Farmer Mac 2 Update:
A Top-Down Review of the
USDA Guaranteed Loan
Secondary Market

Refresh Webinar
September 2016

Today’s Presenters

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**Something to Consider**

Are you currently participating in USDA's guaranteed loan programs?

Why not consider a program that guarantees loans against loss, up to 95 percent?

In FY 2016, USDA-FSA is on track to guarantee over 9,500 loans totaling over $3.9 billion. A big year!

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**In Their Words**

“It is a great way to obtain long term fixed rates for our customers and make some pretty good income for the bank!”

“Farmer Mac 2 has been very beneficial for our small community bank by giving us access to long term fixed rates. Their rates allow us to stay competitive in the ag market today. We also rely on Farmer Mac 2 to help control our liquidity and keep a desired capital level.”
Eligible USDA Programs

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

Rural Development
- Business and Industry Loans
- Community Facility Loans
- Water and Environmental Loans

Loan Types
- At June 30, 2016 Farmer Mac had $1.96 billion total outstanding portfolio of USDA Guaranteed loans

Outstanding Guarantees by Loan Type

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

- Farmer Mac Farm and Ranch
- Farmer Mac 2 USDA Guaranteed Loan Program

How Farmer Mac 2 Works

- $1,000,000 Farm Loan with a 90% FSA guarantee
- Lender retains 10% of the balance: $100,000
- FM2 purchases 90% of the balance: $900,000
- Lender retains 10% of the rate risk
- FM2 retains 90% of the rate risk
- Lender retains 10% of the credit risk
- FSA retains 90% of the credit risk
- Lender retains 100% of the Loan Servicing
**Advantages of Utilizing Farmer Mac 2**

- Offer long-term fixed rates to “guaranteed loan” borrowers
- Lender receives fee income over life of the loan
- Average servicing fee is over 1.00%
- Competitive rate sheet
- No prepayment penalties
- Lender services 100% of the loan
- Centralized FM2 Program Administrator
- No Farmer Mac underwriting

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**Types of Transactions**

- **Par Sale** – Seller receives “par value” or “face value”
  - Example: Guaranteed portion balance is $800,000, seller receives $800,000 at settlement (Price is 100.00)
- **Premium Sale** – Seller receives an amount in excess of “face value” at sale
  - Example: Guaranteed portion balance is $800,000, seller receives $840,000 at settlement (Price is 105.00)
- **Discount Sale** – Seller receives an amount less than “face value” at settlement
  - Example: Guaranteed portion balance is $800,000, seller receives $792,000 at sale (Price is 99.00)
**Loan Sale Economics Example**

- **Loan Amount:** $1,080,000 (guarantee)
- **Maturity:** 15-years
- **Payments:** Annual
- **Note Rate:** 5.25% fixed rate

**Option 1**
- **Par Bid:** 100.00
- **Rate:** 3.07% net yield
- **S. Fee:** 2.18%

**Option 2**
- **Premium Bid:** 105.25
- **Rate:** 4.75%
- **S. Fee:** 0.50%

*Best execution for you – Par or Premium?*

**Economic Benefits**

- **5-Year Income Totals:**
  - Par = $106,436 vs Premium = $81,220
Farmer Mac 2 Product Trends

Top 6 Products by Volume (1/1/16 to 6/30/16)

- 20-Yr Fixed Rate, 20-Yr Am: 33%
- Farmer Mac 15-Yr Reset COFI: 11%
- 30-Yr Fixed Rate, 30-Yr Am: 27%
- 15-Yr Fixed Rate, 15-Yr Am: 10%
- Farmer Mac 10-Yr Reset COFI: 8%
- Farmer Mac 3-Mo COFI: 11%

Guaranteed Portions Purchased (1/1/2016 to 6/30/2016)

