

FARMER MAC
Financing Rural America®

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

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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.

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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.

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Submitting a Farmer Mac I Loan: From Start to Finish

Customer Interview – Ten Important Questions:	Use of information:
1) How much is the loan request and what is the anticipated loan-to-value?	<i>Qualification:</i> Will the loan fit Farmer Mac maximum loan amounts? Can it work for Fast Track?
2) How will funds be used?	<i>Qualification:</i> Purchase, refinance, improvements, cash out? Be familiar with cash out guidelines. <small>Cash out: if the request is for 25% or more of loan proceeds, the LTV will be limited to 80% and the amortization to 20 years. Fast Track loans have unlimited cash out.</small>
3) What loan product is the customer requesting and what is the expected rate?	<i>Customer commitment:</i> Be ready to discuss the Farmer Mac rates and products including convertibility, prepayment and blended rates. <small>Product descriptions for Farmer Mac ARAs, VRRs, fixed rates and the agronomy product are available by logging into the Farmer Mac website, selecting the rates and clicking on any of the products listed.</small>
4) Who is the applicant and what is the ownership structure?	<i>Gather proper information:</i> What entities are involved and what do they own and operate? Is there non-farm income? Are other businesses owned?
5) What is the security for this loan and who are the title holders?	<i>Eligibility of the property as to highest and best use:</i> Understand Farmer Mac guidelines as to titleholders that are corporations, LLC, trusts, etc. <small>Titleholders: Titleholders will 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 Agronomy LLC and consolidated with the borrowing entity.</small>
6) Who is the applicant's current operating lender and what is the relationship?	<i>Qualification:</i> What are the maximum dollars available regarding the line of credit? What is the average annual balance of the credit line?
7) What is the applicant's credit and payment	<i>Qualification:</i> Any judgments, collections or

10 Important Questions to Ask Your Applicant



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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?

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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.

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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.

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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?

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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.

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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?

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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?

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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.

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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.

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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.

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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.

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Transferring 10 Questions to the Loan Narrative What Should the Narrative Encompass?



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What Is A Narrative To Encompass?

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

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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. **(2)**
 - 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. **(7)**
 - 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. **(7)**

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Background

- Describe the loan request.
 - Explain who the applicants are on the request. **(4)**
 - 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.

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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.

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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)**

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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.

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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.

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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.

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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)**

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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.

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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?

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Capacity

- 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)**

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Capacity

- 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)**

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Explain any line item differences in Proforma income and/or expense projections that vary significantly from historical information.

	2008	2009	2010	Average	Pro Forma
Gross Farm Income	0	2,047,195	2,482,005	2,250,000	2,500,000
FARM EXPENSES					
Car & Truck	18,200	18,000	21,000	18,400	18,400
Chemicals	96,000	109,000	121,000	108,667	99,000
Conservation	0	0	0	0	0
Custom Hire	0	0	0	0	0
Depreciation	241,237	287,389	207,648	245,425	220,000
Employee Benefits	0	0	0	0	0
Feed	12,000	8,900	0	6,967	0
Fertilizer	105,000	192,000	203,000	180,000	132,000
Freight	70,000	70,000	81,000	75,333	82,000
Gasoline, Fuel	90,000	83,000	79,000	80,000	80,000
Insurance	84,700	64,000	75,000	74,767	75,000
Interest - Mortgage/Non-Current	125,076	121,312	110,792	121,227	275,992
- Other Interest/Current	44,790	50,000	42,694	45,828	12,500
- Total Interest	0	179,364	171,312	159,486	288,492
Labor	140,000	158,000	162,000	155,333	100,000
Rent/Lease, Machinery	0	0	0	0	0
Rent/Lease, Real Property	750,000	750,000	675,000	725,000	275,000
Supplies	77,000	75,000	80,000	79,334	84,000
Seed	195,000	129,000	130,000	123,667	102,500

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.

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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.

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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.

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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.

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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.

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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.

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How Are the 10 Questions and Narrative Information Inputted into AgPower® ?

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LOAN NARRATIVE

BACKGROUND

Mr. and Mrs. Borrower have operated a grain/beef operation in the Evergreen, Ohio area since 1972. John and his wife raised 2 children. They have one son who is a researcher for Monsanto and has worked for them for 5 years. He currently lives in St. Louis, Missouri. Their daughter is an elementary school teacher in Lima, Ohio.

