Product Changes
Enhancements to Farm & Ranch Loan Purchase Solution
Agenda

• What’s This All About?
  • The Details
  • The Reasons

• What Else?
  • Rate Resets
  • New Resources

• Impacts - FAQ
  • New and Existing Loans
  • Looking Forward

• More Enhancements
  • Updated Rate Sheets
  • Pricing Announcement!
  • Dates to Know
What’s This All About?

Farmer Mac is replacing specific products within the Farm & Ranch Loan Purchase Solution

• Replacing **LIBOR-based products** and **Treasury-based ARMs** (Adjustable Rate Mortgages) with **VRMs** (Variable Rate Mortgages)

• Key forces driving the need for change
  ✔ Commitment to delivering competitive and flexible products
  ✔ Customer satisfaction and loan retention
  ✔ Dissolution of LIBOR
What is a VRM?

• Farmer Mac’s variable rate mortgages (VRMs) are fixed for an initial period, reprice off of a Farmer Mac managed index, and are then fixed for the same period (not to exceed the remaining term of the loan). Repricing continues until loan maturity.

• Examples:
  – 10-year VRM, 25-year amortization and maturity; reprices at year 10 & 20, fixed for the final 5 years
  – 10-year VRM, 30-year amortization and maturity; reprices at year 10 & 20, fixed for the final 10 years
  – 5-year VRM, 20-year amortization and maturity; reprices at year 5, 10, & 15, fixed for the final 5 years

• Payments are fully amortized over the loan term (length of maturity and amortization must be the same)

• Balloon payments are not allowed
What’s Changing?

**BEFORE**

• AgEquity (RLOC) 1-month LIBOR*

• 1-Month LIBOR ARM

• 1-, 3-, and 5-Year ARM***

• 5-Year VRM with yield maintenance (i.e., prepayment penalty)

**AFTER**

• AgEquity (RLOC) 1-month VRM**

• 1-Month VRM

• 1-, 3-, and 5-Year VRM

• Removed as a product option

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*LIBOR = London Interbank Offered Rate  
**VRM = Variable Rate Mortgage  
***ARM = Adjustable Rate Mortgage
**Noteworthy Enhancements**

**BEFORE**

- LIBOR & ARMs limited to 15-year maturities with only 15- or 25-year amortizations
- LIBOR & ARM rate resets based on a public index plus a fixed reset margin
- Central Servicers must contact Farmer Mac to obtain VRM reset rates

**AFTER**

- VRM terms and amortizations from 15- to 30-years on the 1-month VRM, 1-, 3-, 5-, 10-, and 15-year VRMs
- VRM reset rates will be published on efarmermac.com and made available to Central Servicers and Sellers
- Central Servicers are equipped to determine reset rates more quickly, with access to original loan terms and reset rates
The Reasons For Change – Our Customers

• **Customer Satisfaction**
  – Commitment to delivering more competitive products
    • Increased flexibility and more product options (increase to 30-year terms)

• **Loan Retention**
  – Treasury ARMs initially priced based on Farmer Mac’s COF plus spread
  – At time of rate reset – these products reprice based on applicable treasury rate plus a fixed spread (2.30% or 2.50%)
    • Spread compensates Farmer Mac for a variety of risks
    • Fixed for life of loan and thus exposes Farmer Mac to basis risk between COF and Treasury rates
    • At times, could result in new Treasury ARMs priced much lower than reset rate on existing loans of the same product

<table>
<thead>
<tr>
<th></th>
<th>New Product Initial Rate</th>
<th>Reset Rate (Treasury Plus 2.50% margin)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-year Treasury ARM</td>
<td>4.92%</td>
<td>5.41%</td>
<td>0.49%</td>
</tr>
<tr>
<td>3-year Treasury ARM</td>
<td>4.71%</td>
<td>5.35%</td>
<td>0.64%</td>
</tr>
<tr>
<td>1-year Treasury ARM</td>
<td>4.36%</td>
<td>5.13%</td>
<td>0.77%</td>
</tr>
</tbody>
</table>
The Reasons For Change - LIBOR

• LIBOR benchmark rate expected to be discontinued after 2021
• Farmer Mac must take steps to reduce new exposure to LIBOR
• Create market familiarity with new floating rate products
• Regulatorily driven - FCA mandated

Want to know more about LIBOR? Visit The Feed (Fall 2018 Edition, pages 7 & 8)
(Located at www.farmermac.com under News & Events)
Reset Rate Access

- Log in at www.efarmermac.com
- Two new links will appear providing access to 2-day and 45-day lookback reset rates

