Farmer Mac Almanac

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

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Upcoming Events and News Updates

Sept. 10-12:	Missouri Independent Bankers Association Convention and Exhibition; Lake Ozark, MO
Sept. 10-14:	Road Shows in Findlay, OH; West Lafayette, IN; Bloomington/Normal, IL; Quincy, IL; Columbia, MO
Sept 18-20:	Road Shows in Billings, MT; Torrington, WY; Greeley, CO
Sept. 24-28:	Road Shows in Omaha, NE; Johnston, IA; Owatonna, MN; Fargo, ND; Sioux Falls, SD
Oct. 2-5:	Road Shows in Tifton, GA; Birmingham, AL; Jackson, MS; Memphis, TN
Oct. 6-9:	Independent Bankers Association of Texas Annual Convention; Austin, TX
Oct. 9-12:	Road Shows in Victoria, TX; Waco, TX; Tyler, TX; Lubbock, TX
Nov. 4-7:	American Bankers Association National Agricultural Bankers Conference; Milwaukee, WI

Farmer Mac Reports Continued Momentum in Second Quarter 2012

On August 9, Farmer Mac reported second quarter 2012 results with record core earnings and growth in program assets while maintaining strong credit quality. Farmer Mac's core earnings, a non-GAAP measure, were $12.9 million, up from $10.0 million in the second quarter of 2011. Core earnings benefited from higher net effective spread of $27.2 million, compared to $21.0 million in second quarter 2011. This higher net effective spread was partially offset by net provisions to the allowance for losses of $0.2 million, compared to net releases of $0.8 million for the second quarter 2011. The full press release appears on the Farmer Mac website. Select "About Us" and then "Corporate News."

Dave's GPS

Keeping Up with Dr. David Kohl through Farmer Mac

With Dr. Kohl having observed many drought-stricken crops during his summer travels, this month's "**Dave's GPS**" delves into discussions lenders should be having with their borrowers in light of these conditions. From checking profit/loss levels through various scenarios to examining tax liabilities before liquidating livestock, Dr. Kohl offers his thoughts about how lenders should be managing their agricultural portfolios during these stressful times. Dr. Kohl ends his discussion with a lender tip about how more and more producers are expecting their lenders to take time to provide financial analysis as a value-added service.

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 one of his ten key indicators (Purchasing Manager Index) moving from green to yellow this month, read about Dr. Kohl's insights into both global and domestic economics and why his 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

Farmer Mac Road Shows Hit the Road

Farmer Mac staff is on the road again, taking the Farmer Mac story to ag lenders in the Midwest and Southeast. The shows begin in Ohio on September 10 and will continue into October, visiting 21 locations in 17 states: Alabama, Colorado, Georgia, Illinois, Indiana, Iowa, Minnesota, Missouri, Mississippi, Montana, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Texas and Wyoming.

From every indication, it appears the 2012 shows will be another hit. Attendees from prior years consistently report they are a great way to begin the new lending season. This year's sessions highlight discussions on recognizing and interviewing potential borrowers, Farmer Mac loan products/pricing and underwriting submissions that reflect the financial impacts of drought on a farm operation. Several interesting case studies will help attendees understand the materials by applying underwriting guidelines through a simulated loan submission. Another segment allows participants to see how some Sellers have marketed Farmer Mac to their customer base.

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 hear other lenders share their strategies in working with their farm customers and to hear Farmer Mac staff discuss underwriting submissions that reflect the financial impacts of drought on a farm operation. Click here to view the registration page.

Maximum LTV for AgEquity 10-Year Revolver Will Increase to 50 Percent

Beginning September 10, 2012, the maximum LTV for the AgEquity 10-year revolving option will increase to 50 percent, matching the requirement for the 5-year revolver. Formerly, the maximum LTV for the 10-year option was 45 percent.

This change has been incorporated into Chapter 209.1 (AgEquity Revolving Line of Credit, Product Description) 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."

Procedures Change for Borrower with Existing Loan Adding an AgEquity Loan

Farmer Mac allows borrowers that have an existing Farmer Mac loan to have an AgEquity loan secured by the same collateral. In the past, the existing loan mortgage was subordinated to the new AgEquity mortgage which put the AgEquity mortgage in a first lien position ahead of the existing mortgage.

Beginning immediately, the AgEquity mortgage will be recorded in a second position behind the existing mortgage securing the older loan. The AgEquity mortgage must reference both loans and the combined loan commitment on both loans. The new AgEquity note must be cross-collateralized and cross defaulted with the existing note.

The process for a new AgEquity loan and a new real estate loan is to record one mortgage that references both loans and combined commitment. Both new notes must be cross defaulted.

This change has been incorporated into Chapter 209.3 (AgEquity Revolving Line of Credit, Eligible Loans, Second Mortgage Position/Multiple Loans) 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."

How to Handle Multiple Property Owners in AgPower® LOS

Since AgPower® LOS allows for only one person or entity to be designated as the primary borrower, Farmer Mac receives questions from Sellers as to whom to designate as the primary borrower.

