Road Map For Application Submissions

**Presenters**

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Today’s Agenda

- 10 important questions to ask your applicant
- Information to gather from your applicant
- Transferring 10 questions to the loan narrative
  - What should the narrative encompass?
- How are the 10 questions and narrative information inputted into AgPower®?
- Details from 10 questions lead to quick decisions

What Are Some of the Biggest Weaknesses Regarding New Applications Submitted?

- What farm and non-farm changes have occurred regarding the operation?
- Has the applicants purchased or sold any farm or non-farm real estate over the last 4 years?
- Any change in income or expenses due to weather, change in acres farmed, livestock numbers, contract feeding of livestock, non-farm income, children attending college, divorce etc..
- Historical income and expenses not supporting pro-forma income and expense information provided.
- Narrative not “telling the story of the operation” to the underwriter.
Why Utilize The 10 Questions Worksheet?

- Using the 10 Questions document will assist in completing the application in AgPower®.
  - Common items are generally missing from applications that could have been answered with the 10 Questions document.
  - Utilizing the 10 Questions document effectively will ensure quicker service from Farmer Mac because detailed information has been provided.
  - Eliminate multiple visits with applicants by the officer.

### Submitting a Farmer Mac I Loan: From Start to Finish

<table>
<thead>
<tr>
<th>Customer interview — Ten Important Questions:</th>
<th>Use of information:</th>
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</thead>
<tbody>
<tr>
<td>1) How much is the loan request and what is the anticipated loan-to-value?</td>
<td>Qualification: What are the loan-to-value ratios? Can it work for fixed income?</td>
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<td>2) How will funds be used?</td>
<td>Qualification: Purchase, refinancing, commodities, etc.? Are familiar with cash-out guidelines.</td>
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<tr>
<td>3) Why is this loan needed?</td>
<td>Qualification: Purchase, refinancing, commodities, etc.? Are familiar with cash-out guidelines.</td>
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<tr>
<td>4) What loan product is the customer requesting and what is the expected rate?</td>
<td>Qualification: Customer commitment or will the customer commit to a loan and products including convertibility, interest rate and extended rate, in conjunction with the customer’s needs.</td>
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<tr>
<td>5) Who is the applicant and what is the ownership structure?</td>
<td>Qualification: Applicant's income, and who do they own and operate? Are other vehicles owned?</td>
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<td>6) What is the security for this loan and who are the holders?</td>
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<td>7) Who is the applicant’s current operating lender and what is the relationship?</td>
<td>Qualification: Any judgments, collections, or past credit history related to the current lender.</td>
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<td>8) What is the applicant’s credit and payment qualification?</td>
<td>Qualification: Any judgments, collections, or past credit history related to the current lender.</td>
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10 Important Questions to Ask Your Applicant

Question #1

- How much is the loan request and what is the anticipated LTV?
  - Will the loan fit Farmer Mac’s maximum loan amounts?
  - Can the loan qualify for the Fast Track underwriting program?
Question #2

- How will the funds be used?
  - Purchase, refinance, improvements, cash out? Be as specific as possible.
  - Cash out requirements: If the request for cash out is greater than 25% of the loan proceeds, the LTV will be limited to 60% and the amortization is limited to 15 years.
  - Fast Track loans have unlimited cash out.

Question #3

- What loan product is the applicant requesting and what is the anticipated interest rate?
  - Be prepared to discuss the Farmer Mac rates and products including convertibility, prepayment and blended rates.
  - Product descriptions for Farmer Mac ARMs, VRMs, Fixed Rates and the AgEquity product are available by logging into the Farmer Mac website, selecting the rate and clicking on any of the products listed.
Question #4

- Who is the applicant and what is the ownership structure?
  - What entities are involved and what do they own and operate?
  - Is there non-farm income?
  - Do the applicants own other businesses or entities?

