

Farmer Mac Relationship Managers

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FARMER AC

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

Applicants	Loan Originators	Farmer Mac Programs	% of Total Business
Farmers & Ranchers	Mortgage Lenders	<ul style="list-style-type: none"> • Loan Purchase • Purchase Commitment • AgVantage 	70%
		<ul style="list-style-type: none"> • USDA Guarantees 	13%
Rural Utility Cooperatives	Rural Utility Cooperative Lenders	<ul style="list-style-type: none"> • Loan Purchase • AgVantage 	17%

- 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!

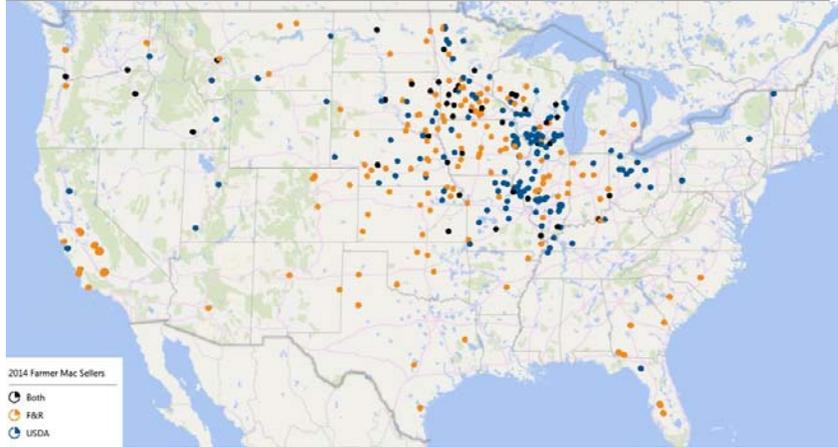


Credit Conditions

- 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



Farm & Ranch Popular Products

4/8/2015

Product	Term	Amort	Reset Margin	Choice Rate	ICBA Choice Rate
Ag Equity LIBOR	20/25/30	varies	1.80%	1.98%	-
1-Mo ARM LIBOR	15	15/25	1.50%	1.77%	1.67%
5-Yr ARM	15	15/25	2.30%	3.12%	-
7/1 ARM	15	15/25	-	2.98%	-
10/1 ARM	15	15/25	-	3.22%	-
10-Yr VRM (10-10)	15/20	15/20	-	3.94%	3.81%
10-Yr VRM (10-10-10)	25/30	25/30	-	4.04%	3.91%
15-Yr VRM (15-5)	20	20	-	4.05%	3.92%
15-Yr VRM (15-15)	25/30	25/30	-	4.30%	4.17%
25-Yr Fixed	25	25	-	4.67%	

Farm & Ranch Multi-Notes

Loan Request:	\$1,000,000		
	Loan 1	Loan 2	Blended
Amount:	\$600,000	\$400,000	\$1,000,000
Product:	10-Yr VRM	1-Mo ARM	
Net Yield:	3.99%	1.66%	3.06%
S. Fee:	0.75%	0.75%	0.75%
Note Rate:	4.74%	2.41%	3.81%
Fee Income (Yr 1):	\$4,500	\$3,000	\$7,500



USDA Guaranteed Products

4/8/2015

<i>Product</i>	<i>Net Yield</i>
WSJ Prime	1.75%
3-Mo COFI	1.46%
5-Yr COFI	2.67%
10-Yr COFI	3.27%
15-Yr COFI	3.59%
7-Yr Fixed Rate	2.61%
10-Yr Fixed Rate	3.00%
15-Yr Fixed Rate	3.26%
20-Yr Fixed Rate	3.49%



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

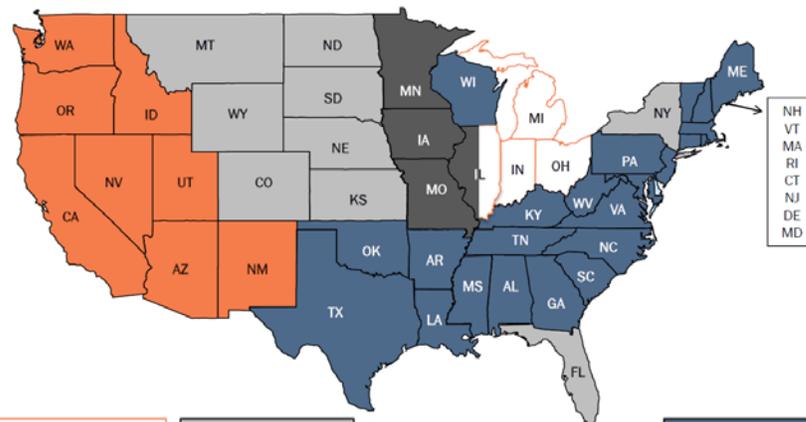
“Many Farmer Mac lenders report growth in their ag real estate portfolios while actively selling loans”



Partner with Farmer Mac to:



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Thank You

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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



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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



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Managing the Bank's Balance Sheet

SAMPLE BALANCE SHEET

Other Assets	\$14,250,000.	Deposits	\$67,500,000.
Total Loans	\$60,750,000.	Total Capital	\$ 7,500,000.
TOTAL ASSETS	\$75,000,000.	TOTAL LIAB & EQUITY	\$75,000,000.



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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



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Capital Management Plan

- **F**orever **D**emanding **I**ncreasing **C**apital
- 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



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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



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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



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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)



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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



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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



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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



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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



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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



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Congratulations

- Questions



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Thank You

Perry Forst, President & CEO

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