The primary borrower designated for the loan should be the person or entity whose name appears at the top of the note and who is primarily responsible for the debt. If a husband and wife together hold title, they are considered one entity and that entity is listed as the primary borrower. The person designated as the primary borrower will receive the 1098 from Farmer Mac's central servicer at year-end, necessitating the need for that person to issue 1098-nominees to co-borrowers for tax purposes.

Farmer Mac allows for cases where the primary borrower is not also the owner of the security. In those cases, the security holder will sign the mortgage at loan closing.

Be Watching: Farmer Mac Announcements Will Arrive Via Special Announcement Screen

Beginning soon, special announcements will be placed on a message screen built into the secure area of the Farmer Mac website. The screen, which will appear right after a successful login, will be a one-time event for the user once the announcement has been launched. The website announcement page will replace the scrolling banner that Farmer Mac has used in the past.

Several Farmer Mac I Underwriting Guidelines Changed on August 15

As announced in the July *Almanac*, several Farmer Mac I Farm and Ranch loan underwriting criteria changed on August 15, including the following:

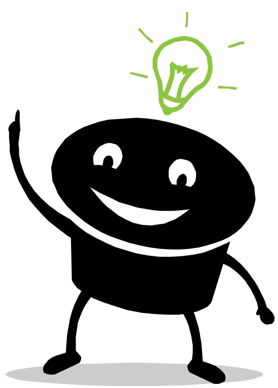
- The minimum current ratio (pro forma) increased to 1.25:1 for Standard loans and 1.50:1 for Choice loans, up from 1.00:1 and 1.25:1 respectively.

- The maximum LTV is now 60% (down from 70%) for the following nine states: North Dakota, South Dakota, Minnesota, Iowa, Illinois, Indiana, Ohio, Missouri and Nebraska

- For loans with an LTV greater than 60%, the total debt service coverage ratio (TDC) requirements 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.

- **The property debt coverage ratio (PDC) is no longer 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.**

These changes have been 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."



Credit Tip of the Month

Farmer Mac defines a cash-out refinance as a transaction allowing borrowers to receive proceeds in excess of what is required to refinance a first mortgage farm real estate loan and/or to make capital improvements to the property. AgPower® LOS calculates cash-out which includes closing costs, any non-real estate operating loans being refinanced and cash provided to the borrower at closing.

Procedures for cash-out requests are as follows:

- Loans where the cash-out request represents 25% or more of the loan proceeds are limited to a maximum LTV of 60% (50% for loans greater than $3.0 million) and an amortization not to exceed 15 years.

- Cash-out applicants must disclose the use of cash proceeds. This should be explained in the loan narrative. When cash will be used for capital expenditures, the pro forma income statement should reflect the economic benefits derived including those of increased depreciation expense.

- Control of funds may be required upon recommendation from the Farmer Mac underwriter and is typically put in place when the cash will be used for the development of permanent plantings.

The Glossary of the Farmer Mac Seller/Servicer Guide is being updated to reflect Farmer Mac's definition of a Cash-Out Refinance. 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."

Alliance Update

Hear Directly from Bankers — Come to Farmer Mac's Workshop at the American Bankers Association (ABA) National Agricultural Bankers Conference

Farmer Mac's workshop will be one of thirteen offered at the ABA National Agricultural Bankers Conference in Milwaukee November 4-7. The perennial conference is a popular fall forum bringing together industry leaders to identify and discuss the latest issues affecting the ag lending environment.

This year's general sessions are structured to help bankers navigate pitfalls in agriculture's current super cycle – revealing the perspective of both the banker and the farmer. Attendees will hear a number of timely topics including an update on the Farm Bill and farm policy, insight into the health of the global economy and what to expect for weather in 2013.

Farmer Mac's workshop titled "Agricultural Jenga-Tower of Risk" will feature bankers explaining how they use Farmer Mac programs to transfer credit risk while helping farm customers lock in low rates. Send us an email to let us know you are attending so we can plan to visit with you.

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?

Central bank activity is still driving the global capital markets. Weak global economic numbers and the slow-moving European debt crisis are forcing central banks to consider new stimulus actions. The belief that central banks will do anything to keep economies moving forward has caused financial markets to perform well despite a weaker economic outlook. Given continued weak economic data, the 2013 fiscal cliff in the United States, and central bank interventions, Farmer Mac capital markets continues to believe rates will remain range-bound in the near term.

Since the July *Almanac,* the 10-year Treasury bond reached another all-time low of 1.388% on July 24 due to expectations of a third round of quantitative easing from the Federal Reserve (QE-3) before the end of August. However, a better-than-expected jobs number in early August caused the markets to rethink the timing of QE-3, driving 10-year yields to 1.835% on August 16. Since August 16, the 10-year yield has moved lower to 1.67% on very light market activity. 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.

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Farmer Mac was chartered by Congress in 1987 and has seen its charter expanded three times, as recently as 2008. Farmer Mac is regulated by the Farm Credit Administration and has always been subject to the regulations of the Securities and Exchange Commission, including those requiring the filing of periodic financial reports. Farmer Mac's voting and non-voting common stock is traded on the NYSE, ticker symbols AGM.A and AGM.