AgAssist
New Underwriting Option
Farm & Ranch Loans
2015
Introductions

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Farm Income

- As expected another sizable drop in farm profitability in 2015
- No sector of the ag economy is spared

**USDA Net Farm and Net Cash Income**

Source: USDA ERS Farm Income Database
Farm Income

Farm business average net cash income by resource region, 2015F compared with 2014

Note: F = forecast. The partial budget forecast model is based on the 2014 Agricultural Resource Management Survey (ARMS) using parameters from the sector forecasts. The model is static and does not account for changes in crop rotation, weather, and other location production impacts that occurred after the base year. Data as of August 25, 2015.

Farm Incomes and Expenses

- Impact on incomes will vary by production type

Average net cash income for crop farm businesses

- Mixed grain
- Wheat
- Corn
- Soybeans and peanuts
- Cotton and rice

Average net cash income for livestock farm businesses

- Cattle and calves
- Hogs
- Poultry
- Dairy

Source: USDA Outlook for the 2015 U.S. Farm Economy
Market Forces - Commodities

- Corn price is relatively flat in 2015
  - Rebuild of stocks since 2012
  - Trend yields are likely (164-168 bu/acre average)
  - Demand is steady but Japan buying less; global trade off 8% from 2014

US Corn Production and Price History

Source: USDA ERS Data
Market Forces - Commodities

- Soybean price is down significantly
  - Supply and demand driven; China buying much less than 2014
  - Delayed rebuilding of global stocks
  - Trend yields likely (43-45 bu/acre)

Source: USDA ERS Data
Market Forces - Commodities

- Cattle prices holding up in long term
  - Also largely supply driven
  - Herds finally gained ground in July 2015 after declining for almost 9 years
  - Demand hitting ceiling as consumers substitute for lower-priced alternatives

Iowa Feedlot Returns by Month

### Iowa Feedlot Returns by Month

<table>
<thead>
<tr>
<th>Date</th>
<th>Net Profit</th>
<th>Animal Cost</th>
<th>Total Cost</th>
<th>Sales Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/1/2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/1/2012</td>
<td></td>
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<tr>
<td>7/1/2012</td>
<td></td>
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<tr>
<td>1/1/2013</td>
<td></td>
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<tr>
<td>7/1/2013</td>
<td></td>
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<td></td>
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<tr>
<td>1/1/2014</td>
<td></td>
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<td></td>
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<tr>
<td>7/1/2014</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>1/1/2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/1/2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Iowa State University Extension
Market Forces - Commodities

• All other protein prices down
  – Hog inventory rebuilds after PEDv epidemic in 2013/14
  – Dairy prices lower on larger supply combined with stiffer demand from European producers
  – Chicken prices lower due to other countries’ bans on US poultry from first-half avian influenza outbreak (more available domestically)

• Bright spot in fruits and nuts
  – Tough growing conditions
  – But strong market prices offsetting losses
Market Forces – Strong US Dollar

- Slow global economy (the BRICS are sinking!)
- Quantitative easing is contagious
- Turmoil in Chinese markets
- Fed liftoff (?)

Dollar Index (2001=100)

Fed raises interest rates
Dot Com Stock Bubble
US Recovery Outpaces Global

Source: St. Louis Federal Reserve Data (FRED)
Market Forces - Trade

U.S. Agricultural Exports

Source: USDA FAS GATS Data
Land Values - USDA

- USDA Report
  - Cropland flat to down (0.7% nationally, -2.3% in Corn Belt)
  - Pastureland up (2.3% nationally, 7% in Northern Plains)

Source: USDA NASS Land Value Reports
**Land Values – Auctions**

- Iowa Farm Auctions
  - Same story – results are down from 2013 highs
  - Hertz showing good participation in auctions

*Source: Hertz Real Estate Services*
Takeaways

• Commodity prices likely to stay low
  – Strong dollar
  – Adequate global supplies

• Liquidity is the name of the game
  – Low incomes mean less incoming cash
  – Loan demand is sky high

• Cost reductions ongoing
  – Less capital spending (watch out for ag-related business credits!)
  – Rental rates are sticky and seed companies aren’t budging

• Balance sheets showing strength
• Return of the bird flu
• What will winter bring in the West?
For Questions Contact:

Jackson Takach
Economist
Farmer Mac
jtakach@farmermac.com
@JacksonTakach
Eligible Borrowers and Properties