Question #5

- What is the security for this loan and who are the titleholders?
  - What is the property’s highest and best use?
    - Farmer Mac expects the appraiser’s determination of the collateral’s highest and best use will be consistent with the property sustaining agricultural production in the foreseeable future.
    - Understand Farmer Mac guidelines as to titleholders that are corporations, Trusts, etc.
      - Titleholders will normally sign the note and mortgage/deed of trust.
        - Financial information must be gathered for any person, corporation, LLC, trust, etc., holding 10% or more interest in the borrowing entity. That information will be entered into AgPower® and consolidated with the borrowing entity.
Question #6

- Who is the applicant’s current operating lender and what is the relationship?
  - What are the maximum dollars available regarding the line of credit?
  - What is the average annual balance of the credit line?
  - How long has the applicant been a customer of his current operating lender?
  - Have there been any derogatory situations associated with the operating line?

Question #7

- What is the applicant’s credit and payment history?
  - Obtain a credit release authorization.
  - Order a credit report dated within 60 days of loan submission for all individual obligors.
    - The credit report needs to include a credit score for the applicant
    - Please provide a D&B if individuals are not co-signing and the entity is a stand alone applicant.
  - Are there any judgments, collections or other legal actions?
Question #8

- What agricultural assets has the applicant owned, rented, bought or sold over the last four years?
  - Understand the acres and/or livestock under management, the type of production and detail regarding purchases/sales of agricultural real estate and livestock.
    - If real estate has been purchased or sold over the last four years, obtain purchase or sales price and acres.

Question #9

- What other changes have occurred in the farm operation or non-farm income/expenses over the past four years?
  - Understand the changes in contracts held, wages, outside businesses, inheritance, gifts and weather; which could clarify past/ future performance.
  - Explain differences in projected income/expenses from the historical averages.
Question #10

- Are there other questions after reviewing the tax returns and past balance sheets?
  
  - Understand how the operation may be affected by other influences such as outside wages, social security, pensions, college tuition, alimony, etc.
  - Review Schedules C, D, E, F for changes in operation.

Information to Gather from Applicant

- Tax Returns: 3-4 years.
  
  - Collect four years of tax returns for operations where commodities grown are alternate bearing plantings or if the additional year will help explain any marginal credit issues
  
- Balance Sheet: current market value, within 90 days of loan submission.

- Historical balance sheets, if available, preferably of an even date.

- Copies of signed contracts and/or agreements.

- Verification of assets and liabilities, cash, savings, marketable bonds, retirement accounts, debt balances.
  
  - Can provide billing statements, 1099, statements etc.

- Signed credit release authorization.

- Signed loan application.
Transferring 10 Questions to the Loan Narrative
What Should the Narrative Encompass?

What Is A Narrative To Encompass?

- Background
- Character/Credit
- Capital
- Capacity
- Global Analysis
- Collateral
- Conditions
Background

- Describe the loan request.
  - Sources and uses of funds.
    - Detail what the applicants are wishing to achieve with this loan transaction.
    - Be specific in the Farmer Mac loan amount and loan proceeds.
      - If the loan proceeds are for cash out or improvements, explain what the applicants are doing with these funds.
    - If your institution (or another institution) is involved in any way in the transaction or a different transaction occurring at the same time, please explain.
    - If the applicants currently have Farmer Mac exposure with your institution or another institution, give the loan number(s) and approximation of the unpaid balance.

- Explain who the applicants are on the request.
  - State if the applicants are U.S. Citizens. If not state how they meet Farmer Mac’s applicant eligibility test.
  - If there is an entity involved in the transaction, explain who owns the entity and at what percentages. Discuss the ownership structure.
  - If the applicants are involved in other entities that are not going to be an obligor on this loan request, list the entities and the applicants’ ownership.
  - Detail the size and scope of the applicants’ operation.
Background

- Describe the loan request.
  
  - Explain who the applicants are on the request. (4)
    
    - Acres farmed, acres owned vs. rented, machinery owned, historical yields, troubled years etc.
    
    - Detail the crops grown by the applicants.
    
