Farmer Mac Relationship Managers

How Community Banks are Using Farmer Mac to Grow Their Ag Portfolios

Refresh Webinar - April 2015
**Guest Panelist**

Perry Forst, President & CEO  
Citizens State Bank Norwood Young America  
Norwood Young America, MN

---

**Webinar Agenda**

- Introductions  
  - Patrick Kerrigan, Director of Business Development
  - Farmer Mac  
  - Perry Forst, President & CEO
  - Citizens State Bank Norwood Young America, MN
  - Mark Scanlan, SVP – Agriculture & Rural Policy  
  - Independent Community Bankers of America

- Farmer Mac Update  
  - Product Review  
  - Interest Rate Update

- Hot Button Ag Bank Questions
- Citizens State Bank Presentation
- Citizens State Bank Video
### Business Overview

<table>
<thead>
<tr>
<th>Applicants</th>
<th>Loan Originators</th>
<th>Farmer Mac Programs</th>
<th>% of Total Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers &amp; Ranchers</td>
<td>Mortgage Lenders</td>
<td>• Loan Purchase</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Purchase Commitment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• AgVantage</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• USDA Guarantees</td>
<td>13%</td>
</tr>
<tr>
<td>Rural Utility Cooperatives</td>
<td>Rural Utility</td>
<td>• Loan Purchase</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>Cooperative</td>
<td>• AgVantage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lenders</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Farm & Ranch (F&R) Loan Purchases

- **Product description**
  - Whole loan purchase program
  - Rates posted daily
  - Includes financing of new land purchases and refinancing of mortgage debt

- **Lender benefits**
  - Transfer credit risk and ALM risk
  - Increase liquidity and lending capacity
  - Offer longer-term fixed rate products
  - Accommodate larger loan requests
**Purchase Commitments**

- **Product description**
  - Lender holds loan until it becomes 90 days delinquent at which time Farmer Mac purchases
  - Loans are risk weighted at 20%
  - Lender pays Farmer Mac a monthly commitment fee of ~50 bps

- **Lender benefits**
  - Transfer credit risk
  - Increase liquidity and lending capacity
  - Accommodate larger loans

**BUSINESS OPPORTUNITY FOR YOU!**

**Credit Conditions**

- **Farmer Mac Credit Conditions**
  - Prepayments slower
  - Less refinancing
  - Approval rates holding steady at 80%
  - Working capital tighter
  - Continued low overall leverage
## Active Farm & Ranch and FM2 Sellers

[Map showing active farm & ranch sellers across the United States]

## Farm & Ranch Popular Products

<table>
<thead>
<tr>
<th>Product</th>
<th>Term</th>
<th>Amort.</th>
<th>Reset Margin</th>
<th>Choice Rate</th>
<th>ICBA Choice Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ag Equity LIBOR</td>
<td>20/25/30</td>
<td>varies</td>
<td>1.80%</td>
<td>1.98%</td>
<td>-</td>
</tr>
<tr>
<td>1-Mo ARM LIBOR</td>
<td>15</td>
<td>15/25</td>
<td>1.50%</td>
<td>1.77%</td>
<td>1.67%</td>
</tr>
<tr>
<td>5-Yr ARM</td>
<td>15</td>
<td>15/25</td>
<td>2.30%</td>
<td>3.12%</td>
<td>-</td>
</tr>
<tr>
<td>7/1 ARM</td>
<td>15</td>
<td>15/25</td>
<td>-</td>
<td>2.98%</td>
<td>-</td>
</tr>
<tr>
<td>10/1 ARM</td>
<td>15</td>
<td>15/25</td>
<td>-</td>
<td>3.22%</td>
<td>-</td>
</tr>
<tr>
<td>10-Yr VRM (10-10)</td>
<td>15/20</td>
<td>15/20</td>
<td>-</td>
<td>3.94%</td>
<td>3.81%</td>
</tr>
<tr>
<td>10-Yr VRM (10-10-10)</td>
<td>25/30</td>
<td>25/30</td>
<td>-</td>
<td>4.04%</td>
<td>3.91%</td>
</tr>
<tr>
<td>15-Yr VRM (15-5)</td>
<td>20</td>
<td>20</td>
<td>-</td>
<td>4.05%</td>
<td>3.92%</td>
</tr>
<tr>
<td>15-Yr VRM (15-15)</td>
<td>25/30</td>
<td>25/30</td>
<td>-</td>
<td>4.30%</td>
<td>4.17%</td>
</tr>
<tr>
<td>25-Yr Fixed</td>
<td>25</td>
<td>25</td>
<td>-</td>
<td>4.67%</td>
<td></td>
</tr>
</tbody>
</table>
# Farm & Ranch Multi-Notes