- Eligible Farm & Ranch Loans
  - Types of loans
    - Must be first mortgage farm or ranch real estate loans
    - Revolving lines of credit are available if first mortgage secured
  - Properties
    - Parcels of land capable of producing ag commodities or products
    - May be improved by buildings, fixtures and equipment permanently attached
    - No minimum or maximum acreage requirement
  - Borrowers
    - U.S. citizens, nationals or aliens lawfully admitted for permanent U.S. residence
    - Corporations or partnerships where members, stockholders or partners holding a majority interest in the entity are U.S. citizens (or nationals) or aliens lawfully admitted for permanent U.S. residence. Co-borrowers or a personal guarantee is expected.
    - Trusts are eligible for Farmer Mac financing if there is a personal guarantee
## AgAssist – New Option

<table>
<thead>
<tr>
<th>Underwriting Option</th>
<th>Total Debt Coverage Ratio</th>
<th>Current Ratio</th>
<th>Debt to Asset Ratio</th>
<th>Maximum Loan Amount</th>
<th>Loan to Value</th>
<th>Credit Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>AgAssist</td>
<td>≥1.10</td>
<td>≥1.00</td>
<td>≤60%</td>
<td>≤ 1000 acres; $50.0M</td>
<td>≤ 45% FAMC</td>
<td>≥680</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>≥ 1000 acres; $12.3M</td>
<td>≤ 85% CLTV</td>
<td></td>
</tr>
</tbody>
</table>

- Standard pricing
- Facility loans eligible on a case by case basis
- Eligible for cash-out
- 2\textsuperscript{nd} mortgage must be guaranteed by a Federal or State agency
- AgAssist max loan size flexes with guaranteed loan amount
  - Guaranteed loan required to be in a 2\textsuperscript{nd} lien position
  - Guaranteed loan ≥ 25% of combined 1\textsuperscript{st} & 2\textsuperscript{nd} loan amount
Steps to Submit a Loan
Farm & Ranch
1st Mortgage
Information to Gather from Applicant

- 3-4 years
- Subsidiary Entities, if applicable

Tax Returns

- Current, market value within 90 days
- Historical Balance Sheets

Balance Sheets

- If applicable
  - Land leases
  - Production contracts

Copies of Contracts & Agreements

- Current assets
- Debt balances
- Verifications need applicant’s name and date

Verifications of Assets & Liabilities

- Credit report dated within 60 days

Signed Credit Release Authorization

- Tax returns can be signed at closing
- Environmental Disclosure

Signed Loan Application
Loan Approval Steps

• Meet with your customer; explain product options

• Package credit using Farmer Mac’s AgPower (Loan Origination System)
Delivering the capital and commitment rural America deserves.

VIEW OUR PRODUCTS & SOLUTIONS

Farmer Mac is the stockholder-owned company created to deliver capital and increase lender competition for the benefit of American agriculture and rural communities. For more than a quarter-century, Farmer Mac has been a vital partner helping America’s rural lenders meet the evolving needs of
Log in to secured area by entering user ID and password
Click on “Enter” to Access Farmer Mac I Applications
Select AgPower

Farmer Mac Rates

Labor Day Holiday Hours

The Farmer Mac Cash Window will be closed on Monday September 7th. Normal hours will resume Tuesday September 8th at 10:00AM EST.

In addition, the Farmer Mac Cash Window will close at 12:00PM EST on Friday September 4th.

- Farmer Mac Rates Post Schedule
- Farmer Mac I: Farm and Ranch Loan Program
- Farmer Mac II LLC Rates
- Historical Farmer Mac II LLC COFI Rates
- AgVantage Rates
Select “Add New Application”
Application Number: DC-110011
Borrower: MAC LAND LLP

Application Num: DC-110011  Application Status: New Application
Application Description: MAC LAND LLP
Number of Entities: 3 (1-15)  Seasoned Loan:  UW Type: FTF - Full Underwrite  Most Recent Inc/Exp Year: 2010 3/4/2018
Individual Completing Application: BERNARD ABBUHL  Application Date: 3/4/2018

The Proceeds Of The Loan Will Be Used As Follows:

<table>
<thead>
<tr>
<th>Loan Purpose</th>
<th>Description</th>
<th>Amount($)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase RE</td>
<td>PURCHASE S1/2 WANNABE TOWNSHIP</td>
<td>2,240,000</td>
<td>78</td>
</tr>
<tr>
<td>Refinance RE</td>
<td>FARM LOAN 2 with Roseville State Bank</td>
<td>600,000</td>
<td>21</td>
</tr>
<tr>
<td>Closing fees</td>
<td>FEES AND COSTS</td>
<td>20,000</td>
<td>1</td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td>2,860,000</td>
<td>100</td>
</tr>
</tbody>
</table>

