Today’s Agenda

• Farm Service Agency Update
  – Randi Sheffer, Guaranteed Loan Branch Chief
  – Jeff King, Loan Servicing

• Observations from Illinois
  – Garett S. Garner, Bank of Springfield

• Farmer Mac 2
  – Patrick Kerrigan
  – Judy Moye

• Conterra Asset Management
  – Paul Erickson
**USDA Guarantee Program Overview**

**Farm Service Agency**
- Farm Ownership
- Operating-Term
- Conservation

**Rural Development**
- Business & Industry
- Community Facility
- Water & Environmental

**Partner with Farmer Mac 2 to:**
- Preserve existing producer relationships
- Attract new customers
- Offer competitive fixed rate products
- Generate fee income
- Increase cross sell opportunities
- Diversity portfolio risk
**LOB Focus: USDA Guaranteed**

- At December 31, 2014 Farmer Mac had $1.80 billion total outstanding portfolio of FSA loans

![Outstanding Guarantees by Loan Type](chart.png)

Note: OL = operating line, FO = farm ownership, CF = community facility, BI = business & industry

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**Location of Active FM2 Sellers**

![Location of Active FM2 Sellers](map.png)
USDA Guaranteed Rates

<table>
<thead>
<tr>
<th>Product Types</th>
<th>Monthly Pay Cash</th>
<th>Monthly Pay 4-Week Rate Look</th>
<th>Annual, S.A., &amp; Quarterly Pay Cash</th>
<th>Annual, S.A. &amp; Quarterly Pay 4-Week Rate Look</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wall Street Journal Prime **</td>
<td>1.75%</td>
<td>1.75%</td>
<td>1.75%</td>
<td>1.75%</td>
</tr>
<tr>
<td>Farmer Mac 5-15y COFI</td>
<td>2.14%</td>
<td>2.14%</td>
<td>2.14%</td>
<td>2.14%</td>
</tr>
<tr>
<td>Farmer Mac 5-Yr Reset COFI, 20, 25, 30-Yr Ass</td>
<td>2.64%</td>
<td>2.64%</td>
<td>2.64%</td>
<td>2.64%</td>
</tr>
<tr>
<td>Farmer Mac 10-Yr Reset COFI, 20, 25, 30-Yr Ass</td>
<td>2.14%</td>
<td>2.14%</td>
<td>2.14%</td>
<td>2.14%</td>
</tr>
<tr>
<td>Farmer Mac 15-Yr Reset COFI, 20, 25, 30-Yr Ass</td>
<td>3.66%</td>
<td>3.66%</td>
<td>3.66%</td>
<td>3.66%</td>
</tr>
<tr>
<td>7-Yr Fixed Rate, 5 Yr Am</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
</tr>
<tr>
<td>7-Yr Fixed Rate, 15 Yr Am</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
</tr>
<tr>
<td>10-Yr Fixed Rate, 10-Yr Am</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
</tr>
<tr>
<td>15-Yr Fixed Rate, 15-Yr Am</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
</tr>
<tr>
<td>15-Yr Fixed Rate, 25-Yr Am</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
</tr>
<tr>
<td>20-Yr Fixed Rate, 20-Yr Am</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
<td>2.66%</td>
</tr>
</tbody>
</table>

Recent FM 2 Transactions - Wisconsin

**Transaction Details**
- Farm Ownership
- $1,242,000 Principal Balance
- $1,117,800 Guarantee, 90%
- $124,200 Retained Balance
- 15-Yr Reset (30-Yr Term)
- Monthly Payments
- 4.25% Note Rate
- 3.48% Farmer Mac Rate
- 0.77% Servicing Spread

**Year 1 Seller Income**

- $8,607 Sold Portion Income
- $5,278 Retained Portion Income
- **$13,885 Year 1 Seller Income**

$13,885 (Year 1 Income)/
$124,200 (10% Retained Balance)=
11.18% Gross Rate of Return
**Recent FM 2 Transactions - Illinois**

**Transaction Details**
- Farm Ownership
- $1,365,000 Principal Balance
- $1,222,500 Guarantee, 90%
- $136,500 Retained Balance
- 20-Yr Fixed Rate
- Annual Payments
- 4.20% Note Rate
- 3.74% Farmer Mac Rate
- 0.46% Lender Servicing Fee

**Year 1 Seller Income**
- $5,651 Sold Portion Income
- $5,733 Retained Portion Income
- $11,384 Year 1 Seller Income

\[
\frac{11,384 \text{ (Year 1 Income)}}{136,500 \text{ (10% Retained Balance)}} = 8.34\% \text{ Gross Rate of Return}
\]

**Recent FM 2 Transactions - Nebraska**

**Transaction Details**
- Farm Ownership
- $1,000,000 Principal Balance
- $900,000 Guarantee, 90%
- $100,000 Retained Balance
- 3-Month COFI (30-Yr Term)
- Annual Payments
- 2.46% Note Rate
- 1.74% Farmer Mac Rate
- 0.99% Lender Servicing Fee