<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>FAMC 3-Month COFI</td>
<td>60</td>
<td>3.09%</td>
<td>4.50%</td>
<td>1.88%</td>
<td>$14,781,431</td>
<td>6%</td>
<td>$246,357</td>
</tr>
<tr>
<td>Wall Street Journal Prime</td>
<td>5</td>
<td>1.06%</td>
<td>0.50%</td>
<td>1.70%</td>
<td>$5,444,931</td>
<td>2%</td>
<td>$1,088,986</td>
</tr>
<tr>
<td>FAMC 5-Year COFI</td>
<td>24</td>
<td>1.54%</td>
<td>1.50%</td>
<td>2.65%</td>
<td>$12,000,518</td>
<td>5%</td>
<td>$500,022</td>
</tr>
<tr>
<td>Fixed 7-Years</td>
<td>69</td>
<td>1.48%</td>
<td>1.35%</td>
<td>2.67%</td>
<td>$20,665,742</td>
<td>9%</td>
<td>$299,504</td>
</tr>
<tr>
<td>10-Year COFI</td>
<td>40</td>
<td>1.62%</td>
<td>1.31%</td>
<td>3.14%</td>
<td>$16,798,967</td>
<td>7%</td>
<td>$419,974</td>
</tr>
<tr>
<td>15-Year COFI</td>
<td>134</td>
<td>1.06%</td>
<td>1.00%</td>
<td>3.58%</td>
<td>$58,288,897</td>
<td>25%</td>
<td>$434,992</td>
</tr>
<tr>
<td>Fixed 7-30 Years</td>
<td>259</td>
<td>1.14%</td>
<td>1.09%</td>
<td>3.53%</td>
<td>$104,688,236</td>
<td>45%</td>
<td>$404,190</td>
</tr>
<tr>
<td>Fixed 7-30 Years</td>
<td>591</td>
<td>1.33%</td>
<td>1.20%</td>
<td>3.24%</td>
<td>$232,665,721</td>
<td>100%</td>
<td>$393,681</td>
</tr>
</tbody>
</table>
Recent FM 2 Transactions - Wisconsin

Transaction Details
- Farm Ownership
- $1,195,000 Principal Balance
- $1,075,500 Guarantee, 90%
- $120,000 Retained Balance
- 30-Yr Fixed Rate (Full Am)
- Annual Payments
- 4.25% Note Rate
- 3.43% Farmer Mac Rate
- 0.82% Servicing Spread

Year 1 Seller Income
- $8,819 Sold Portion Income
+ $5,100 Retained Portion Income
- $13,919 Year 1 Seller Income

$13,919 (Year 1 Income)/
$120,000 (10% Retained Balance)=
11.60% Gross Rate of Return

Recent FM 2 Transactions - Illinois

Transaction Details
- Operating - Term
- $550,000 Principal Balance
- $495,000 Guarantee, 90%
- $55,000 Retained Balance
- 7-Yr Fixed Rate (Full Am)
- Semi-Annual Payments
- 3.10% Note Rate
- 2.42% Farmer Mac Rate
- 0.68% Lender Servicing Fee

Year 1 Seller Income
- $3,566 Sold Portion Income
+ $1,705 Retained Portion Income
- $5,271 Year 1 Seller Income

$5,271 (Year 1 Income)/
$55,000 (10% Retained Balance)=
9.58% Gross Rate of Return
Recent FM 2 Transactions - Nebraska

Transaction Details

- Farm Ownership
- $395,500 Principal Balance
- $355,950 Guarantee, 90%
- $39,550 Retained Balance
- 5-Yr Reset COFI (30-Yr Term)
- Annual Payments
- 4.60% Note Rate
- 2.41% Farmer Mac Rate
- 2.19% Lender Servicing Fee

Year 1 Seller Income

- $7,795 Sold Portion Income
- $1,819 Retained Portion Income
- $9,614 Year 1 Seller Income

\[
\frac{9,614 \text{ (Year 1 Income)}}{39,550 \text{ (10% Retained Balance)}} = 24.30\% \text{ Gross Rate of Return}
\]

Steps to Success

- **Tell us what you’re selling**
  - Answer questions in our Online Loan Application (OLA)
- **Lock in your Rate**
  - Call our Rate Line Monday-Friday from 10-3 EST
- **Accept Commitment**
  - Automated email will be sent, detailing the next steps
- **Upload Documents**
  - OLA will give you the information on required documents
- **Loan Review & Settlement**
  - Your loan will be reviewed and you tell us when to settle
Fields in red must be filled in before locking a rate.

All other fields should be completed before submitting for review and settlement.

