Farmer Mac Refresh:

Tracking the Tabs to Success

Income & Expense and Subsidiary Analysis
Today’s Presenters:

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Tracking the Tabs to Success Series

**Getting Started with AgPower**
- Farm & Ranch Loan Purchase Process
- Accessing AgPower
- Application Queue
- Application Tab
- Borrower Info Tab
- Communication/Attachment Tab

August 7th 2013

**Balance Sheet and Loan Summary**
- Balance Sheet & Schedules
- Consolidated Balance Sheet & Schedules
- Pro forma Balance Sheet and Schedules
- Loan Summary Tab

August 14th 2013

**Income & Expense and Subsidiary Analysis**
- Income & Expense Tab
- Pro forma Income & Expense Tab
- Subsidiary Analysis Tab

August 21st 2013

**Loan Submission and Final Steps**
- Submitting the Loan
- Preliminary Loan Approval
- Appraisal Checklist
- PPDocs
- Rate Locking and Rate Lock Info Tab
- Purchase Request & Purchase Info Tab

August 28th 2013
Income & Expense and Subsidiary Analysis

Today’s Webinar will cover the following:

- Income & Expense Tab
- Pro forma Income & Expense Tab
- Subsidiary Analysis Tab
• The Income & Expense tab is completed for each entity per their tax returns or accountant prepared review level or audited statements
• Fast Track loans require the most recent 2 years of tax returns to be entered
• Full Underwrites and AgEquity loans require the most recent 3 years of tax returns to be entered
  • Four years of tax returns are required for operations with alternate bearing crops such as Walnuts etc.
This is the income and expense statement for MAC Land LLP. To change to a different borrower’s income and expense tab click the drop down box and toggle a different entity number. Select Cash or Accrual per the tax return and then select the number of years of information. The last tax return year auto fills from the application page. If you need to change the year, change it on the application, click save and the income and expense statement will adjust.
Fill out the income and expense information for all entities on their specific income and expense statement. In this example the borrowers only have non-farm income and expense items.

- Enter the salary information from the tax return. The underwriter may request a current paystub to verify current employment and wages.
- Capital Gains- determination will need to be made if this income is recurring or not. For example, a one time sale of real estate is considered non-recurring.
- Rental Income or Schedule E income. Note the non farm depreciation and interest from Schedule E can be added back in.
- There are additional lines for other income. The yellow boxes are open for you to describe this income such as Social Security.
- Please remember to complete the tax information from the tax returns.
- Farmer Mac’s minimum guidelines for family living are $15,000 per adult and $5,000 per child on the tax return.
- If there are items that are non-recurring you would enter the amount here. AgPower will then automatically calculate the Cash Flow Available for each entity. You can see here the cash flow available for Mac and May Farmer.
Proforma
Income & Expense Tab
This is the proforma income and expense statement. In this example there are three entities so it is the consolidated income and expense proforma. Ag Power will automatically consolidate all of the entities information from the separate Income and Expense Tabs into this Consolidated Income and Expense Tab. AgPower also adds a “Proforma” column. The proforma column needs to be completed for Full Underwrite and AgEquity loans. This column should be based on a typical year for the operation or reflect the estimated income and expenses moving forward if there was a new purchase or similar transaction. The proforma projections should be supported by the historical information or sufficient reasoning provided.
Also added on this tab are elimination rows. If there is income that needs to be eliminated on the consolidated statement, do so in these rows. For example, income that flows through to the individuals from the Mac Operations and Mac Land via the K-1s would need to be eliminated upon consolidation if these entities are borrowers on the loan request. Here we can see the income coming to Mac Farmer from Mac Operation, the income coming to Mac Farmer from Mac Land and the income coming to May Farmer from Mac Land. This income is already captured under Farm Income from these entities so the total is eliminated.
At the bottom of the Consolidated Proforma Income and Expense Tab is the Cash Flow Coverage. This area presents the consolidated Pre-Tax income and has lines for other plus or minus adjustments, resulting in the Cash Flow Available Line.

The Proforma Total Annual P&I autofills from the BS(a) Proforma, in this case the Consolidated BS(a) Proforma.
Here we can see the consolidated Cash Flow Available for the previous three years, the three year average and the proforma projections. If the average is significantly less than the proforma then a detailed explanation will be needed to support this difference. In addition if there is significant variability in the cash flow available, this will need to be explained.

As mentioned earlier here is where the debt service is entered. The proforma P&I value is carried back historically on all Fast Track loans. It also is carried back for non-growing operations. This demonstrates whether the operation historically generated enough excess cash flow to service the post-close debt. For growing operations, the historical P&I information can be overwritten with the actual historical figures for those years or with the debt service from the current balance sheet.

Finally we see the Total Debt Coverage Ratio calculations. For Full Underwrite and AgEquity loans the proforma TDC figure is used. For loans with a product of a 3 year ARM or less, the loan must meet TDC after the Rate Shock.
<table>
<thead>
<tr>
<th>Subsidiary Analysis Tab</th>
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<tbody>
<tr>
<td>• Needs to be completed for non-obligor subsidiary entities the borrowers have greater than 10% interest in.</td>
</tr>
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- Helps determine if the non-obligor subsidiary entities are viable as a stand alone entities or require financial assistance from the borrowers. Helps give a global picture of the borrowers.
- To complete the tab you will need a current balance sheet and the most recent tax return.
The Subsidiary Analysis tab needs to be completed when the Farmer Mac applicants have at least 10% ownership interest in a non-obligor subsidiary entity. To complete the Subsidiary Analysis tab for the outside entity you will need the most recent tax return including all Schedule K-1 forms, current market value balance statement and the debt service associated with the entity. To get started, select the total number of entities from this drop down menu. AgPower will then automatically add the selected number of columns, you must click Edit at the bottom of the screen before you can type in the fields added. For this loan there is only one subsidiary entity, however AgPower can handle up to 70 subsidiary entities. Enter the entities name in these fields corresponding to the correct column.
Let’s go into more detail on completing the Subsidiary Analysis tab.

The borrower’s column is automatically filled with information in AgPower. This is a consolidation of the three borrowers on the loan, Mac Land, LLP, MAC Operations, Inc. and Mac and May Farmer. The balance sheet numbers are autofilling from the Consolidated Proforma Balance Sheet and the income and expense numbers are autofilling form the Proforma Income and Expense. For a Full Underwrite loan AgPower uses the proforma numbers. For a Fast Track loan AgPower uses the average numbers.

The entity 1 column needs to be completed for the subsidiary entity, in this case M&M Investments. You enter the financial TOTALS and then enter the percentage ownership. Enter the date of the balance sheet.

The subsidiary analysis balance sheet must correspond to a source document. If the source document such as a tax return or separately prepared document. If the source document is cost check this box. Farmer Mac prefers to see market statements.

AgPower will automatically determine the borrowers share of the net worth. This figure must match the amount shown for this entity on the borrower’s personal balance sheet.

The consolidated column automatically consolidates the entities based on ownership percentage.
There is a balance sheet elimination in the amount of the borrower’s share of the net worth in this entity. This figure is double counted before the elimination as was already included in the borrower’s net worth.

There is also an elimination on the income and expense. This elimination is for the K-1 income flowing through to the borrowers from M&M Investments’ tax return. This income is already included in the borrowers income and expense.
AgPower also shows the Current Ratio, D/A and TDC for the borrowers, for the subsidiary entity and on a consolidated basis.
Questions?