<table>
<thead>
<tr>
<th>Loan Request:</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan 1</td>
</tr>
<tr>
<td>Amount:</td>
<td>$600,000</td>
</tr>
<tr>
<td>Product:</td>
<td>10-Yr VRM</td>
</tr>
<tr>
<td>Net Yield:</td>
<td>3.99%</td>
</tr>
<tr>
<td>S. Fee:</td>
<td>0.75%</td>
</tr>
<tr>
<td>Note Rate:</td>
<td>4.74%</td>
</tr>
<tr>
<td>Fee Income (Yr 1):</td>
<td>$4,500</td>
</tr>
</tbody>
</table>

---

# USDA Guaranteed Products

<table>
<thead>
<tr>
<th>Product</th>
<th>Net Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>WSJ Prime</td>
<td>1.75%</td>
</tr>
<tr>
<td>3-Mo COFI</td>
<td>1.46%</td>
</tr>
<tr>
<td>5-Yr COFI</td>
<td>2.67%</td>
</tr>
<tr>
<td>10-Yr COFI</td>
<td>3.27%</td>
</tr>
<tr>
<td>15-Yr COFI</td>
<td>3.59%</td>
</tr>
<tr>
<td>7-Yr Fixed Rate</td>
<td>2.61%</td>
</tr>
<tr>
<td>10-Yr Fixed Rate</td>
<td>3.00%</td>
</tr>
<tr>
<td>15-Yr Fixed Rate</td>
<td>3.26%</td>
</tr>
<tr>
<td>20-Yr Fixed Rate</td>
<td>3.49%</td>
</tr>
</tbody>
</table>
**Ag Bank Questions**

- What risks are currently present in your market and portfolio?
  - Large loans
  - Commodity concentrations
  - Commodity prices
  - Interest rate risk

*Farmer Mac products can “profitably” assist a bank’s overall risk transfer strategy*

**Ag Bank Questions**

- How are Farmer Mac transactions profitable for my bank?
  - Servicing fee income annuity
  - Origination fee income
  - “Participate” your loans with Farmer Mac

- Will using the secondary market “cannibalize” my ag portfolio?
  - Grow your customer base by offering a wider array of loan products
  - Expand lending opportunities for ag real estate, operating and other loan types

*Many Farmer Mac lenders report growth in their ag real estate portfolios while actively selling loans*
Partner with Farmer Mac to:

- Preserve existing producer relationships
- Attract new customers
- Grow with your larger producers
- Generate fee income
- Diversify portfolio risk
- Improve capital position
- Increase cross sell opportunities
- Offer competitive fixed rate products

Relationship Managers
Thank You

Contact Us: www.farmermac.com

Corporate Headquarters (DC): 800-879-3276
Underwriting Office (Iowa): 866-452-2617
How Community Banks are Using Farmer Mac to Grow Their Ag Portfolios

Discussion Points

• Farmer Mac Products
• Bank’s Function: Sail vs. Anchor
• Managing the Bank’s Balance Sheet
• Capital Management Plan
• Impact to the Bank’s Income Statement
• Purchase Commitment Program
Farmer Mac Products

- Farm & Ranch Loan Program
  - Products, Terms, Amortization
- Sourcing funds via the bond markets
- Ag property
  - Collateral must be production ag
  - Debtor not required to be in production ag