Sale Documents

- Loan Note Guarantee
- Assignment of Guarantee
- Promissory Note
- Other Documents
Assignment of Guarantee

PART A - BACKGROUND INFORMATION

1. Lender’s Name and Mailing Address
National Bank
123 Main Street
Anytown, IN 42321

3. Holder’s Name, Mailing Address and Email Address
Farmer Mac IT LLC
P.O. Conterra Asset Management
7766 Office Plaza Drive North, Suite 195
West Des Moines, IA 50266
settlement@conterraag.com

4. Borrower’s Name
John R. Doe

5. Loan Type
LO

6. Case Number
123456789

7. Original Loan Amount
$100,000.00

8. Date Promissory Note Executed
9/1/2016

9. Amount of Principal Outstanding
$100,000.00

10. The United States of America, acting through the Farm Service Agency (Government), entered into a loan guarantee using FSA-2234/FSA-1901.27, or predecessor RD-449-34 or earlier version of the Agency loan guarantee with the lender. This loan has been assigned with (a) 50% guarantee. The holder agrees to purchase, and the lender assigns (b) 100% of the guaranteed portion of the loan representing (c) $85,000.00 of such loan now outstanding according to the conditions in this agreement.

11. SERVICING FEE: The lender will retain a servicing fee of: (a) $ or (b) 1.00%

Assignment of Guarantee (con’t)

PART B - LENDER CERTIFICATION: The Lender certifies or agrees that:

1. Guarantee Fee
It has paid any required guarantee fee to the Government in exchange for the issuance of the loan guarantee.

2. Knowledge of Borrower Prepayment
It has no knowledge or information, through the exercise of reasonable diligence, that would indicate the likelihood of default or prepayment.

3. Payment Funds
In the event of prepayment, any funds will be either the borrower’s own funds, or funds borrowed by the borrower pursuant to a separate transaction, and the prepayment is in accordance with the loan documents.

4. Servicing Responsibilities
It will be responsible for servicing the entire loan and will remain mortgagee and secured party of record.

5. Loan Security
The entire loan will be secured by the same security with equal lien priority for the guaranteed and unguaranteed portions of the loan.

6. Remitting Payments
It will receive all payments of principal or interest (including any loan subsidy) and will promptly remit to the holder the holder’s pro rata share determined according to the respective interests, in the loan, as agreed by the holder and lender.
Assignment of Guarantee (cont’)

**FSA-2242 (03-09-15)**

**PART IV - REPURCHASE OF LOAN FROM HOLDER:**

<p>| | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Lender Repurchase</strong></td>
<td>The lender acknowledges that it has no authority to unilaterally repurchase the guaranteed portion of the loan from the holder without written concurrence from the Government. Lender may repurchase only as provided in this agreement and 7 C.F.R. Part 702.</td>
</tr>
<tr>
<td><strong>2. Repurchase for Servicing Purposes</strong></td>
<td>Lender may repurchase the loan to restructure loan payments or other servicing actions. If the borrower's ability to remain in business is directly dependent upon a change in the provisions relating to the borrower's installment payments, the Government may permit the lender to repurchase the guaranteed interest from the holder if all of the following conditions exist:</td>
</tr>
<tr>
<td></td>
<td>a. Lender has submitted a written request to Government for concurrence providing justification for repurchase.</td>
</tr>
<tr>
<td></td>
<td>b. The change in terms and conditions are to the borrower's benefit.</td>
</tr>
<tr>
<td></td>
<td>c. The lender must change the loan terms and conditions if repurchased.</td>
</tr>
<tr>
<td><strong>3. Government Repurchase for Servicing Purposes</strong></td>
<td>If the lender does not repurchase the loan, Government at its option may purchase the guaranteed portions of the loan for servicing purposes.</td>
</tr>
<tr>
<td><strong>4. Holder Demand for Repurchase</strong></td>
<td>The holder will have the right to demand repurchase, in either of the circumstances below. The holder will notify the Government when circumstances exist that would give them the right to demand repurchase. The amount repurchased will be equal to the unpaid guaranteed portion of the principal and interest less lender's servicing fee.</td>
</tr>
<tr>
<td></td>
<td>a. The borrower is in default not less than 60 days on principal or interest due on the loan; or,</td>
</tr>
<tr>
<td></td>
<td>b. The lender has failed to remit to the holder the holder's pro rata share of any payment made by the borrower or the Agency.</td>
</tr>
</tbody>
</table>

