Farmer Mac Refresh:  
Land Values and Trends  
Is Ag Land Still a Good Investment?  

September 2013

Today’s Presenters

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Special Presenter:  
Mike Duffy  
Professor of Economics  
Iowa State University
Average Land Values

(based on Farmer Mac appraised loans in last 12 months)

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate</th>
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</thead>
<tbody>
<tr>
<td>July 1981</td>
<td>15.84%</td>
</tr>
<tr>
<td>January 1962</td>
<td>3.86%</td>
</tr>
<tr>
<td>August 2013</td>
<td>2.75%</td>
</tr>
</tbody>
</table>

Decrease of -13.09%
Increase of +11.98%

10 Year Treasury – Last 50 Years

CBOE Interest Rate 10-Year T-Note (^TNX) - Chicago Options

2.7550 +0.0430 (1.59%) 2:56 PM EDT

Enter name(s) or symbol(s) | GET CHART | COMPARE | EVENTS | TECHNICAL INDICATORS | CHART SETTING S | RESET

19 Yrs., 7 Mo.
32 Yrs.

Increase of +11.98%
July 1981 15.84%
January 1962 3.86%
August 2013 2.75%
Decrease of -13.09%
THERE IS NOTHING WRONG WITH CHANGE.....IF IT IS IN THE RIGHT DIRECTION!

Winston Churchill
Land Values and Trends; Is Land Still a Good Investment?

Financing Rural America
Farmer Mac Webinar
September 4, 2013
Mike Duffy

Outline

- Ag land values
- Primary influences
- Current farmland ownership
- Outlook
- Discussion
Where We Are

- Record farmland values
- In the Midwest some recent auctions and sales have shown uncertainty in the market
- Considerable uncertainty with crop and prices
- Most people think the rate of farmland value increases will slow; many think they will reverse
- There are considerable regional differences

Iowa Average Land Values

- $2,147
- $787
- $8,296
Percent Change in Land Values by Region and US, 2008 - 2013

Rents
How We Got Here

- Asset pricing model;
  - Value = Income/capitalization rate
- All three values at record levels
Estimated Return per Bushel of Corn using Iowa State Estimated Costs of Production and Iowa Average Price, August 30, 2013

Estimated Returns to Soybeans per Bushel using Iowa State Costs of Production and Average Price, August 30, 2013
Is Land a Good Investment?

- Depends on;
  - What you pay for it
  - What you get from it
  - Reason for owning
  - Individual property characteristics
  - And so forth
- Land is a totally unique investment
- Land requires a patient investor
- Times are never as good or as bad as they seem
Iowa Farmland Nominal Return, 1922 - 2013

Iowa Farmland Nominal Return 1960 - 2013
Current Farmland Demographic Situation

Percent of Iowa Farmland by Method of Financing and Year

- Free of debt
- Under contract
- Mortgaged

Distribution of Iowa Farmland Within an Age Category
Based on Method of Financing, 2012

Distribution of Iowa Farmland Based on the Age of the Owner
Distribution of Iowa Farmland by Gender

Distribution of Iowa Farmland by Type of Owner, 2012
Distribution of Iowa Farmland Based on Primary Reason for Owning the Land

Distribution of Iowa Farmland by Anticipated Method of Transferring the Land, 2007 and 2012
Distribution of Iowa Farmland Based on Impact of Greatly Reducing or Eliminating Capital Gains Tax, 2012

- More Likely to Sell ALL Farmland: 80%
- More Likely to Sell SOME Farmland: 10%
- Have No Effect on Selling Farmland: 0%
- RF/DK: 0%

Distribution of Iowa Farmland Based on Factors Most Likely to Cause Sale of Some or All Farmland, 2012

- Lower Capital Gains Tax: 20%
- High Selling Price Per Acre: 15%
- Your Retirement from Farming: 15%
- Something Else: 25%
- RF: 0%
- Don't Know: 25%
Farmland Values in 2014 and Beyond

Key Factors

- Farm income
- Commodity supply & demand
- Farm bill features
- Interest rates
- Energy; supply, demand and source
- U.S. & world economic performance
- Psychology of the markets
What’s Ahead

• Are we experiencing a bubble or reaction to unusual circumstances?
• Will we see a ‘pop’ or simply losing air?
• Income will be the key; commodity prices and how high will input costs go
• Interest rate movements
• Where will corn prices settle? Will they settle or will we continue to see wild swings?
• Bubble or correction; the impact on the individual is what matters

What’s Ahead

• Uncertain supply & demand will lead to rapid swings in prices and profitability
• Land value increases should moderate but profitability this year will determine how much
• Major collapse in ag. isn’t likely w/o significant outside events
Outlook for land

• The big question is if this is a temporary slowdown/reversal or if this is the start of a major correction
• How conditions affect the individual farm is what is important
• Each farm and farm situation is unique

Thank-you

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### Underwriting Standards

<table>
<thead>
<tr>
<th></th>
<th>Fast Track Choice</th>
<th>Full UW Standard</th>
<th>Full UW Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max Loan Size</td>
<td>$1 million</td>
<td>$11m/$30m</td>
<td>$11m/$30m</td>
</tr>
<tr>
<td>Loan-to-Value Ratio</td>
<td>55%</td>
<td>70% *</td>
<td>60%</td>
</tr>
<tr>
<td>Debt to Asset Ratio</td>
<td>40%</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1:1</td>
<td>1:25</td>
<td>1:50</td>
</tr>
<tr>
<td>Debt Service (TDC)</td>
<td>1:1</td>
<td>1:25**</td>
<td>1:50</td>
</tr>
<tr>
<td>Credit Scores</td>
<td>720</td>
<td>680</td>
<td>680</td>
</tr>
<tr>
<td>Tax Return</td>
<td>2-Yrs</td>
<td>3-Yrs</td>
<td>3-Yrs</td>
</tr>
</tbody>
</table>

*60% IL, IN, IA, MN, MO, NE, ND, OH, SD 60% for loans greater than $5 million

**1.50% when LTV greater than 60%*

### Appraisal Requirements

- Seller engages the appraiser
- Must be state-licensed and certified general appraiser
  - Certified residential license OK if primary value of the property is in the residence
  - Written engagement letter
  - Assumptions and limiting conditions
- Seller reviews appraisal and uploads into AgPower®
- Farmer Mac may not approve loans when:
  - Neighborhood analysis reflects near-term development away from agriculture
  - Highest and best use statement indicates a use other than agricultural
Strategies To Compete

• Sellers are using Farmer Mac to:
  – Preserve existing relationships
  – Attract new high quality clients
  – Grow with your larger producers
  – Generate fee income opportunities
  – Diversify portfolio risk
  – Reduce capital requirements
  – Increase loan, deposit, and other cross sell opportunities
  – Offer competitive fixed rate products

2013 Road Show Locations

Register at www.farmermac.com
Calendar of Events