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**FARMER**MAC  
*Financing Rural America*

**Farmer Mac Refresh:  
Current Economic Events and  
How They Affect Net Yields**

**June 17, 2014**

# Rates and Agency Debt Trends

- Long term rates reverse course
  - Political unrest in Ukraine, harsh US winter, and discussion of extended lower rate environment have push long term yields down in 2014
    - » Fed tapering and better economic outlooks not driving yields
    - » 10 year UST yield currently at 2.59%, down 0.43% in 2014
      - 2 year – 10 year UST yield curve has flattened 0.51% in 2014, with the 2 year up 0.08% to 0.46%
  
- Agency yield curve flattened even more
  - Lack of GSE debt supply driving spreads tighter
    - » 10 year agency spreads tightened over 20 basis points
  - “Risk on” and search for yield continue to drive Corporate spreads lower relative to both Treasuries and Agencies

# 2014 Outlook

- Quantitative Easing Ends?
  - Federal Reserve reducing mortgage and treasury purchases to \$45 billion a month
    - » Still reducing by \$10 billion at each meeting.
    - » Weaker economic data for harsh winter not affecting pace of reduction.
  
- Monetary policy will continue to be accommodative in 2014
  - Market not expecting Federal Reserve to raise short term rates until mid-2015
    - » Earlier than expected at the beginning of 2014
  - Federal Reserve will use forward rate guidance instead of quantitative easing
  
- Wall Street Predictions
  - Most rate forecasters predict rates to increase during 2014
    - » 2 and 10 year yields expected to be 0.70% and 3.06% by year end, according to the median of 65 economists surveyed by Bloomberg.
    - » Wall Street still believes the Federal Reserve will not raise short term rates in 2014

# Items Affecting Rate Movements

- Quantitative Easing/Forward Rate Guidance
  - Pace of tapering and ending mortgage and treasury purchases
  - Economic data driven
  
- International Markets
  - China growth expected to slow down and banking system under pressure
  - Unprecedented stimulus in Japan
  - European recovery
  - International tensions – Russia/Ukraine, Iraq
  
- Domestic Policies
  - Congressional/White House budget issues muted for now
  - Fannie Mae/Freddie Mac Uncertainty
  - Election year politics

# Farmer Mac Product Trends

- Long term rates still popular
  - 10, 15, and 20 year fixed rate products remain most popular offerings
    - » 10 and 15 year fixed rate most popular Farm and Ranch product
      - Also seeing more interest in 5 year ARMs
    - » 20 year fixed rate most popular USDA product
  - Continued interest in AgEquity product
  
- Farmer Mac Price Drivers
  - Treasury Yields
  - Agency Spreads to Treasury Yields
  - Investor demand for Farmer Mac bonds

# Farm and Ranch Rate Update

| Products                 | Term     | Amort.  | Reset Margin | Semi-Annual Pay Standard | Semi-Annual Pay Choice(2) |
|--------------------------|----------|---------|--------------|--------------------------|---------------------------|
| Open Prepayment Products |          |         |              |                          |                           |
| AgEquity LIBOR           | 20/25/30 | Varies  | 1.70%        | 1.85%                    |                           |
| 1-Mo ARM LIBOR           | 15       | 15   25 | 1.60%        | 1.84%                    | 1.64%                     |
| 1-Yr ARM                 | 15       | 15   25 | 2.50%        | 1.91%                    | 1.71%                     |
| 3-Yr ARM                 | 15       | 15   25 | 2.50%        | 2.70%                    | 2.50%                     |
| 5-Yr ARM                 | 15       | 15   25 | 2.50%        | 3.30%                    | 3.10%                     |
| 7/1 ARM                  | 15       | 15   25 |              | 3.68%                    | 3.48%                     |
| 10/1 ARM                 | 15       | 15   25 |              | 4.12%                    | 3.92%                     |
| 10-Yr VRM                | 15/20    | 15/20   |              | 4.45%                    | 4.25%                     |
| 10-Yr VRM                | 25/30    | 25/30   |              | 4.58%                    | 4.38%                     |
| 15-Yr VRM                | 20       | 20      |              | 4.64%                    | 4.44%                     |
| 15-Yr VRM                | 25/30    | 25/30   |              | 4.81%                    | 4.61%                     |
| 7-Yr Fixed               | 7        | 15   25 |              | 3.88%                    | 3.68%                     |
| 10-Yr Fixed              | 10       | 10      |              | 4.01%                    | 3.81%                     |
| 15-Yr Fixed              | 15       | 15      |              | 4.48%                    | 4.28%                     |
| 15-Yr Fixed              | 15       | 25      |              | 4.78%                    | 4.58%                     |
| 20-Yr Fixed (1)          | 20       | 20      |              | 5.17%                    | 4.97%                     |
| 25-Yr Fixed (1)          | 25       | 25      |              | 5.37%                    | 5.17%                     |



# USDA Rate Update

| Product Types                                 | Monthly Pay Cash | Monthly Pay 4-Week Rate Lock | Annual, S.A., & Qrtly Pay Cash | Annual, S.A., & Qrtly Pay 4-Week Rate Lock |
|---|------------------|------------------------------|--------------------------------|--|
| Wall Street Journal Prime **                  | 1.75%            |                              | 1.75%                          |  |
| Farmer Mac 3-Mo COFI                          | 1.41%            |                              | 1.41%                          |  |
| Farmer Mac 5-Yr Reset COFI, 20, 25, 30-Yr Am  | 2.65%            | 2.74%                        | 2.75%                          | 2.84%                                      |
| Farmer Mac 10-Yr Reset COFI, 20, 25, 30-Yr Am | 3.56%            | 3.65%                        | 3.66%                          | 3.75%                                      |
| Farmer Mac 15-Yr Reset COFI, 20, 25, 30-Yr Am | 3.95%            | 4.04%                        | 4.05%                          | 4.14%                                      |
| 7-Yr Fixed Rate, 7-Yr Am                      | 2.57%            | 2.66%                        | 2.67%                          | 2.76%                                      |
| 7-Yr Fixed Rate, 15-Yr Am                     | 2.92%            | 3.01%                        | 3.02%                          | 3.11%                                      |
| 10-Yr Fixed Rate, 10-Yr Am                    | 3.19%            | 3.28%                        | 3.29%                          | 3.38%                                      |
| 15-Yr Fixed Rate, 15-Yr Am                    | 3.52%            | 3.61%                        | 3.62%                          | 3.71%                                      |
| 15-Yr Fixed Rate, 25-Yr Am                    | 3.85%            | 3.94%                        | 3.95%                          | 4.04%                                      |
| 20-Yr Fixed Rate, 20-Yr Am                    | 3.85%            | 3.94%                        | 3.95%                          | 4.04%                                      |