**Year 1 Seller Income**
- $8,910 Sold Portion Income
- $2,460 Retained Portion Income
- $11,370 Year 1 Seller Income

\[
\frac{11,370 \text{ (Year 1 Income)}}{100,000 \text{ (10% Retained Balance)}} = 11.37\% \text{ Gross Rate of Return}
\]
### Farmer Mac 2 Summary Data - 2014

#### Guaranteed Portions Purchased - 1/1/14 to 12/31/14

<table>
<thead>
<tr>
<th>Products</th>
<th>Loans</th>
<th>Servicing Fees Wgt Avg</th>
<th>Servicing Fees Median</th>
<th>Net Yield Wgt Avg</th>
<th>Volume</th>
<th>Volume as % of Total</th>
<th>Avg Loan Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Month COFI</td>
<td>87</td>
<td>2.84%</td>
<td>4.75%</td>
<td>1.41%</td>
<td>$21,400,749</td>
<td>6%</td>
<td>$245,986</td>
</tr>
<tr>
<td>Prime</td>
<td>13</td>
<td>2.13%</td>
<td>4.00%</td>
<td>1.54%</td>
<td>$13,176,471</td>
<td>4%</td>
<td>$1,013,575</td>
</tr>
<tr>
<td>5-Year COFI</td>
<td>71</td>
<td>1.52%</td>
<td>1.41%</td>
<td>2.76%</td>
<td>$26,800,622</td>
<td>8%</td>
<td>$377,474</td>
</tr>
<tr>
<td>Fixed 7-Years</td>
<td>93</td>
<td>1.61%</td>
<td>1.37%</td>
<td>2.78%</td>
<td>$22,878,744</td>
<td>7%</td>
<td>$246,008</td>
</tr>
<tr>
<td>10-Year COFI</td>
<td>99</td>
<td>1.01%</td>
<td>1.00%</td>
<td>3.70%</td>
<td>$43,800,336</td>
<td>13%</td>
<td>$442,428</td>
</tr>
<tr>
<td>15-Year COFI</td>
<td>168</td>
<td>0.98%</td>
<td>1.00%</td>
<td>4.11%</td>
<td>$67,755,615</td>
<td>20%</td>
<td>$403,307</td>
</tr>
<tr>
<td>Fixed 7-20 Years</td>
<td>418</td>
<td>1.19%</td>
<td>1.11%</td>
<td>3.93%</td>
<td>$147,086,300</td>
<td>43%</td>
<td>$351,881</td>
</tr>
<tr>
<td>949</td>
<td>1.32%</td>
<td>1.15%</td>
<td>3.52%</td>
<td></td>
<td>$342,898,835</td>
<td>100%</td>
<td>$361,326</td>
</tr>
</tbody>
</table>

### What’s New in Farmer Mac 2

- Conterra Asset Management
- Online Loan Application (OLA)
- USDA Program Changes
- Online Servicing Action Module (SAM)
Assignment of Guarantee

• New procedures for execution and delivery

Assignment of Guarantee

• Sample FSA-2242
Assignment of Guarantee

- Sample FSA-2242

Relationship Managers
Questions?
# Farmer Mac 2

Exploring Farm Service Agency (FSA) Loan Opportunities

May 6, 2015

## FSA Funding

<table>
<thead>
<tr>
<th></th>
<th>Guaranteed Farm Ownership</th>
<th>Guaranteed Operating</th>
<th>Guaranteed Conservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 14 Allocated</td>
<td>$2,350,000,000</td>
<td>$1,052,172,000</td>
<td></td>
</tr>
<tr>
<td>FY 14 Obligated</td>
<td>$2,012,782,000*</td>
<td>$1,000,135,000</td>
<td></td>
</tr>
<tr>
<td>FY 15 Allocated</td>
<td>$2,000,000,000</td>
<td>$1,395,897,000</td>
<td>$150,000,000</td>
</tr>
<tr>
<td>FY 15 Obligated **</td>
<td>$1,112,120,000</td>
<td>$923,702,000</td>
<td>$1,355,000</td>
</tr>
<tr>
<td>FY 15 Allocation Remaining</td>
<td>$887,880,000</td>
<td>$472,195,000</td>
<td>$148,645,000</td>
</tr>
<tr>
<td>FY15 % of FY14 **</td>
<td>-11%</td>
<td>39%</td>
<td></td>
</tr>
</tbody>
</table>

*Includes $431,000,000 carry over from FY13

**As of 5/1/15
Caseload

<table>
<thead>
<tr>
<th># of loans</th>
<th>Loan amount</th>
<th>Unpaid principal</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFO</td>
<td>31,895</td>
<td>$11,549,464,000</td>
</tr>
<tr>
<td>GOL/LOC</td>
<td>19,314</td>
<td>$4,647,937,000</td>
</tr>
<tr>
<td>GCL</td>
<td>3</td>
<td>$1,583,500</td>
</tr>
<tr>
<td>Total</td>
<td>51,212</td>
<td>$16,198,948,500</td>
</tr>
</tbody>
</table>

What’s new?

