

Farmer Mac Almanac

VOLUME 36

JULY 15, 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) or via opportunities@farmermac.com.

Upcoming Events and News Updates

INSIDE THIS ISSUE:

Upcoming Events and News 1

Dave's GPS 3

Farmer Mac Credit Corner 3

Knowledge Center 5

Farmer Mac Financial News 5

Farmer Mac II LLC 6

- July 17-19: Community Bankers of Iowa Management and Annual Convention; Okoboji, IA
- July 24-27: Community Bankers Association of Kansas Annual Convention and Tradeshow; Wichita, KS
- July 25-28: Independent Community Bankers of South Dakota Retreat; Custer, SD
- August 7: **Farmer Mac Refresh: Getting Started in AgPower®**
- August 7: University of Tennessee Martin Mid-South Agricultural Finance Conference; Martin, TN
- Aug. 11-13: Independent Community Bankers of North Dakota Convention; Bismarck, ND
- Aug. 14: Community Bankers of Iowa State Fair Conference; Altoona, IA
- August 14: **Farmer Mac Refresh: The Balance Sheet in AgPower®**
- August 21: **Farmer Mac Refresh: Income and Expense Analysis in AgPower®**
- Aug. 21-22: Illinois Bankers Association Ag Banking Conference; Springfield, IL
- Aug. 21-22: South Dakota Bankers Association Ag Credit Conference; Pierre, SD
- August 28: **Farmer Mac Refresh: AgPower® - Final Steps and Loan Submission**

Farmer Mac Rings New York Stock Exchange (NYSE) Closing Bell

Farmer Mac President and Chief Executive Officer Tim Buzby rang the closing bell of the NYSE on Tuesday, July 9, in celebration of the company's 25th anniversary. Farmer Mac management team along with Board of Director Vice-Chairman Myles Watts, investors and customers were on hand to join in the celebration. Farmer Mac's NYSE listing date was June 18, 1999, moving from the NASDAQ at that time. Readers can view the event by clicking on the link below:

<http://www.youtube.com/watch?v=Os-WOob1OO0>

Reflections from Farmer Mac's First 25 Years: How We Got to Where We Are

Longtime Participant Looks at Farmer Mac's Past to Explain Its Present Success

The 1996 Federal legislation that streamlined Farmer Mac's 1988 business model changed the landscape of agricultural lending in the United States, giving additional inspiration to businesses wanting to access the ag real estate secondary market. One of those entities, American Farm Mortgage, was founded in Louisville, KY in 1989.

American Farm Mortgage's founders designed the company to function as an originator of loans in the newly created ag real estate secondary market. Having seen first-hand the economic challenges of the 1980s which exposed the risk of variable rate loans for farm mortgages, the creators saw the importance of being able to offer stable and competitive long-term fixed rates to farmers and ranchers.

Kathy Daily has been president of the company since 1998, guiding the expansion to cover all states; 39 are represented in their current portfolio. Because the company's top priority is to meet the needs of all types of farm and ranch customers, their expertise and experience includes both secondary market and guaranteed loans. "We just completed a transaction with a Nevada farm family, securing a Farmer Mac Farm & Ranch loan for the father and USDA loans for each of the two sons," relates Kathy. She attributes the company's growth to word-of-mouth referrals, an informative website, participation in agricultural trade shows and tying into "centers of influence" in rural communities.

We reached Kathy in her Louisville office recently and asked her to identify some of the reasons for their success and how Farmer Mac has changed over the years:

"One of the big changes we see is the public's name recognition of Farmer Mac, not only among ag lenders but among farmers and ranchers as well. In the early days, few understood Farmer Mac. Now, we are constantly reminded how many farmers and ranchers know what Farmer Mac is, in spite of the fact that Farmer Mac is not a direct lender.

"We work directly with farmers and ranchers but we also offer our services to ag lenders. Our support frees them up to build relationships with their customers and focus on their short-term borrowing needs.

"We see three reasons behind Farmer Mac's success: open-prepay products without penalties, efficient automated underwriting through AgPower® and truly competitive rates."



Dave's GPS

Keeping Up with Dr. David Kohl through Farmer Mac

In his article this month, appropriately titled **“Q & A with Dr. Dave,”** Dr. Kohl “zeros in” on four of the most frequently asked questions he receives from ag lenders and producers.



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 Dave reporting four of his ten key indicators changing this month (one improving and the three deteriorating), 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

With rollout just completed, several Lifestyle Ranch loans have already received approval from Farmer Mac underwriters including loans for properties in Kansas, Oregon and Texas.

Mark Dunn (Zions Agricultural Finance) and Diane Ludwig (CGB Agrifinancial Services) were among the first submitters to “take the bull by the horns” with completed and planned submissions including loans to:

- A business wishing to purchase 320 acres, a mixture of tillable acres, timberland and pasture for entertaining clients
- A business-owner purchasing 50 acres of pasture to raise cattle
- A physician purchasing a 200-acre property with both pasture and wooded acres, perfect for cattle and hunting

Mark and Diane say that for their submissions, the common denominator has been wage-earners purchasing or refinancing pasture land with a recreational component. Diane reports that “the product simplifies the approval process for individuals who rely primarily on W-2 or other non-farm income sources for repayment.” She adds that generally these individuals do not have a complicated financial structure and often do not maintain annual financial statements. And while

the appraisal must meet Farmer Mac regular appraisal requirements, she feels the nature of these properties simplifies the process. She says her first loan took only 35 days to complete, from origination to closing.