**Assignment of Guarantee (cont’)**

<p>| | |</p>
<table>
<thead>
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<tr>
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<td></td>
<td>a. The borrower is in default not less than 60 days on principal or interest due on the loan; or,</td>
</tr>
<tr>
<td></td>
<td>b. The lender has failed to remit to the holder the holder's pro rata share of any payment made by the borrower or the Agency.</td>
</tr>
<tr>
<td><strong>5. Process for Holder to Demand Repurchase</strong></td>
<td>The holder will send a letter to the lender with a copy to the Government demanding repurchase of the loan.</td>
</tr>
<tr>
<td></td>
<td>a. To demand repurchase, the holder will send a letter to the lender with a copy to the Government demanding repurchase of the loan.</td>
</tr>
<tr>
<td></td>
<td>b. The lender will restructure the guaranteed portion if desired or if necessary to facilitate servicing of the loan such as the application of interest assistance, or to restructure terms of a defaulted loan when the holder will not agree to the change.</td>
</tr>
<tr>
<td></td>
<td>c. The holder will accept an assignment without recourse from the holder upon repurchase.</td>
</tr>
<tr>
<td><strong>6. Government Repurchase</strong></td>
<td>If the holder does not repurchase the loan, the holder must inform the Government that demand was made on the lender and the lender refused. Following the lender's refusal, the holder may continue as holder of the loan or demand that the Government purchase the guaranteed portion.</td>
</tr>
<tr>
<td></td>
<td>a. The borrower is in default not less than 60 days on principal or interest due on the loan; or,</td>
</tr>
<tr>
<td></td>
<td>b. The lender has failed to remit to the holder the holder's pro rata share of any payment made by the borrower or the Agency.</td>
</tr>
<tr>
<td></td>
<td>c. The lender will accept an assignment without recourse from the holder upon repurchase.</td>
</tr>
<tr>
<td></td>
<td>If the holder demands Government purchase, the Government will pay the holder within 30 days when both the lender and holder agree on the repurchase amount. The Government will only pay interest that accrues up to 90 days after the holder has demanded repurchase by the lender. However, if the holder requested purchase by the Government within 60 days of the request to the Lender and for any reason not attributable to the holder and the lender, the Government cannot make payment within 30 days of the holder's demand to the Government, the holder will be paid interest to the date of the payment.</td>
</tr>
<tr>
<td></td>
<td>The Government may purchase the guaranteed portion from the holder for servicing at any time at its option. When the Government purchases the guaranteed portion, the holder will re-assign the assignment of guarantee to the Government without recourse.</td>
</tr>
</tbody>
</table>
Assignment of Guarantee (con’t)

**PART E. HOLDER RIGHTS**

1. Right to Require Repurchase
   - The guaranty and right to require purchase will be directly enforceable by the holder notwithstanding any fraud or misrepresentation by the lender or any unenforceability of the loan guarantee by the lender.

2. Reassignment
   - The holder, upon written notice to Government and the lender, may reassign the unpaid guaranteed portion of the loan if holds. Upon such notification, the assignee will succeed to all rights and obligations of the holder hereunder.

**PART G. SIGNATURES**

<table>
<thead>
<tr>
<th>Signature Details</th>
<th>Signature Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender’s Representative Name</td>
<td>Title</td>
</tr>
<tr>
<td>Lender’s Representative Signature</td>
<td>Date</td>
</tr>
<tr>
<td>Agency Officer’s Name</td>
<td>Title</td>
</tr>
<tr>
<td>Agency Officer’s Signature</td>
<td>Date</td>
</tr>
<tr>
<td>Holder’s Representative Name</td>
<td>Title</td>
</tr>
<tr>
<td>Holder’s Representative Signature</td>
<td>Date</td>
</tr>
</tbody>
</table>

Certification: If necessary, the holder will join to institute foreclosed action, or in law of foreclosed, take a deed of conveyance.

Digital Signatures

The process for lenders to create and execute Assignments has not changed.

