

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.

Upcoming Events and News Updates

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- May 30: Community Bankers Association of Illinois Ag Lenders' Conference; Springfield, IL
- June 10-11: Minnesota Bankers Association Agriculture Conference; Rochester, MN
- June 24-26: NACS/NASP/NSE/NADD National Convention; San Diego, CA
- July 10-12: Upper Midwest Ag Credit Council 59th Annual Summer Conference; Lead, SD
- July 11-12: New York Bankers Association Northeast Agribusiness Seminar; Geneva, NY
- July 17-19: Community Bankers of Iowa 42nd Management and Annual Convention; Okoboji, IA
- July 24-27: Community Bankers Association of Kansas 35th Annual Convention and Tradeshow; Wichita, KS

Farmer Mac Reports Strong First Quarter 2013 Results

On May 9, Farmer Mac reported strong first quarter 2013 results as it grew its total outstanding business volume to a new high of \$13.4 billion as of March 31, 2013, compared to \$13.0 billion as of December 31, 2012 and \$12.1 billion as of March 31, 2012. New business volume for first quarter 2013 was \$904.1 million, including the purchase of \$425.0 million in AgVantage securities. Farmer Mac's first quarter 2013 results also included solid GAAP net income and non-GAAP core earnings and the continuation of good credit quality in the portfolio.

The full press release appears on the Farmer Mac website. Select "About Us" and then "[Corporate News](#)."

Part II: Reflections from Farmer Mac's First 25 Years: How We Got to Where We Are - A Longtime Participant Looks at Farmer Mac's Past to Explain Its Present Success

Soon after President Clinton signed the 1996 legislation that streamlined the operating structure of Farmer Mac to allow it to issue guaranteed securities backed by qualified farm mortgages purchased directly from originating lenders, Zions First National Bank of Salt Lake City started a new company.

Zions Agricultural Finance was designed to function solely in the secondary market for ag real estate loans both as an originator of farm loans as well as a Farmer Mac central servicer. The action to establish the new company represented a logical extension of the parent bank's history, both in agricultural-based lending and investment in Farmer Mac. Rod Avey was named Manager of the new organization whose headquarters were placed in Ames, Iowa. From his home base in the college town, Rod remembers those early days of building the program and reminisces:

"I believe the primary reason that Farmer Mac's programs are so successful today is the fact that Farmer Mac, early on, addressed loan product diversification and rate competitiveness."

"The beginning stages of the Farm and Ranch program were limited to only fixed-rate loan products with restrictive prepayment limitations. With overall interest rates declining in the mid-90s, many borrowers were not interested in locking rates for a long period of time. Farmer Mac was innovative in providing adjustable rate mortgages to meet the current demand at that time."

"Farmer Mac mushroomed in the early 2000s to provide a wide and diverse array of loan products, both short-term and long-term, to meet the continuing needs of our farm borrowers."

"We are happy to be part of the early success of Farmer Mac and have confidence that new challenges will continue to be met with innovative products and lending solutions."

Dave's GPS

Keeping Up with Dr. David Kohl through Farmer Mac

The idea for this issue's "Dave's GPS" came to Dr. Kohl while attending the recent Texas Bankers Association Agriculture and Rural Affairs Conference where a participant asked him if he had any advice for ag lenders just entering the field. Appropriately, the title of this issue's "**Dave's GPS**" is "Advice for Young Lenders."

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 this being the second straight issue where Dave reports one of his ten key indicators improving (Housing Starts this month), read about Dr. Kohl's insights into both global and domestic economics and what he sees of 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 Credit Corner

New “Lifestyle Ranch” Product Addresses the Lure of Country Living

A new product is now available for Farmer Mac Farm & Ranch Sellers. With the idea for the product originating in the Texas hill country, the “Lifestyle Ranch” option is meant for customers purchasing or refinancing farm or ranch properties for lifestyle purposes. Properties must consist of at least 60 acres and have feasible and intended agricultural crop or livestock production on the property. While the maximum LTV on the property can be 70% (60% in the nine designated states) the value of any dwelling and building improvements should not exceed 25% of the total appraised value.