    - If there are permanent plantings discuss estimated remaining economic life and replanting schedule at a high level. More detailed information for the collateral will be required in the collateral section of the narrative.
    
    - If there is a livestock operation discuss capacity, facilities, manure handling etc. at a high level. More detailed information for the collateral will be required in the collateral section of the narrative.
    
    - If the applicants have irrigated property discuss at a high level the water source, equipment, etc. More detailed information for the collateral will be required in the collateral section of the narrative.
    
    - If the applicants have off-farm income, state where they work, for how long, and their occupation. Their salary information should also be included.

Background

- Describe the loan request.
  
  - Requested loan product, terms, payment schedule, rate etc. (1 & 3)
  
  - Overview of collateral and anticipated loan to value. List who the title holders of the collateral are/will be. (5)
Character/Credit

- Discuss the applicants’ credit report. (7)
  - Credit scores.
  - Accounts with balances—be sure to include all debt on the credit report on the balance sheet in AgPower®, as well.
  - Late payments, judgments, derogatory items, etc.

Character/Credit

- Explain your institution’s history with the applicants. If they are new to your institution, explain how your relationship began. (6)
  - Discuss payment history with your institution and if they have always paid as agreed, please note.
  - If your institution is the operating lender please discuss operating history.
Character/Credit

- Management capabilities. (8)
  - Historical yield and prices if available.
  - What are the applicants’ succession plans?
- Detail the applicants marketing plan for the upcoming season/year. (9)
  - If they have crop insurance, explain their policy and how they use the insurance. (7)
  - Talk about industry economics and risk.
- Discuss the applicants financial management and credit history.

Capital

- Discuss date and quality of balance sheets provided.
- State the applicant’s liquidity and working capital position in addition to the debt-to-asset ratio before and after the Farmer Mac transaction.
- Reconcile the proforma net worth and explain all changes made to the proforma balance sheet.
- If verifications were provided, match the verifications to the corresponding assets and liabilities. (6)
Capital

- If the loan is a Full Underwrite or AgEquity, historical balance sheets should be spread on the Loan Summary tab.
- Explain the historical trends and ratios and make the necessary adjustments to the earnings trend for real estate appreciation, etc.
- If no historical balance sheets are available provide a detailed explanation as to why the applicants do not have historical information and why that is acceptable. (8 & 9)
- Discuss the significant assets the applicants have owned, rented, bought or sold over the last four years.

Capital

- Discuss the applicants’ operating funds including: the source; commitment amount and terms of repayment for operating debt; who do the applicants go to for operating funds and what is the relationship; in addition to the terms and conditions of the note.
  - How long have they been with this operating lender? Have there been any derogatory situations associated with the operating line?
  - What are the maximum dollars available regarding the line of credit? What is the average annual balance of the credit line?
State the years of tax returns provided for each applicant.

Discuss the historical average cash flow available and Total Debt Coverage Ratio (TDC) as well as the proforma cash flow available and TDC. (Proforma projections are not completed for Fast Track loans.)

Discuss items that were backed out as non-recurring.

Discuss anything that appears to be abnormal or extraordinary when reviewing the tax returns. (10)

Explain if the operation is stable or changing. (9)
  - Explain any changes that have occurred in the farm operation, outside businesses or non-farm income and expenses over the past four years.

Explain any variances in historical cash flow available. (9)

Explain large differences in the historical averages versus the proforma projections. (9)
Explain any line item differences in Proforma income and/or expense projections that vary significantly from historical information.

### Capacity

- Detail what sources of income will be used for repayment of the Farmer Mac loan.

- Verify the sources and sustainability of any non-farm income.
**Global Analysis**

- This section of the narrative needs to be completed if there are outside entities listed on the subsidiary analysis tab. *(4)*
  - If applicant owns 10% or more of any entity, the most recent tax return and balance statement need to be uploaded and spread on the Subsidiary Analysis tab.

- Discuss each subsidiary entity in detail including the applicants’ share of the entity, other owners not part of the loan request, the business purpose of the entity, any liabilities etc.