The total loan purpose amount should be Equal to Requested Loan Amount

Seller Information:

Seller ID: DC-001  Open Seller Information in CRM
Name: Federal Agricultural Mortgage Corp.
Address: 8800 Eagle Rock Ln
City: Springfield
State: VA  Zip: 22153
Phone: 202-872-5565  Fax: 425-760-4423
Email: ssalke@farmermac.com

Loan Officer Information:

Loan Officer: Bernard ABBUHL
Address: 1930 K Avenue
City: Red Oak
State: IA  Zip: 51566
Phone: 712-623-4207  Alternate Phone: 712-242-6448
Fax: 712-623-4207
Email: BABBUHL@farmermac.com

Primary Borrower:
## Loan Terms:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Product</td>
<td>15-Yr Fixed</td>
</tr>
<tr>
<td>Loan Amount Requested($)</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Amortization Years</td>
<td>25</td>
</tr>
<tr>
<td>Term of Years</td>
<td>15</td>
</tr>
<tr>
<td>Maximum Interest Rate(%)</td>
<td>4.90</td>
</tr>
<tr>
<td>Payment Frequency</td>
<td>Semi-annual</td>
</tr>
<tr>
<td>Fixed/ARM/VRM</td>
<td>Fixed Rate</td>
</tr>
<tr>
<td>AgAssist Loan?</td>
<td>Yes</td>
</tr>
<tr>
<td>Federal or State Program Loan Amount($)</td>
<td>450,000</td>
</tr>
<tr>
<td>Adjustable Frequency(Years)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

## Security:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acres</td>
<td>400</td>
</tr>
<tr>
<td>County</td>
<td>Benton</td>
</tr>
<tr>
<td>State</td>
<td>IA</td>
</tr>
<tr>
<td>Title is/will be vested in</td>
<td></td>
</tr>
<tr>
<td>Is the property irrigated?</td>
<td>Yes</td>
</tr>
<tr>
<td>Legal Description</td>
<td>See Attached Exhibit A</td>
</tr>
</tbody>
</table>

Additional Security (Include federal & state grazing leases, irrigation equipment, water rights & other equipment necessary to the operation of the security):

None

Description of property and improvements (including leased equipment, i.e. irrigation pivots):

None
### Loan Terms:

- **Loan Product:** 15-Yr Fixed
- **Loan Amount Requested($):** 1,000,000
- **Amortization Years:** 25
- **Maximum Interest Rate(%):** 4.90%
- **Payment Frequency:** Semi-annual
- **Term of Years:** 15
- **Fixed/ARM/VRM:** Fixed Rate
- **Adjustable Frequency(Years):** N/A
- **AgAssist Loan?** Yes
- **Federal or State Program Loan Amount($):** 450,000

### Security:

- **Acres:** 400
- **County:** Benton
- **State:** IA
- **Title is/will be vested in:**

  - 

- **Is the property irrigated?** Yes
- **Yes**
- **No**

- **Legal Description:**
  - See Attached Exhibit A

- **Additional Security (Include federal & state grazing leases, irrigation equipment, water rights & other equipment necessary to the operation of the security):**
  - None

- **Description of property and improvements (including leased equipment, i.e. irrigation pivots):**
  - None
Loan Approval Steps

• Once submitted, Farmer Mac reviews loan package
• Responds to Seller within two business days
• Issues preliminary loan approval letter
Appraisal and Title Steps

- Seller engages an appraiser
  - Must be a state certified general appraiser
- Seller orders preliminary title report
  - Forward original “pdf” version of title report (or title opinion if located in Iowa) to Farmer Mac
- Seller reviews appraisal report to ensure it meets the terms of engagement
- Seller uploads appraisal report and preliminary title report/title opinion into AgPower
- After Farmer Mac’s assessment and approval, these items and the remainder of the file is forwarded to the Central Servicer who assists you with loan closing (instruction letter sent to C.S.)
Farm & Ranch (F&R) Rates

• Seller calls Farmer Mac’s rate lock desk (10-3 ET)
• Indicative rates posted daily
• Seller adds Field Servicing Fee
  – 10 bps to 150 bps
  – Typical fee 50-60 bps
  – A Commitment to Purchase is provided via AgPower, by Farmer Mac, outlining the terms to be placed in the note

