

# Farmer Mac Almanac

VOLUME 33

JANUARY 14, 2013



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

## Upcoming Events and News Updates

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- Jan. 21: Farmer Mac closed for Martin Luther King, Jr. Day
- Jan. 24-25: Utah Bankers Association 2013 Ag Outlook and Conference; Thanksgiving Point, UT
- Feb. 13: Farmer Mac Refresh: Legislation and the Farm Bill in the 113<sup>th</sup> Congress – Update and Discussion
- Feb. 17-20: American Bankers Association National Conference for Community Bankers; Orlando, FL
- Feb. 18: Farmer Mac closed for Presidents' Day
- Feb. 26: Oklahoma Bankers Association Rural Bankers/Ag Bankers Conference; Oklahoma City, OK
- Mar. 11-15: Independent Community Bankers Association National Convention and Techworld; Las Vegas, NV
- Mar. 13: Farmer Mac Refresh: The US Economy and Its Effects on Farmer Mac Rates
- Mar. 13-14: Kansas Bankers Association Ag Bankers Conference; Manhattan, KS
- Mar. 28-29: Montana Bankers Association Ag Banker Conference; Bozeman, MT



## Farmer Mac Launches 25<sup>th</sup> Year Anniversary Celebration

2013 marks a major milestone for Farmer Mac. Twenty-five years ago on January 6, 1988, President Ronald Reagan signed the Agricultural Credit Act of 1987. The act

created Farmer Mac as the primary secondary market for agricultural loans. At a time when farmers and ranchers were trying to recover from a farm depression that crippled a large portion of the nation's ag economy due to low commodity prices, plummeting land values and high interest rates, the legislation was designed to bring relief. Though the Federal Funds Effective Rate hovered around 7 percent, half of what it had been just a few years earlier, farmers were still challenged to make payments on their loans, especially those with variable rates.

Farmer Mac's secondary market mission was clear: to increase the availability of long-term credit at stable interest rates for America's farmers and ranchers.

In the 25 years since the original legislation was enacted, Farmer Mac's cumulative business volume to fund rural America has exceeded \$29 billion. Congress has revisited Farmer Mac's authorities four times. Legislative amendments over the years have included authorities to purchase and guarantee securities backed by the guaranteed portions of USDA-guaranteed loans as well as to purchase loans by cooperative lenders to borrowers to finance electrification and telecommunications systems in rural areas.

Farmer Mac's corporate governance structure is designed to help fulfill its goals and objectives to benefit its stakeholders. The composition of Farmer Mac's Board of Directors represents a variety of geographic and agricultural backgrounds providing insight into the variety of rural constituencies Farmer Mac serves. Conservatively managed, the company has a history of building creative products for ag lenders to manage risk.

Farmer Mac's milestones over its 25 years are a reflection of its support of the rural and agricultural financial community:

- Over 1,300 agricultural lenders have transferred interest rate risk and/or credit risk to Farmer Mac on more than 58,000 loans.
- Nearly 29,000 farmers and ranchers have benefited from competitively-priced Farmer Mac loan products, including 20,000 small and family farmers, with over half locking in long-term fixed rates for up to 25 years.
- Over 4 million rural residents receive dependable power from 162 Rural Electric Cooperatives that have obtained financing through Farmer Mac. In addition, during the financial crisis of 2008, Farmer Mac provided \$1.5 billion in funding for a nationwide electric cooperative network to help maintain low utility rates.
- Through \$10 billion of loans placed into Farmer Mac's purchase commitment program, lending capacity of farm lenders has increased \$7 billion, enabling farm operations and other agribusinesses to grow and expand.

As Farmer Mac moves into its 25<sup>th</sup> year, it is committed to continue to fulfill its mission through creative product innovation, effective funding strategies, efficient processes, and dependable customer service.

Farmer Mac will be commemorating its anniversary throughout 2013 on its website and in presentations and communications. A special logo will be featured as Farmer Mac pays tribute to the many ag lenders and other businesses that have supported Farmer Mac through the years and benefited from its services.