Bank’s Function – Sail vs. Anchor

- The bank must run with the same relative horse power as your ag portfolio borrowers
- The bank’s menu has to outpace competition in quality, quantity, and/or pricing
Managing the Bank’s Balance Sheet

SAMPLE BALANCE SHEET

<table>
<thead>
<tr>
<th>Other Assets</th>
<th>$14,250,000.</th>
<th>Deposits</th>
<th>$67,500,000.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans</td>
<td>$60,750,000.</td>
<td>Total Capital</td>
<td>$7,500,000.</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$75,000,000.</td>
<td>TOTAL LIAB &amp; EQUITY</td>
<td>$75,000,000.</td>
</tr>
</tbody>
</table>

Managing the Bank’s Balance Sheet

• Balance Sheet Snapshot
  – Tier 1 Capital Ratio (T1CR) @ 10%
  – Deposits comprise the balance
  – Loan to Deposit Ratio @ 90%
  – Other assets comprise the balance

• Making the best out of what you have
Capital Management Plan

- **Forever Demanding Increasing Capital**
- Basel III Capital Conservation Buffer + 2.5%
  - Tier 1 Risk-Based Capital Ratio: 8.5%
  - Total Risk-Based Capital Ratio: 10.5%
  - Phase-In completed in 2019
- Capital is:
  - Finite so allocate wisely

Capital Management Plan

- **T1CR drops:**
  - 10 bp per $1 Mill in Loans
  - 100 bp for $10 Mill in Loans
- Legal Lending Limit constraints
  - Participation / Over line
    - Servicing fee @ 25 bp
    - $10 Mill = $25,000 in fee revenue
Capital Management Plan

- Origination and Sale to Farmer Mac
  - Servicing Fee @ 75 bp
  - $10 Mill = $75,000 in fee revenue
- T1CR increases:
  - 10 bp for each $100,000 in Retained Earnings
- No ALLL allocation for sold loans

Impact to the Bank’s Income Statement

- 1.0% ROA = $750,000 in Income
  - $75,000 is 10% of the 1.0%
- 10.0% ROE with $750,000 in Income
  - $75,000 is 10% of the 10%
- $75,000 in fee income from secondary market home loans
  - $125M loan @ 2 pts = $2,500/loan
  - 30 loans generate $75,000 (once)
Impact to the Bank’s Income Statement

• Staff resources required to originate 30 home loans:
  – Originator, underwriter, processor, packager, compliance officer oversight

• Staff resources required to originate Farmer Mac loans
  – Quality ag lender working with your existing or prospective ag clients

Impact to the Bank’s Income Statement

• Servicing Fee Annuity with Farmer Mac
  – $10 Mill with 15 year amortizations
    • $75,000 year one
    • $70,000 year two
    • And so on
  – Generally doing annual reviews on these clients because of ongoing relationships
Impact to the Bank’s Income Statement

- Efficiency Ratio Improvement
  - Bankers have already squeezed the cost side of the equation fairly tight
  - Pushing more fee revenue from the same overhead
  - More positive experience for both customers and your staff

Purchase Commitment Program

- Guaranty of RE Loans held in the Bank’s portfolio
- Increases the Bank’s Risk Based Capital Ratio as the loans are in the 20% risk weighting category
- Bank pays a Guaranty fee to Farmer Mac
- Bank earns interest on the loans
Purchase Commitment Program

- 3.0% Net Interest Margin after fee
- Each $1 Mill in loans = $30,000 in NII
- No ALLL allocation for these portfolio loans
- Consider as an alternative to loan participations
- Mitigate regulatory risk

Congratulations

- Questions
Thank You

Perry Forst, President & CEO
Citizens State Bank Norwood Young America
409 Faxon Road, PO Box 789
NYA, MN  55368-0789
www.CitizensStateBankNYA.com
perryf@csbnya.com
Direct phone #: (952) 467-7501