• Mandatory delivery
  – 1% pair-off fee
  – Extensions allowed

Rob Owens
Manager – Capital Markets

Mike Schmid
Trader – Capital Markets
<table>
<thead>
<tr>
<th>Products</th>
<th>Term</th>
<th>Amortization</th>
<th>Reset Margin</th>
<th>Choice Rates</th>
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<tbody>
<tr>
<td>AgEquity LIBOR</td>
<td>20</td>
<td>25</td>
<td>30</td>
<td>Varies</td>
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<tr>
<td>1-Mo ARM LIBOR</td>
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<td>25</td>
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<td>1-Yr ARM</td>
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<td>15</td>
<td>25</td>
<td>2.30%</td>
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<tr>
<td>3-Yr ARM</td>
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<td>15</td>
<td>25</td>
<td>2.30%</td>
</tr>
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<td>5-Yr ARM</td>
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<td>7/1 ARM</td>
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<td>25</td>
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<td>15</td>
<td>20</td>
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<tr>
<td>10-Yr VRM</td>
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<tr>
<td>15-Yr VRM</td>
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<td>30</td>
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<tr>
<td>7-Yr Fixed</td>
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<td>25</td>
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<tr>
<td>10-Yr Fixed</td>
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<td>15-Yr Fixed</td>
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<tr>
<td>20-Yr Fixed</td>
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<td>20</td>
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<tr>
<td>25-Yr Fixed</td>
<td>25</td>
<td>25</td>
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</table>
Closing Documents

• Seller works with Central Servicer to prepare the note and other closing documents for the loan product selected using the Rate Lock Information Tab/Screen in AgPower
  – Seller uses in-house loan closing document preparation program
  – Seller uses online web-based closing document preparation service, PiersonPatterson (ppdocs.com)
Loan Closing Options

• **Table Funding** – Loan is closed at title office by title officer or attorney’s office doing title opinion (Iowa only)

• **Purchase Closed Loans** – Loan is closed at Seller institution by Seller
FARMER MAC 2
SECONDARY MARKET FOR USDA GUARANTEED LOANS
2nd Mortgage
Program Overview using AgAssist

Farm Service Agency
  • Farm Ownership

Rural Development
  • Business & Industry
Streamlined Process

- No Farmer Mac underwriting analysis
- Lender receives fee income over life of the loan
- No maximum or minimum loan size
- No prepayment penalties
Sale Documents

- Loan Note Guarantee
- Assignment of Guarantee
- Promissory Note
- Other Documents
## Farmer Mac 2 Rate Sheet

<table>
<thead>
<tr>
<th>Product Types</th>
<th>Monthly Pay Cash</th>
<th>Monthly Pay 4-Week Rate Lock</th>
<th>Annual, S.A., &amp; Qrtly Pay Cash</th>
<th>Annual, S.A., &amp; Qrtly Pay 4-Week Rate Lock</th>
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</thead>
<tbody>
<tr>
<td>Wall Street Journal Prime **</td>
<td>1.75%</td>
<td></td>
<td>1.75%</td>
<td></td>
</tr>
<tr>
<td>Farmer Mac 3-Mo COFI</td>
<td>1.51%</td>
<td></td>
<td>1.51%</td>
<td></td>
</tr>
<tr>
<td>Farmer Mac 5-Yr Reset COFI, 20, 25, 30-Yr Am</td>
<td>2.50%</td>
<td>2.59%</td>
<td>2.60%</td>
<td>2.69%</td>
</tr>
<tr>
<td>Farmer Mac 10-Yr Reset COFI, 20, 25, 30-Yr Am</td>
<td>3.15%</td>
<td>3.24%</td>
<td>3.25%</td>
<td>3.34%</td>
</tr>
<tr>
<td>Farmer Mac 15-Yr Reset COFI, 20, 25, 30-Yr Am</td>
<td>3.54%</td>
<td>3.63%</td>
<td>3.64%</td>
<td>3.73%</td>
</tr>
<tr>
<td>7-Yr Fixed Rate, 7-Yr Am</td>
<td>2.44%</td>
<td>2.53%</td>
<td>2.54%</td>
<td>2.63%</td>
</tr>
<tr>
<td>7-Yr Fixed Rate, 15-Yr Am</td>
<td>2.66%</td>
<td>2.75%</td>
<td>2.76%</td>
<td>2.85%</td>
</tr>
<tr>
<td>10-Yr Fixed Rate, 10-Yr Am</td>
<td>2.76%</td>
<td>2.85%</td>
<td>2.86%</td>
<td>2.95%</td>
</tr>
<tr>
<td>15-Yr Fixed Rate, 15-Yr Am</td>
<td>3.14%</td>
<td>3.23%</td>
<td>3.24%</td>
<td>3.33%</td>
</tr>
<tr>
<td>15-Yr Fixed Rate, 25-Yr Am</td>
<td>3.48%</td>
<td>3.57%</td>
<td>3.58%</td>
<td>3.67%</td>
</tr>
<tr>
<td>20-Yr Fixed Rate, 20-Yr Am</td>
<td>3.46%</td>
<td>3.55%</td>
<td>3.56%</td>
<td>3.65%</td>
</tr>
</tbody>
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Case Studies
Case Study #1