## Dave's GPS

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

Highlights from the 60<sup>th</sup> annual American Bankers Association (ABA) Agricultural Bankers Conference in Milwaukee this past November are featured in this issue's "Dave's GPS." Under the title "Super Conference Focusing on the Super Cycle?," Dr. Kohl lists and describes eight of his most important takeaways from the conference.

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 two of his ten key indicators (Purchasing Manager Index and Unemployment Rate) improving this month, read about Dr. Kohl's insights into both global and domestic economics and what he sees on the interesting road ahead.

*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 Announces "Farmer Mac Refresh" 1<sup>st</sup> Quarter 2013 Schedule

Live webinars are a great way to learn about Farmer Mac and to stay current. The monthly "Farmer Mac Refresh" sessions – typically held on the second Wednesday of each month – are popular. Farmer Mac webinars are interactive and allow for questions from participants. Many of them include guest panelists.

Be watching for the invitation. Registration takes place on the Farmer Mac website under "Calendar of Events." The two upcoming webinars are as follows:

February 13: Legislation and the Farm Bill in the 113<sup>th</sup> Congress – Update and Discussion  
 March 13: The US Economy and Its Effects on Farmer Mac Rates

The January topic was "Exploring USDA Guaranteed Loan Opportunities in 2013." The session was recorded and placed on [www.farmermac.com](http://www.farmermac.com). To listen, select "Webinars" on the website's homepage.

## Farmer Mac Annual Certification Goes Online

Annual Farmer Mac certifications are now easier than ever! Once primary contacts receive the recertification reminder from Farmer Mac in January, the new process will be simply to log into the secure area of the Farmer Mac website and click on “Annual Certification.” The screen will display the recertification form. The user will be asked to enter three pieces of information: his/her title, the Seller’s previous year-end net worth and fiscal year net income. The date field will fill automatically. A click on “Update” completes the process. A screen will announce completion of the task and that the Annual Certification Form has been successfully updated.

Recertification is a good time for Sellers to review both the corporate and loan-specific representations and warranties listed in the Farmer Mac Seller/Service Guide. Farmer Mac relies on the integrity of the information provided by Sellers at the time loans are purchased or placed under Farmer Mac’s Long-Term Standby Purchase Commitment (LTSPC) program. The information provided by the applicant must be properly verified, analyzed, documented and presented to Farmer Mac, including the appraisal of the collateral supporting the loan. Sellers fulfilling the field servicing responsibilities post-acquisition by Farmer Mac have ongoing responsibilities and these, too, may be referenced in the Seller/Service Guide. If Farmer Mac determines at any time during the life of the loan that the representations and warranties were false when made, the Seller may be required to either repurchase the loan or cover Farmer Mac for losses it may incur on the loan.

Seller responsibilities, representations and warranties are listed and discussed in Chapter 304 of the Farmer Mac Seller/Service Guide. Farmer Mac encourages Sellers to review these regularly for any updates.

## Maximum Loan Size Increased to \$11 Million

Effective immediately, the maximum amount for a loan to be qualified for a Farmer Mac I program has been increased to \$11.0 million (formerly \$10.1 million) for loans secured by more than 1,000 acres. The maximum loan size for loans secured by 1,000 acres or less remains at \$30 million.

*This change has been incorporated into Chapter 201.1 (Credit Standards and Guidelines, Overview, Summary) of the Farmer Mac Seller/Service Guide. The definition of “Maximum Loan Size” in the Glossary of the Guide has been updated as well. 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/Service Guide” and select “Read More.”*

## Loan-to-Value Standard Changes for Large Loans

Effective immediately, Farmer Mac’s loan-to-value maximum of 70% applies for loans up to and including \$5.0 million. Formerly, the largest loan for which the 70% LTV maximum applied was \$3.0 million. Once the loan amount exceeds \$5 million, the maximum loan-to-value is limited to 60%.

The 70% maximum loan-to-value is in effect for all but nine Midwestern states where, as announced during 2012, the maximum loan-to-value remains 60% for all loans.