- Detail the change in the applicants’ credit ratios when consolidated with the subsidiary entity.

**Collateral**

- Describe the Collateral. *(5)*
  - State the estimated market value and the loan to value for the Farmer Mac loan.
  - Detail the acres of collateral and how many acres are tillable.
  - Discuss the location of the collateral including the legal and physical access to the property.
  - Discuss the marketability and desirability of the property.
Collateral

- Describe the Collateral. (5)
  - Detail any improvements on the property and their condition. Estimate the percentage value the improvements will contribute to the overall property value. State whether or not the collateral serves as the applicants’ primary residence.
    - If the collateral securing the loan is a facility, provide detailed information on the operation including: equipment being pledged (i.e.: milking equipment, wind machines etc.); manure handling capabilities if applicable; capacity; etc.

Collateral

- Describe the Collateral. (5)
  - If the property is irrigated:
    - Determine if the property is located within an irrigation district and if so, provide detailed information about the irrigation district, quantity, quality, and cost of the irrigation water. If it is not located within an irrigation district, note the source and location of the irrigation water.
    - Detail any irrigation equipment that will be pledged as part of the collateral.
Collateral

- Describe the Collateral. (5)
  - If there are grazing permits, BLM permits, other privileges, permits or leases to be secured, detail them in this area.
    - Provide the term, restrictions, and upload the documentation.
  - If the appraisal has been received prior to loan submission discuss the appraised value and any comments or findings regarding the appraisal.

Conditions

- List the applicants’ credit ratios as compared to the Farmer Mac established credit ratios for the program the loan is being submitted through. If there are exceptions to standards, mention the credit ratios that compensate the exception. (1)
- List loan amount, product, payment structure and loan terms desired. (3)
- Detail who will sign the note and who will sign the mortgage. (5)
- Note whether the loan is to be cross-collateralized or cross-defaulted with another loan.
- Describe any leases, permits, or other assignments to be taken as part of the security.
- Your recommendation including strengths and weaknesses of the credit.
How Are the 10 Questions and Narrative Information Inputted into AgPower®?

**Loan Narrative**

**Background:**
Mr. and Mrs. Showers have a successful grain farm operation in the Columbus, Ohio area since 1971. John and his wife have raised 3 children. They have now one who is working on the farm and he is married with 2 children. The other children have moved away and live in Columbus, Ohio. Their daughter is a farmer, who now runs the family farm. Mr. Showers has a partner who shares the financial risk with him. He has a 90% interest in the business.

The shows have a history of owning and operating the farm for over 50 years. They currently own and operate the farm with the help of their family and a few hired workers. The farm consists of 500 acres of cropland and 200 acres of pasture land. The farm is located in the heart of the Ohio Valley, known for its rich soil and pleasant climate.

**The applicant's current income is $175,000.** The applicant has been a farmer for over 40 years and has a proven track record of financial success. The applicant currently owns and operates the farm with the help of his family and a few hired workers. The farm consists of 500 acres of cropland and 200 acres of pasture land. The farm is located in the heart of the Ohio Valley, known for its rich soil and pleasant climate.

**The applicant does not have any debts other than a mortgage on his home.** The mortgage is paid in full and there are no other outstanding debts.

**Mr. Showers also owns another 15 acres of good farmland in the eastern, Ohio area. This farm currently has no mortgage on it. He inherited this farm from his parents.**

**Collateral:**
The collateral is a mortgage of Real Estate Farm Land for 4 years. These 4 years show that the applicant has due care in the management of his farm and has been responsible in the past. He has never been a problem in the past and has never defaulted on any of his loans. The collateral is a mortgage of Real Estate Farm Land for 4 years. These 4 years show that the applicant has due care in the management of his farm and has been responsible in the past. He has never been a problem in the past and has never defaulted on any of his loans.

**Repayment:**
The applicant's repayment ability is rated as excellent. He has a stable income and has demonstrated a consistent ability to repay previous loans. He has never missed a payment and has always made prompt payments on all of his loans.