The idea for the Lifestyle Ranch originated in the Texas "hill country" and is meant for customers purchasing or refinancing farm or ranch properties, most likely for lifestyle and recreational purposes rather than residential. Properties must consist of at least 60 acres and have feasible and intended agricultural crop or livestock production. While the maximum LTV can be 70% (60% in nine designated states), the value of any dwelling and building improvements should not exceed 25% of the total appraised value.

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.

Learn more by listening to a recorded webinar posted on the Farmer Mac website. Select "Webinars" and then click on the June 12 Farmer Mac session titled:

"Lifestyle Ranch Properties: New Options for a Special Niche of Rural Borrowers"

Seller/Service Guide Updated Regarding Representations and Warranties

Sellers are responsible for making both corporate and loan-specific representations and warranties when selling qualified loans to Farmer Mac through the Farm and Ranch program. The five corporate representations and warranties currently listed in Chapter 304.2 are the following:

1. Seller authorized to do business.
2. Seller authorized to enter into Seller/Service Agreement.
3. Seller meets eligibility requirements.
4. Seller has full right to sell and assign loans.
5. No material litigation.

A sixth representation and warranty, labeled "no conflicts" is being added in order to encourage best practices among Sellers to ensure that compliance with Farmer Mac transactions does not conflict with organizational documents and other material agreements to which the Seller is a party.

Chapter 304.2 (Seller Responsibilities, Representations and Warranties, Corporate Representations and Warranties) of the Farmer Mac Seller/Service Guide has been updated to include the sixth corporate representation and warranty. 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 then "Read More."

Credit Tip of the Month



The maximum interest rate listed on the loan application is the maximum interest rate that can be rate locked. It is not necessarily the rate the applicants will receive on their loan. Be sure to include room in the maximum rate for your spread as the Seller and additional spread in case rates happen to increase.

Knowledge Center

August is “AgPower®” Month at Farmer Mac

AgPower® is the featured topic in a four-part webinar series scheduled for the four Wednesdays in August. A repeat of the popular sessions held in 2012, the webinars will begin at noon Eastern time and offer valuable tips, taking participants through the loan submission process from start to finish:

- August 7: Getting Started in AgPower®
- August 14: The Balance Sheet in AgPower®
- August 21: Income and Expense Analysis in AgPower®
- August 28: AgPower®: Final Steps and Loan Submission

See online registration at www.farmermac.com through “Calendar of Events.”

Farmer Mac Road Shows Slated for September—Watch for Invitation

The positive feedback received from the attendees of last year’s Farmer Mac Road Shows is playing an important role as plans are being put in place for the 2013 fall series, beginning in September. The dates and sites for the half-day presentations are still being finalized. The schedule and invitations will be announced in late July or early August.

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.

Financial News

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

Despite lower inflation and first quarter GDP (Gross Domestic Product) revised lower to 1.8%, rates rose significantly over the past quarter, with the 5 and 10 year Treasury rates up 63 and 64 basis points (bps), respectively. These changes were reflected in the Farmer Mac rates. Looking at the Farmer Mac I Farm and Ranch rates from the beginning of the second quarter to the end, while the short-term products (the 1-month and 1-year ARM) stayed virtually the same, the 5-year ARM rose by about 70 bps and the 15-year fixed rate rose by over 80 bps.

The primary driver of the rate rise is speculation that the Federal Reserve (Fed) will start to taper off its Treasury and mortgage purchasing operations earlier than expected. This speculation was triggered by the Fed's June 19, 2013, statement, noting upward revisions to its economic growth projections and that downside risks to the economy and labor market have diminished.

If the Fed's assertions are correct about employment and the economy, expect long term rates to continue to rise as Fed begins tapering it purchasing operations. However, the Fed has been clear

that any tapering is economic- and employment-data dependent, so if we see weakness in the employment figures and continued low inflation, then we could see a movement back to lower long-term rates.

Farmer Mac II LLC

Funding Update: USDA Farm Service Agency (FSA) Guaranteed Loans

A visit on June 25 with **Randi Sheffer, FSA Branch Chief for Guaranteed Loan Making**, reveals she is not expecting Congress to provide any mid-year supplemental budget increase to the 2013 Fiscal Year (FY) USDA Guaranteed Farm Ownership Loan Program. The \$1.5 billion budget, calculated using the total of the gross loan levels rather than the guaranteed portions, was depleted by April 30, 2013. FY2013 began October 1, 2012.

Budget dollars remain available in the other two USDA farm loan guarantee programs: Guaranteed Operating loans (roughly 45% of the \$1.4 billion budget) and Guaranteed Conservation loans (100% of the \$150 million budget). For FY2013, USDA has no authority to transfer budget dollars among the guaranteed programs.

Guaranteed amounts in the Conservation program max out at 75% compared to 90% in the other two programs.

President Obama's proposed FY2014 budgets for the guaranteed loan programs increases budgets in two of the programs as follows: \$2 billion for Farm Ownership and \$1.5 billion for Operating. The proposed Conservation budget remains at \$150 million.



1999 K Street NW
4th Floor
Washington, DC 20006

Phone: 800-879-3276

Fax: 202-872-5540

E-mail: opportunities@farmermac.com

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.