*This change has been incorporated into the chapters that comprise Part 2 of the Farmer Mac Seller/Service 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/Service Guide” and select “Read More.”*



## Credit Tip of the Month

In cases where the applicant's spouse does not wish to accept personal liability on the loan and there is no prenuptial agreement in place, Farmer Mac requires the pro forma balance sheet be prepared with 50% of the net worth of the individuals as a term liability with a 25-year amortization. This amortized payment will also need to be included in the pro forma Total Debt Coverage ratio. This will allow analysis of the potential impact of dissolution of the marriage on the borrower's leverage position and ability to service debt. The loan must meet Farmer Mac underwriting standards when the potential impacts are taken into account.

## Alliance Update

### Invitation for ABA Members Attending the ABA Community Bankers Conference February 17-19

ABA member bankers who plan to attend the ABA Community Bankers Conference in Orlando in February should stop by Farmer Mac's booth and also attend the Tuesday morning Farmer Mac Industry Provider Workshop. Conferences such as this provide the perfect opportunity to meet Farmer Mac staff and learn first-hand about Farmer Mac products and pricing and of the Alliance between Farmer Mac and ABA Business Solutions. The Alliance brings to ABA members a bevy of products at discounted rates.

As a sponsor, exhibitor and presenter, Farmer Mac will be quite visible at the conference to help attendees learn the benefits Farmer Mac brings to community banks serving rural constituencies.

## 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](http://www.farmermac.com) and select "Webinars" on the home page.

## Financial News

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

Resulting from the lengthy debate over actions needed in response to the fiscal cliff, Congress and President Obama passed legislation that would keep income taxes from increasing (as much as they otherwise would have) on the majority of Americans in 2013. Still, most Americans will be

paying higher taxes overall in 2013 due to the expiration of the 2% payroll tax cut, which was not extended in the most recent deal. The legislation only managed to avert for two months mandatory across-the-board spending cuts and did not address the looming debt ceiling. These two issues will be in the forefront for the next few months.

Interest rates have climbed towards levels last seen in April 2012. However with the Federal Reserve continuing purchases of mortgage-backed securities and long-term Treasuries, rates should remain near historic lows. Higher payroll taxes and uncertainty due to the debt ceiling debate may keep GDP growth muted, which could help keep interest rates range-bound. Strong job growth, a smooth debt ceiling extension and 3% or higher GDP are factors that could cause interest rates to move higher in the medium term.

## Farmer Mac II News

### A USDA Rural Development B&I Loan Combined with Farmer Mac II Will Help an Important Business in an Illinois Community

Jacksonville, Illinois is located in the west-central part of the state, approximately 35 miles west of Springfield. The town's population is approximately 20,000 and healthcare is among the businesses.

The Grammy-winning album "Stones in the Road" by singer-songwriter Mary Chapin Carpenter features the song "John Doe #24," describing a blind and deaf man who was found wandering the streets in Jacksonville in 1945. The man was eventually hospitalized for diabetes and kept in various institutions until he died nearly 50 years later in 1993.

Healthcare in Jacksonville can be traced back to 1851 and the Jacksonville Developmental Center (JDC), an institution for developmentally challenged clients. A facility with similar healthcare objectives, Pathway Services Unlimited, opened in 1964. Pathway Services provides education, training, medical, dental services and vocational training to these individuals.

With the closing of JDC last month, the success of Pathway Services became even more important to the community. Pathway employs over 200 people and provides services to hundreds of individuals. As their mission grew, so did Pathway's need for a larger and more suitable space. An abandoned discount department store looked like the perfect place to enable them to consolidate their five locations into one building.

Seeing an opportunity to support their community, the First National Bank of Arenzville helped provide a \$4.5 million construction and renovation loan. Once complete, Pathway wanted term financing to take advantage of low, long-term fixed rates.

Since this large loan exceeded the bank's lending limit, they needed a partner. They chose to use the USDA-Rural Development Business and Industry Loan Program and to partner with Farmer Mac to accomplish their goal. This meant the bank would hold approximately \$900,000 of the unguaranteed portion and sell \$3.6 million to Farmer Mac II LLC, Farmer Mac's subsidiary that operates the Farmer Mac II program for USDA guaranteed loans.

Pathway ended up with a 20-year fixed rate loan that fit their long-term budgetary needs. Keeping fixed costs low and predictable, the business is able to focus on their developmentally challenged clients and to work to offer a greater variety of services to a larger number of individuals.



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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.