• Applicants are Robert and Rita Peterson. The Peterson’s currently farm in Holgate, Ohio.
• Due to very wet weather, the applicants need to improve their working capital position and restructure their machinery loans that are with Farmers and Merchants Bank (ABA member bank).
• Want to reduce their line of credit by $800,000 and refinance their machinery loans that total $1,000,000. They would like to amortize all of this out on their farmland.
• Applicants like the 15 year fixed rate Farm & Ranch Farmer Mac product with a 25 year amortization, 4.95% rate.
Case Study #1 (cont’d)

- FSA has approved a farm ownership land loan of up to their limit of $1,399,000 on a fixed rate product
- Farmer Mac offers a 15 year COFI with a 30 year amortization with a rate today of 4.76% through the Farmer Mac 2 program
- Security for these mortgages is a clear 320 ac. parcel with an appraised value of $2,300,000
- Proforma ratios after the closing a proforma debt to asset ratio of 59%, current ratio 1.08, proforma TDC of 1.14
- Credit scores of 692 and 710
- What is important to the Peterson’s is to get as much as possible on a 30 year amortization and locking the interest rate in
Answer – Case Study #1

• AgAssist first mortgage loan with a FSA/Farmer Mac 2 second mortgage on the same land.
• Applicants want as much as possible on a 30 year amortization and fixed rates.
• Suggest a first mortgage of $401,000 using the Farmer Mac 15 year fixed product (ABA 13 bps discount) and a second mortgage of $1,399,000 using the FSA guarantee with the 15 year VRM with a 30 year amortization.
• This structure and their financial information meets all of the Farmer Mac Farm and Ranch and AgAssist requirements.
• Can do 100% cash-out with AgAssist. Customer gets a better interest rate using the Farmer Mac 2 loan product and more money is on a 30 year amortization.
Case Study #2

• Applicants are Robert and Rita Peterson. The Peterson’s currently farm in Holgate, Ohio.
• Due to very wet weather, the applicants need to improve their working capital position and restructure their machinery loans that are with Farmers and Merchants Bank (ABA member bank).
• Want to reduce their line of credit by $800,000 and refinance their machinery loans that total $1,000,000. They would like to amortize all of this out on their farmland.
• Applicants like the 15 year fixed rate Farm & Ranch Farmer Mac product with a 25 year amortization, 4.95% rate.
Case Study #2 (cont’d)

- FSA has approved a farm ownership land loan of up to their limit of $1,399,000 on a fixed rate product
- Farmer Mac offers a 15 year COFI with a 30 year amortization with a rate today of 4.76% through the Farmer Mac 2 program
- Security for these mortgages is a clear 320 ac. parcel with an appraised value of $2,300,000
- Proforma ratios after the closing a proforma debt to asset ratio of 59%, current ratio 1.08, proforma TDC of 1.14
- Credit scores of 692 and 710
- What is important to the Peterson’s is to put this debt on their farmland and get it amortized, but use as little of the FSA guarantee so that they have an additional amount on the guarantee to draw upon in the future.
Answer – Case Study #2

- AgAssist first mortgage loan with a FSA/Farmer Mac 2 second mortgage on the same land.
- Applicants want to keep as much of the remaining guaranteed amount with FSA available for the future.
- Suggest a first mortgage of $1,035,000 using the Farmer Mac 15 year fixed product (ABA 13 bps discount) and a second mortgage of $765,000 using the FSA guarantee with the 15 year VRM with a 30 year amortization.
- Customer still has $634,000 of guarantee to access from FSA in the future.
- This structure and their financial information meets all of the Farmer Mac Farm and Ranch and AgAssist requirements.
Thank You

Contact Us: www.farmermac.com

Corporate Headquarters (DC): 800-879-3276
Underwriting Office (IA): 866-452-2617