The applicants are hoping to retire in 5-6 years and he sell his veterinarian business at that time. He hopes to move to a ranch he purchased years ago in Colorado. He currently has a friend of his who lives in Colorado who is renting it from him. They have a cow-calf operation there.

John and his wife also like to do outdoor activities such as hunting and fishing. He plans on pursuing these activities and probably increasing his herd size then. The Ohio farms will be cash rented out to one of the neighbors.

The applicants currently own a condo in Aspen, Colorado and go there for vacations occasionally. A management company cares for the condo when they are gone and rent it out for various periods of time to different families during their vacations.

The applicants desire to purchase 230 acres of farmland that belonged to a neighbor. This tract has no improvements and needs a little tile work.

The purchase price is \$735,000. The appraisal has been completed and it reflects an appraised value of \$745,000. Since Farmer Mac requires that LTV is calculated using the lowest of the two values, LTV is 65%.

Mr. Borrower also owns another 100 acres of good farmland in the Evergreen, Ohio area. This tract currently has no mortgage on it. He inherited this tract from his grandparents.

CREDIT INQUIRIES: CHARACTER

The Borrowers have been customers of Blue Earth State Bank for 3 years. They have always paid all loans promptly and have been great customers to work with. We hope that this loan will give our bank a chance to provide more of Mr. Borrower's loan needs in the future. Mr. Borrower currently is using us for an operating line of credit.

Enclosed is a credit report on the applicants. John's credit score is 809 and Alice's credit score is 782, well above Farmer Mac's Full Underwrite Loan Program minimum requirement of 660. The credit report reflects no late payments. Most of the mortgages can be verified per the credit report. But, a verification was also received from ABC Insurance Company which holds two mortgages on farmland owned by the Borrowers. They report no late payments and confirm the outstanding principal balances. The \$22,000 contingent liability is an auto loan that Mr. and Mrs. Borrower have co-signed for their daughter. She will continue to make payments on this loan.

Cash in checking/savings as listed on the current financial statement is accurate. Most is held at our bank except for \$1,000 which is in a checking account at My Bank. The marketable securities is made up of a CD that is about to mature. It is currently being held at Big Bank in Columbus, Ohio and Around the Corner Bank in Dayton, Ohio.


CAPACITY

The farm operation is quite stable and reflects positive earnings when reviewing the 2001, 2003 and 2004 tax returns. The farm operation over the past few years has had little change.


The Colorado Ranch income is reflected on schedule F. It shows the sale of calves and their expenses. The net income from the 100 acres inherited from his grandparents flows through Schedule E.




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Application Number: DC-090048
 FAMC Loan Number: 20909501
 Borrower: Sample Application for Smith Farms



Application Queue	Application	Borrower Info	Balance Sheet	BS(a)	Consolidated BS	Consolidated BS(a)	Submit Application
Consolidated BS PROFORMA	Consolidated BS(a) PROFORMA	INC and EXP	Consolidated NC/EXP PROFORMA	Appraisal Cklist	Manual / UW Grid		
Subsidiary Analysis	Loan Summary	UW Ratio	Communication/Attach	Appraisal	UW Analysis	Products Option	Instruction Letter

Click to watch the quick tip video for Communication and Attachment Tab 

Upload/Edit Related Documents:

Documents Attached by Seller

Document Category	Entity No	Document Name	Post Date	Document Purpose	File Type	Comments
Narrative	1	test 2	04/23/2010		.doc	Open
Narrative	1	test	10/06/2009		.docx	Open

Document ID:

Entity No:

Document Category:

Document Name: Posted Date: 02/11/2014


File Type: AgPower can now accept zip files

Document Purpose:

File to Upload:

Comments:

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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)

Number of Days	Status
1.67	Pending to UW Processing (Underwriters review applications to determine if all information has been provided prior to Underwriting)
1.23	UW Processing to Approved (meets our goal of a 2 day turnaround time once we have a completed application)
18.15	Approved to the Instruction Letter is sent (appraisal and title work is completed during this time)
14.19	Instruction Letter to Loan Purchase (Seller rate locks and prepares documents for closing)
35.24	Total Business Days - Pending to Purchase (45 days including weekends)

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

<http://www.farmermac.com/Resources/Events/index.aspx>

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