The maximum loan amount is \$3 million, and the product requires monthly payments. Both the market’s highest and best use and the market sales used to influence the value of the property cannot include land subdivision or commercial development potential for purposes of appraisals. Cash-out requests are considered an ineligible use of loan funds.

To submit a “Lifestyle Ranch” loan to Farmer Mac underwriters, Sellers select “Lifestyle Ranch” in the “UW Type” drop-down box on the AgPower® application screen. The Underwriting Guidelines can be found on our website under [“Farm and Ranch Mortgage Loans.”](#)

Next “Farmer Mac Refresh” Scheduled for Wednesday, June 12

Live webinars have proven popular as a way for ag lenders to learn about Farmer Mac programs and to stay current. Be watching for invitations to upcoming “Farmer Mac Refresh” events:

Introducing Lifestyle Ranch: A New Option for a Special Niche of Rural Borrowers

Registration takes place on the Farmer Mac website under [“Calendar of Events.”](#)

Credit Tip of the Month

Cash-out requests allow borrowers to receive funds at closing which are above and beyond the cost of the transaction. In the case of Farm & Ranch Full Underwrite loans, if the cash-out request represents 25% or more of the loan proceeds, the maximum LTV is limited to 60% (50% for loans greater than \$5.0 million) and the amortization is limited to 15 years.



There are no restrictions for cash-out for Fast Track loans.

- Farmer Mac considers the following items as cash-out:
- Refinancing short- or intermediate-term loans
- Cash provided directly to the applicant
- Cash for loan fees and all other out-of-pocket loan closing costs

ABA Alliance/ICBA Program Update

April and May “Farmer Mac Refresh” Webinars Feature Program Benefits to ICBA and ABA Member Banks

Farmer Mac’s monthly webinar series, “Farmer Mac Refresh,” is an effective vehicle for updating ABA (American Bankers Association) and ICBA (Independent Community Bankers of America) members about the benefits derived from a dual membership in Farmer Mac and either or both of the national banking organizations.

The May 15 webinar, “ABA and Farmer Mac: The Alliance that Brings Dividends,” featured representatives of three ABA members discussing their experience using Farmer Mac:

- David Lantz, Frontier Bank of Rock Rapids, IA
- John Alf, First Community Bank in Milton, WI
- Jim Persinger, First Dakota National Bank of Ogallala, NE

The webinar was recorded and posted at www.farmermac.com. To view and listen, click on “[Webinars](#).”

Knowledge Center

A Wealth of Information on All Farmer Mac Programs

Questions about AgPower®? Farmer Mac II? 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.

Financial News

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

The last two months have seen lower inflation and weaker than expected GDP (Gross Domestic Product) readings, empowering the Federal Reserve (Fed) to keep its quantitative easing program going. This program has been the primary driver of lower interest rates and higher stock markets since the end of February.

However, the stronger than expected jobs report on May 3 caused a reversal in rates over the past few days, with the 10-Year Treasury moving up 15 bps to 1.79% since May 2. The 10-Year Treasury is still slightly lower than the 1.87% reading on February 28, but speculation is beginning to creep in that the Fed unemployment target will come sooner than previously expected. Thus, its quantitative program may slow down.

If the Fed begins to slow down its purchases of treasuries and mortgages, longer term interest rates will likely continue to move higher. However, lower inflation readings may keep the Fed on the acceleration pedal further as other countries, such as Japan, are weakening its currencies to make its exports more competitive against the United States. In addition, if we see a spring and summer slowdown like the last three years, then that could be another driver of lower interest rates.

