Guide" and select "Read More."

Several Farmer Mac I Underwriting Guidelines Will Change Beginning August 15

Several Farmer Mac I Farm and Ranch loan underwriting criteria will change on August 15. Beginning that date, all loans to be approved must meet the following new guidelines:

- The minimum current ratio (pro forma) will be increased to 1.25:1 for Standard loans and 1.50:1 for Choice loans, up from 1.00:1 and 1.25:1 respectively.
- The maximum LTV will be 60% (down from 70%) for the following nine states: North Dakota, South Dakota, Minnesota, Iowa, Illinois, Indiana, Ohio, Missouri and Nebraska
- The property debt coverage ratio (PDC) will no longer be a criterion for loan approval. However, the property's ability to service debt is important, and Farmer Mac will monitor this information, requiring appraisers to include the net property income analysis in their report.
- For loans with an LTV greater than 60% and less than or equal to 70%, the total debt service coverage ratio (TDC) requirements are increased to a minimum of 1.50:1. In these cases, no exceptions will be allowed as to the requirements for either the pro forma debt-to-asset ratio or current ratio.

These changes are being made due to the need for increased borrower liquidity,

given revenue volatility (current ratio) and the rapid rise in land values in the noted states.

Once these changes are implemented on August 15, 2012, they will be incorporated into the chapters that comprise Part 2 of the Farmer Mac Seller/ Servicer Guide. All updates to the Guide and its Collateral Valuation Supplement are posted on the Farmer Mac website. See “Resources” and then scroll down to “Seller/ Servicer Guide” and select “Read More.”

ACH Transfers Now Available for AgEquity Lines

ACH fund transfers are now available for borrowers wishing to draw funds on their AgEquity Revolving Line of Credit. Up until now, wire transfers have been the only option.

When requesting funds, borrowers will be asked to identify which process they prefer. While both ACH and wire transfers are handled electronically, customers will be able to weigh the advantages and disadvantages of each method prior to making their selection.

For borrowers wanting to access funds quickly, wire transfers move funds in the same day. ACH transfers typically take one or two days to complete.

Cost is another consideration, especially for borrowers intending to access small amounts of funds over time. In the case of AgEquity advances, banks receiving the funds on behalf of the borrower will typically charge a \$15 to \$25 fee (Farmer Mac has no sending fees). This is in contrast to ACH transfers where costs are calculated in terms of pennies. However, while the ACH fund transfer cost is minimal, Sellers should remind borrowers that with the slower fund delivery time, borrowers selecting the ACH transfer will pay interest for a day or two prior to having access to the funds.

New Option Is Added for Farmer Mac Seller Stock Ownership Requirements

All Farmer Mac Sellers must own Farmer Mac stock at the appropriate level as set forth in the definition of Seller in the Glossary of the Farmer Mac Seller/ Servicer Guide. Ownership requirements will now allow non-Farm Credit institutions the option to select either Class A voting stock or Class C non-voting stock. The number of shares for the various tiers has not changed.

The change in stock ownership requirements will be reflected in updates to the Glossary of the Seller/ Servicer Guide. All updates to the Guide and its Collateral Valuation Supplement are posted on the Farmer Mac website. See “Resources” and then scroll down to “Seller/ Servicer Guide” and select “Read More.”

Locked Out of Farmer Mac Website?

Multiple unsuccessful attempts to log into the Farmer Mac website will result in a “locked out” account. If that occurs, Users can fix the problem by selecting Login, typing their email address in the User Name/Email line and then selecting Forgot Password. Stepping through the ensuing instructions will open access once again.

Credit Tip of the Month

Farmer Mac looks over appraisals and title work on all loans prior to purchasing. Five tips to speed up the process and improve your chances of not receiving a “deficiency” list to remedy are identified below:

- Have the borrower complete and sign the Environmental Disclosure (Form 1010A)
- Use the Farmer Mac Engagement Letter (Form 1023A) and make sure the copy uploaded is signed by both the appraiser and a representative of your institution.
- Provide the appraiser Farmer Mac’s Assumptions and Limiting Conditions (Form 1037) to include in the appraisal.
- Give the appraiser the legal description from the Preliminary Title Work to include in the appraisal.
- If there are building improvements on the collateral, have a flood search completed and uploaded.

While equivalents of Farmer Mac’s Forms 1023A and Form 1037 may be used, the additional steps necessary to substitute alternative documents may delay the process. Therefore, Sellers are encouraged to use the Farmer Mac versions.

The documents identified above are available in the “Documents” section of AgPower® LOS, appearing once the loan is approved.

Alliance Update

Farmer Mac and ICBA Extend Preferred Service Provider Relationship

On June 6, Farmer Mac and the ICBA (Independent Community Bankers of America) announced the extension of the agreement between the two organizations establishing Farmer Mac as a preferred service provider for ICBA-member institutions.

The renewal agreement adds two 15-year VRM products with special pricing exclusive to ICBA members. Additionally, ICBA members will benefit from a streamlined process to apply to Farmer Mac for Seller status.

Education Center

A Wealth of Information on All Farmer Mac Programs

Questions about AgPower® LOS? About the Purchase Commitment (LTSPC) product? Farmer Mac conducts many webinars each month. Those with universal messages are recorded and posted to the Farmer Mac website. To check out the options, go to www.farmermac.com and select “Webinars” on the home page.

Farmer Mac Financial News

Update from Farmer Mac's Capital Markets Team - Interest Rates. . . Where Have They Been and Where Are They Going?

The Federal Reserve took a more cautious tone in its economic outlook and voted to extend its "Operation Twist" through the end of the year at its June 20 Federal Open Market Committee meeting. Additionally the Fed decided to maintain its low interest rate outlook through late 2014. The slow moving European debt crisis continues to chug along, despite the agreements reached on directly injecting bailout funds into Spanish banks, promoting a growth package, and forming a banking union at the EU summit. Given these headwinds and continued weak economic data in the U.S., we continue to believe rates will remain range bound in the near term.

Since, our last issue in May, the U.S. 10-year Treasury bond reached an all-time low of 1.453% on June 1 in response to a very weak May jobs report. Since the June 20 Fed decision the 10-year yield has been hovering in a narrow range between 1.55% and 1.70%. Farmer Mac continues to get great execution on its bond offerings in the capital markets which, considering the current market environment, makes it a great time to lock in intermediate and long-term rates.

Farmer Mac II

Sellers Are Reminded to Incorporate Farmer Mac II's Proper Name and Address on All Farmer Mac II Documents

Lenders are reminded that all Farmer Mac II documentation must refer to Farmer Mac II LLC and the correct address:

Farmer Mac II LLC
1999 K Street NW, 4th Floor
Washington, DC 20006