**Character:**
The applicant is well known in the community for his hard work and dedication to his farm. He is respected by his peers and is active in the local agricultural community. His management skills are well recognized and he has been a positive influence on the local economy.

**Capacity:**
The farmer's capacity is strong. He has a proven track record of financial success and has a demonstrated ability to manage his farm operation effectively. He has a strong understanding of the agricultural market and is able to make sound business decisions.

**Cash Flow:**
The cash flow is strong and shows positive cash flows during the past few years. The applicant has been able to maintain a positive cash flow, which is a strong indicator of financial stability. The cash flow is calculated on the basis of the applicant's income and expenses, and shows a positive trend over the past few years.

**Summary:**
Mr. and Mrs. Showers have a successful grain farm operation in the Columbus, Ohio area since 1971. They have now one who is working on the farm and he is married with 2 children. Their daughter is a farmer, who now runs the family farm. Mr. Showers has a partner who shares the financial risk with him. He has a 90% interest in the business. The shows have a history of owning and operating the farm for over 50 years. They currently own and operate the farm with the help of their family and a few hired workers. The farm consists of 500 acres of cropland and 200 acres of pasture land. The farm is located in the heart of the Ohio Valley, known for its rich soil and pleasant climate. The mortgage is paid in full and there are no other outstanding debts. Mr. Showers also owns another 15 acres of good farmland in the eastern, Ohio area. This farm currently has no mortgage on it. He inherited this farm from his parents. The collateral is a mortgage of Real Estate Farm Land for 4 years. These 4 years show that the applicant has due care in the management of his farm and has been responsible in the past. He has never been a problem in the past and has never defaulted on any of his loans. The applicant's repayment ability is rated as excellent. He has a stable income and has demonstrated a consistent ability to repay previous loans. He has never missed a payment and has always made prompt payments on all of his loans. The applicant is well known in the community for his hard work and dedication to his farm. He is respected by his peers and is active in the local agricultural community. His management skills are well recognized and he has been a positive influence on the local economy. The farmer's capacity is strong. He has a proven track record of financial success and has a demonstrated ability to manage his farm operation effectively. He has a strong understanding of the agricultural market and is able to make sound business decisions. The cash flow is strong and shows positive cash flows during the past few years. The applicant has been able to maintain a positive cash flow, which is a strong indicator of financial stability. The cash flow is calculated on the basis of the applicant's income and expenses, and shows a positive trend over the past few years.
Quicker Decisions When 10 Questions Used
Average Time Between Status Changes

AgPower® - Average Number of Business Days Between Status Transitions (9 Quarters including Q1 of 2013)

<table>
<thead>
<tr>
<th>Number of Days</th>
<th>Status</th>
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<tbody>
<tr>
<td>1.67</td>
<td>Pending to UW Processing (Underwriters review applications to determine if all information has been provided prior to Underwriting)</td>
</tr>
<tr>
<td>1.23</td>
<td>UW Processing to Approved (meets our goal of a 2 day turnaround time once we have a completed application)</td>
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<tr>
<td>18.15</td>
<td>Approved to the Instruction Letter is sent (appraisal and title work is completed during this time)</td>
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<tr>
<td>14.19</td>
<td>Instruction Letter to Loan Purchase (Seller rate locks and prepares documents for closing)</td>
</tr>
<tr>
<td>35.24</td>
<td>Total Business Days - Pending to Purchase (45 days including weekends)</td>
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QUESTIONS?
**Farmer Mac Refresh**
*Farmer Mac’s Purchase Commitment Program  
LTSPC Flex*

- Wednesday, March 12th, noon ET, 11 am CT

- The ‘Purchase Commitment’ program is a credit enhancement that allows lenders to retain agricultural real estate loans in portfolio while reducing credit risk on those loans.

- Benefits include:
  - Ability to manage borrower or commodity concentrations.
  - Free up capital and reduce reserve requirements for potential loan losses.
  - Maintain your borrower relationships by retaining the loans and associated servicing in-house