Farmer Mac II LLC

USDA Interim Rule Sets Thresholds on Interest Rates for Guaranteed Loans

On March 1, the USDA announced an interim rule on Farm Service Agency (FSA) guaranteed loans tying the maximum rates lenders may charge on those loans to nationally published indices. With the FSA guarantee program benefitting the lender through reduced credit risk and credit cost, this rule illustrates the agency's intention for the borrower to share in those benefits in the form of a lower interest rate. The interim rule sets maximum allowable spreads as follows:

- 650 bps above the 3-month LIBOR for variable rate loans and those fixed for less than five years
- 550 bps above the 5-year Treasury for loans fixed for five years or more

Exceptions are made for lenders who use a formal written risk-based pricing practice in which case, the rate must be at least one risk-tier lower than the borrower would receive without the guarantee. The rule went into effect May 3, 2013.

Dispelling Myths about the USDA Business and Industry (B&I) Guaranteed Loan Program

A recent interview with **Pandor H. Hadjy (USDA Rural Development, Deputy Administrator - Business Programs, Rural Business-Cooperative Service (RBS))** and **John H. Broussard (Director RBS B&I Division)** was eye-opening, providing important updates about the availability and accessibility of funds for the B&I Guaranteed Loan program. The two gentlemen welcomed the opportunity to take a few minutes out of their day to speak with Farmer Mac, appreciating an additional vehicle to tell their story to rural populations and dispel myths.

Lenders are often surprised when they learn that the same low Farmer Mac II rates that apply to the USDA FSA (Farm Service Agency) guaranteed loans are the same rates that apply to the USDA Rural Development, B&I guaranteed loans, which can reach \$10 million and higher per loan.

Myth 1: USDA B&I Guaranteed Loan funding for 2013 is greatly reduced or nonexistent.

Funding for the USDA B&I program in 2013 is expected to reach the \$1 billion level, similar to the funding available in 2012.

Myth 2: All types of companies receive the same priority in the B&I approval process.

B&I loans are available to a wide array of businesses with the purpose to encourage the financing of businesses located in rural communities with an emphasis on creating and saving jobs and improving the economic and environmental climate. Depending on the general economic environment at any point in time, certain types of businesses may receive special consideration. Currently manufacturing and bio-based companies are among the top priorities. However, many different types of businesses can be assisted. While applications from nonprofit institutions may be approved for a B&I guarantee, most of them are best suited for the USDA Rural Development Community Facility (CF) Loan Program and are therefore redirected to that program. However, if a non-profit cannot receive assistance via the CF program, many times as a result of a different rural area definition, they could be considered under the B&I Guaranteed Loan Program.

Myth 3: B&I loans take a long time to receive approval and funding.

Once a complete application is received, funding often will take place within 45 days. Applications that require construction, environmental impact studies or public notices will require extra time. If loans fall within the approval authority of the state director (typically capped at \$7.5 or \$10 million), no additional consideration at the federal level is necessary.

Myth 4: B&I guarantees must cover the costs of the entire project.

B&I guarantees don't have to fund the entire project. In fact, the USDA prefers applications that involve other investors, either private or government-based. The typical B&I loan size is \$3 million.

Myth 5: USDA staff is difficult to work with.

Customer satisfaction scores for the agency consistently hit over 80 (out of 100) and are the highest among all federal agencies. The B&I Guaranteed Loan Program has ranked the highest of any other federal program in customer satisfaction.

Myth 6: The USDA requires lots of forms to complete an application.

Lenders use their own forms with only two being USDA-based: the application and the request for environmental information required with each application.

Myth 7: Upfront fees are always 3% of the guaranteed amount.

The upfront fee may be 2%, the fee applicable to high impact businesses in areas of persistent poverty, long term population decline and job deterioration, experienced trauma from a natural disaster and experiencing change in its economic base.

Myth 8: B&I loans only work for communities with population no greater than 20,000.

The B&I program covers any areas other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town. Additional information is available on the USDA website at:
for rural area definition within instructions at:

<http://www.rurdev.usda.gov/SupportDocuments/4279b.pdf>

Or insert your project specific address within the following site eligibility determination website as follows:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=RBSmenu&NavKey=property@13>



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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.