- FO ownership eligibility
- Conservation loans
- Participation with Direct FO
- FSA using digital signatures
- Low commodity prices
Questions
2015 Row Crop – Market Conditions – IL/MO

- **Commodity Price (Corn/Soybeans)**
  - Corn – Decreased 50% since 2012.
  - Soybeans – Decreased 30% since 2012.

- **Input Costs**
  - Remain expensive.

- **Borrowing Costs**
  - Remain at historic lows.

- **Section 179 Depreciation**
  - Limit uncertain for 2015.

**What is the result?**

- **Land Prices**
  - Blanket softening in prices; however, still plenty of high sales.

- **Cash Rents**
  - Lower. Re-Negotiated Contracts.

- **Profitability Margins diminishing.**
Lender Perspectives – How can lenders assist their borrowers?

• Educate Borrowers
  • Provide borrowers with projected row crop budget sheets provided by major agricultural universities.
  • Provide borrowers with their specific cash flow situation/analysis completed by our institution.

• Long-Term Fixed Interest Financing
  • FSA Guarantee / Farmer Mac II
  • Farmer Mac I

FSA Guarantee / Farmer Mac II

• Farm Service Agency – Guarantee Program
  • Lender submits a loan request (up to $1,392,000) to the Farm Service Agency on behalf of an applicant. (Submissions sent to the FSA office of the county in which the borrower farms.)
  • FSA underwrites the file and corresponds with the lender in answering any questions the FSA may have.
  • File is approved, or denied, for loan guarantee.

• https://www.fsa.usda.gov/Internet/FSA_File/guaranteed_farm_loans.pdf
FSA Guarantee / Farmer Mac II

• Farmer Mac II
  • Input borrower information into the Farmer Mac II web portal.
  • Rate Lock Borrower based upon product chosen. (Our institution typically does the 4-week rate lock.)
  • Provide Farmer Mac II with the FSA issued loan guarantee, assignment of guarantee, and associated executed promissory note(s).
  • Farmer Mac II reviews the documents so they meet Farmer Mac II funding criterion.
  • Once the documents have been reviewed, and corrected if needed, Farmer Mac II will proceed to fund. (Farmer Mac sets a funding date (Thursdays), money is wired to your institution to match the guaranteed portion.)

Advantages to FSA / Farmer Mac II

• Lender
  • Compete with Farm Credit financing.
  • Servicing Income based upon chosen bank margin.
  • Reduces interest rate risk.
  • Increases liquidity.
  • Increased lending/investing capabilities. – *Generally not applied against bank’s lending limit.*
  • Farmer Mac II – Painless process, quick turnaround, great customer service.

• Borrower
  • Long-Term Fixed Interest Rate Financing. (30-Year Term/Am)
  • No Prepayment Penalty required. (Lender’s discretion.)
  • Local bank, in which borrower is accustomed, will continue to service the loan.
Bank of Springfield – What we’ve seen through discussion with lenders/farmers.

- FSA
  - Retirements
  - Tremendous Loan Activity
    - Debt Carryover
    - High Living Expense
    - Cash Rents Re-Negotiated

- Banks
  - Shutting off operating money, vendors providing. – Example.
  - More stringent underwriting.
    (Borrowers tend to inflate historical yields in discussions.)

- Planting - Example
  - Our market area is predominately planted ... some have soybeans planted. Corn well out of ground in some areas; 3 inches tall.

- Input Cost - Example
  - Anhydrous in the $600s
  - Availability of Anhydrous has been an issue. Vendors running out ... minor waits.
  - Vendors stepping up to finance their own sales ... some with John Deere.
Conterra Asset Management

• Based in West Des Moines Iowa
• $1.8 billion of assets under management
  • Farmer Mac 2 program administrator and fiscal transfer agent
  • Farmer Mac Farm & Ranch Central Servicer
  • Service loans for a variety of institutional investors
• Best in Class Loan Management System and Technology
  • Enables efficient servicing and communication with lenders.
• Joint ownership with Farmer Mac of Contour Valuation Services
  • Agricultural Real Estate Appraisal Firm
    www.contourvs.com
Collection and Settlement Process

- Go to [www.conterraag.com](http://www.conterraag.com) to view USDA collection and settlement process.
- A downloadable collection report is available on our site for your convenience.
- Key points in the process:
  - Include your seller ID# on all communications and money transfers.
  - Date payment received should be the date the payment is effective on your system.

Collection and Settlement Process

- We are here to help and make your life easier.
  - Please call or email with questions:
    - Conterra toll free # (855) 381-3451
    - All collection reports and questions can be emailed to [farmermac@conterraag.com](mailto:farmermac@conterraag.com)

- For new loan settlement questions and information please email [settlements@conterraag.com](mailto:settlements@conterraag.com)