**Using Digital Signatures…**
- Lender executes Assignment by hand
- Lender delivers Assignment to FSA by mail or in person
- FSA executes digitally and sends to Conterra by email
- Conterra uploads final fully executed document to OLA

**Using Manual Signatures…**
- Lender executes Assignment by hand
- Lender delivers Assignment to FSA by mail or in person
- FSA executes by hand and sends to Conterra by mail
- Conterra uploads final fully executed document to OLA
Documents Tab Features

1. Click for info on where to send Assignment and how to complete Box 3

2. Upload copies of your Assignment of Guarantee, Loan Guarantee, Promissory Note, and more

3. Remember to submit record for final review and settlement after uploading!

Program Administrator
Conterra Asset Management

- Loan Settlements
- Loan Payments
- Servicing Actions

New Farmer Mac Option: “AgAssist”

- New secondary market “Piggy Back” loan option for 1st mortgage ag real estate loans
- 1st mortgage must meet AgAssist underwriting criteria
- 2nd mortgage is guaranteed by a federal or state agency and must be at least 25% of the combined 1st and 2nd mortgages

Potential uses:
- Assist producers experiencing stress who are looking to restructure
- Help stretch FSA guaranteed loan limits
- Provide a competitive rate option for the 1st mortgage and the 2nd mortgage

<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>
</tbody>
</table>
Sample Transaction: AgAssist

- Borrower seeks to restructure real estate & equipment debt plus a portion of their operating line. Loan request totals $2 million.
- Borrower requests fixed rate to decrease future rate risk.

<table>
<thead>
<tr>
<th>1st Mortgage</th>
<th>2nd Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan: $601,000</td>
<td>Loan: $1,399,000</td>
</tr>
<tr>
<td>FM AgAssist</td>
<td>90% FSA FO Guarantee</td>
</tr>
<tr>
<td>24% LTV on 640 acres</td>
<td>Guaranteed: $1,259,100</td>
</tr>
<tr>
<td>5.00% Note Rate</td>
<td>Unguaranteed: $139,900</td>
</tr>
<tr>
<td>15-Year Reset</td>
<td>80% CLTV on 640 acres</td>
</tr>
<tr>
<td>30-Year Maturity</td>
<td>5.00% Note Rate</td>
</tr>
<tr>
<td>0.39% Servicing Fee</td>
<td>15-Year Reset</td>
</tr>
<tr>
<td></td>
<td>30-Year Maturity</td>
</tr>
<tr>
<td></td>
<td>1.27% Servicing Fee</td>
</tr>
</tbody>
</table>

A Few Words of Advice...

#10 Don't be a stranger!
If you’re brand new to the program - or it’s just been a while - call your relationship manager to get up to speed and get logged in.

#9 Don't forget to submit
Your record is private until the “submit” tab is completed. If your rate lock OR cash file has a submit tab, we can’t see it— and for rate locks, we can’t lock it.

#8 Don't delay
If you’ve got copies of your note, Guarantee, and Assignment, you’re probably ready to submit for review! No need to wait for the original Assignment to show up.
A Few Words of Advice...

#7 Don't reinvent the wheel
We all make mistakes. But 99% of those can be resolved by either amending a document or, even more simply, getting USDA/FSA acknowledgement. We recommend you don't create a new note or have a government document reissued - this runs the risk of creating new mistakes, having other documents reference older versions, and delaying receipt of original documents and potentially delaying your settlement.

#6 Don't walk away
We're excited for you when you go on vacation and happy to prioritize review if you know you'll be away during part of your rate lock period - just let us know before you go!

#5 Remember we're here to help!
We're happy to review drafts of notes and note amendments before you get them signed. Please allow up to 2 business days for a review.

A Few Words of Advice...

#4 Stay up to date
Two years ago we updated our information as it should appear when you complete the Assignment of Guarantee - filling this in wrong can result in important originals getting lost in the mail.

#3 Something wrong? Take a picture!
Bugs happen - if one of our online systems seems to be on the fritz, take some screenshots of the issue - it'll help us to see what you're seeing and quickly troubleshoot the issue.

#2 Deliver what you lock
Oftentimes the person who drafts your note isn't the same person locking a rate with us. Make sure you're on the same page - and that the document the lender signed isn't a 30 year fixed when you wanted to lock in a 5 year reset.

#1 Don't Panic
Worried you're about to miss your delivery deadline? FSA office trapped in a blizzard? We can help you get back on track when things go wrong - just be sure to let us know!
Benefits of Selling to Farmer Mac 2

- 25+ years of experience
- The buck stops here! No re-selling after FM2 purchases guarantee.
- One dedicated program administrator: Conterra Asset Management
- We have friendly and dedicated staff that only focuses on FM2 loans.

Thank you!