Farmer Mac Rates

- Farmer Mac Rates Post Schedule
- Farm and Ranch Loan Purchase Rates
- Farm and Ranch Loan Purchase - ABA Rates
- Farm and Ranch Loan Purchase - ICBA Rates
- AgVantage Rates
  - Farm & Ranch Variable Rate Mortgage (VRM) Reset Rates - Monthly Resets
  - Farm & Ranch Variable Rate Mortgage (VRM) Reset Rates - All Other Resets
- Farmer Mac 2 Rates
- Historical Farmer Mac 2 COFI Rates
**Rate Reset Information**

- Web pages (i.e., rate tables) posted daily
  - Displays the past 60 days of reset rates
  - Excel version available for download
  - **Important!** These are base rates...not the final rate to the Borrower.

- **VRM Rate Reset Guide** provides detail and reset example
  - Accessible above the tables and in the Resource Library

- Central Servicers will continue to manage rate reset process and documentation
Historical Rate Resources

• Just in case you need it…
  – 1-month, LIBOR, 1-, 3-, & 5-year comparisons to Prime & CMT
  – Resource Library
### Are You Wondering?

<table>
<thead>
<tr>
<th>Q:</th>
<th>A:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Q:</strong> How does the removal of ARM and LIBOR products affect existing ARM and LIBOR loans?</td>
<td><strong>A:</strong> Existing ARM and LIBOR loans will continue to reprice in accordance with their original Note terms. Conversion options and the discontinuance of LIBOR is addressed in the sections below.</td>
</tr>
<tr>
<td><strong>Q:</strong> What happens to an existing LIBOR loan when LIBOR is discontinued across the industry and is no longer an available index?</td>
<td><strong>A:</strong> As written in the Note, if an index is no longer available, the Note holder (i.e., Farmer Mac) will choose a new index based on comparable information, and it will be automatically applied to the loan. The Borrower will be notified by the Central Servicer.</td>
</tr>
<tr>
<td><strong>Q:</strong> Does the removal of LIBOR from the rate sheet affect the revolving feature of an AgEquity loan?</td>
<td><strong>A:</strong> The revolving feature (i.e., 5- or 10-year draw period) will continue in accordance with the original Note terms. If LIBOR becomes universally unavailable during the revolving period, the LIBOR index will be automatically replaced with a comparable index, and the revolving period will continue as normal, per the Note.</td>
</tr>
<tr>
<td><strong>Q:</strong> Why is Farmer Mac removing the LIBOR-based products? What is the replacement?</td>
<td><strong>A:</strong> The LIBOR benchmark is expected to be universally discontinued after 2021. To reduce continued LIBOR exposure, 1-month VRM and AgEquity VRM replacement products will be offered. An index based on comparable information will be offered once an industry standard is established.</td>
</tr>
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</table>
## More Questions Answered

<table>
<thead>
<tr>
<th>Q:</th>
<th>A:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does Farmer Mac allow existing VRM loans to convert to VRM products?</td>
<td>Yes. A Borrower with an existing VRM loan may convert to another VRM product, provided that the maturity date and remaining amortization do not change. Additionally, the Borrower may not convert into the same VRM product (e.g., 10-yr VRM into a 10-yr VRM).</td>
</tr>
<tr>
<td>Who does the Borrower contact if he/she desires to convert to another product?</td>
<td>Borrowers may contact the originating Lender/Seller or Central Servicer to inquire about conversions.</td>
</tr>
<tr>
<td>What is the impact to loans in process that have not yet rate locked?</td>
<td>Rate lock requests for the 1-, 3-, 5-year ARMs and LIBOR products will be accepted prior to 7/1/2019, regardless of the closing/purchase date. If a loan is approved but not rate locked prior to 7/1/2019, the Borrower must choose from a list of eligible products as of the day of requested rate lock. All standard rate lock procedures and fees apply as usual.</td>
</tr>
</tbody>
</table>
# Just About Covered It

<table>
<thead>
<tr>
<th>Q: Is there a prepayment penalty on the new VRM products? What about the yield maintenance provision?</th>
<th>A: The VRM products permit principal payments on any scheduled payment date (i.e., installment date) or rate reset date, as described in the Seller/Servicer Guide. The 5-year VRM with yield maintenance is being discontinued.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q: Have the PPDocs (i.e., online documents option) been updated? What if my institution uses its own closing documents?</td>
<td>A: PPDocs templates have been updated to reflect Farmer Mac’s product changes. ARM and LIBOR-based documents will be available only for loans rate locked prior to 7/1/2019. If your institution does not use PPDocs, your institution must update its closing documents, per the Seller/Servicer Guide.</td>
</tr>
</tbody>
</table>
| Q: What existing Farmer Mac materials have been impacted by this product change and where are they located? | A: The impacted materials are located within the Resource Library at www.efarmermac.com. They include:  
- Seller/Servicer Guide  
- Farm & Ranch Training Kit  
- Product Descriptions  
- Conversion Guide  
- VRM Rate Reset Guide |
**Rate Sheet Updates**

- LIBOR and Treasury-based products replaced with VRMs
- Longer terms and amortizations

### Farm & Ranch Loan Purchase Solution

<table>
<thead>
<tr>
<th>Products</th>
<th>Term</th>
<th>Amortization</th>
<th>Choice Reset Margin</th>
<th>Standard Rates</th>
<th>Choice Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>AgEquity VRM</td>
<td>25</td>
<td>30</td>
<td>15</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>1-month VRM</td>
<td>15</td>
<td>20</td>
<td>25</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>1-year VRM</td>
<td>15</td>
<td>20</td>
<td>25</td>
<td>30</td>
<td>15</td>
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<tr>
<td>3-year VRM</td>
<td>15</td>
<td>20</td>
<td>15</td>
<td>20</td>
<td>4.00%</td>
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<tr>
<td>3-year VRM</td>
<td>25</td>
<td>30</td>
<td>25</td>
<td>30</td>
<td>4.16%</td>
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<td>5-year VRM</td>
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<td>15</td>
<td>20</td>
<td>4.01%</td>
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<tr>
<td>5-year VRM</td>
<td>25</td>
<td>30</td>
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<td>30</td>
<td>4.15%</td>
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<tr>
<td>7/1 ARM</td>
<td>15</td>
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<td>25</td>
<td>3.25%</td>
<td>4.44%</td>
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<td>10/1 ARM</td>
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<td>3.25%</td>
<td>4.68%</td>
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<tr>
<td>10-year VRM</td>
<td>15</td>
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<td>20</td>
<td>4.77%</td>
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<td>10-year VRM</td>
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<td>4.83%</td>
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<tr>
<td>15-year VRM</td>
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<td>4.87%</td>
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<tr>
<td>15-year VRM</td>
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<td>25</td>
<td>30</td>
<td>4.95%</td>
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<tr>
<td>7-year Fixed</td>
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<td>15</td>
<td>25</td>
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<td>10-year Fixed</td>
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<td>4.66%</td>
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<td>15-year Fixed</td>
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<td>4.70%</td>
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<td>15-year Fixed</td>
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<td>4.91%</td>
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<td>20-year Fixed</td>
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<td>4.70%</td>
<td>4.37%</td>
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<td>25-year Fixed</td>
<td>25</td>
<td>25</td>
<td>4.78%</td>
<td>4.43%</td>
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</tr>
<tr>
<td>30-year Fixed</td>
<td>30</td>
<td>30</td>
<td>4.95%</td>
<td>4.50%</td>
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</tr>
</tbody>
</table>
Wait…There’s More!

• Choice Pricing reduction!
  – 15 basis point reduction* on the following products
    • 1-month LIBOR
    • 1-, 3-, 5-year ARM
    • 10- & 15-year VRM
    • 7-, 10-, & 15-year Fixed

• Let’s keep going!
  – 15 basis point reduction* on the following products
    • 20, 25, & 30-year Fixed

* Total difference between standard and choice will be 35 bps!
AgPower Enhancements Too!

• AgPower “Application” tab improvements
  – Auto-populated “State” and “County” fields within drop-down menus
    • User may select multiple states and counties
  – Eliminated redundant water questions
  – Replaced with Ag Water Supply Questionnaire (Form 1020) reminder!
  – Product drop-down updated accordingly (with VRM changes)
**Dates to Know**

**June 3, 2019!**
- Choice Pricing Reduction on most products
  - VRM Rate Reset Guide, FAQ, and historical rate charts available for download (via Resource Library at [www.efarmermac.com](http://www.efarmermac.com))

**July 1, 2019!**
- LIBOR & U.S. Treasury-based ARMs replaced with VRMs
  - Rate Sheets updated
  - Choice pricing reduction on more products
  - Updated e-Training Kit, Product Descriptions, & Conversion Guide
  - AgPower enhancements (Application Tab)

**Coming Soon!**
- Updates to Seller/Servicer Guide
- Newest edition of *The Forward*

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- Send Me Future Announcements
- Please email me the daily Farmer Mac rates
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866.452.2617
Thank You!