Be Prepared for the Fall Lending Season with Farmer Mac

October 13, 2021
TODAY’S PRESENTERS

Patrick Kerrigan  
Vice President – Business Development

Dan Koesters  
Manager – Farm & Ranch  
Credit and Loan underwriting

Mike Schmid  
Director – Assistant Treasurer

Scott Steveson  
Assistant Manager – Credit & Operations
• Added $1.5 billion of gross business volume, resulting in net growth of $334.6 million

• $426 million net increase in the Farm & Ranch business line

• 90-delinquencies decreased from $72 million to $63 million (0.84% to 0.70% of F&R portfolio)
Our team continues to execute on several important strategies and initiatives:

- New Seller login portal
- New AgXpress platform
- AgXpress loan limit increase from $750k to $1.50mm
- Borrower retention strategies
- Expansion of loan servicing capabilities
- Ag Analytics/AcreValue strategic alliance
CORPORATE STRATEGIES AND INITIATIVES

- Our team continues to execute on several important strategies and initiatives:
  - New Seller login portal
  - New AgXpress platform
  - AgXpress loan limit increase from $750k to $1.50mm
  - Borrower retention strategies
  - Expansion of loan servicing capabilities
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OUTSTANDING BUSINESS VOLUME

$17.4  $19.0  $19.7  $21.1  $21.9  $22.2

$0.0  $5.0  $10.0  $15.0  $20.0

2016  2017  2018  2019  2020  Q2 2021

Outstanding Business Volume

6.0% CAGR (2016-2020)
# Lines of Business and Products

**As of June 30, 2021**

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Target Customers</th>
<th>Lines of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$ in billions and percentage of total volume</td>
</tr>
<tr>
<td><strong>Loan Purchases</strong></td>
<td></td>
<td>F &amp; R   USDA  RU  IC  Total</td>
</tr>
<tr>
<td></td>
<td>• Ag Banks</td>
<td>$6.6    $2.7  $2.2  --   $11.6</td>
</tr>
<tr>
<td></td>
<td>• FCS Institutions</td>
<td>30%     12%  10%  --   52%</td>
</tr>
<tr>
<td></td>
<td>• Insurance Companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Rural Utilities Cooperatives</td>
<td></td>
</tr>
<tr>
<td><strong>Wholesale Financing</strong></td>
<td></td>
<td>$7.6</td>
</tr>
<tr>
<td></td>
<td>• AgVantage</td>
<td>--      --   --   $7.6 $7.6</td>
</tr>
<tr>
<td></td>
<td>• Farm Equity AgVantage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ag Banks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ag Investment Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Insurance Companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Rural Utilities Cooperatives</td>
<td></td>
</tr>
<tr>
<td><strong>Credit Protection</strong></td>
<td></td>
<td>$3.0</td>
</tr>
<tr>
<td></td>
<td>• FCS Institutions</td>
<td>$2.5</td>
</tr>
<tr>
<td></td>
<td>• Ag Banks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Insurance Companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ag Investment Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Rural Utilities Cooperatives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Long-term Standby Purchase Commitments (LTSPCs)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ag Banks</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>• Ag Investment Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Insurance Companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Rural Utilities Cooperatives</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Table may not sum to total due to rounding
CREDIT & UNDERWRITING UPDATE
FARM & RANCH PORTFOLIO DIVERSIFICATION

**By Commodity Type**
- Crops: 51%
- Permanent Plantings: 24%
- Livestock: 18%
- Ag. Storage and Processing: 2%
- Part-time Farm: 5%

**By Geographic Region**
- Southwest: 34%
- Mid-North: 28%
- Mid-South: 14%
- Southeast: 8%
- Northeast: 4%
- Northwest: 12%
CREDIT PERFORMANCE

90-Day Delinquencies

Agricultural Lender Charge-off Rates

- Banks: Average 0.19%
- Farm Credit System: Average 0.11%
- Farmer Mac: Average 0.02%

All Commercial Banks Loans and Leases Average 0.95% (4)

(4) Source: FDIC (6)
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
  – Trusts are eligible for Farmer Mac financing if there is a personal guarantee
## UNDERWRITING MATRIX SNAPSHOT

Most popular programs include:

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>Fast Track</th>
<th>Full Underwrite</th>
<th>Full Underwrite</th>
<th>AgEquity RLOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible Pricing Type</td>
<td>Choice</td>
<td>Standard</td>
<td>Choice</td>
<td>Standard</td>
</tr>
<tr>
<td><strong>Total Debt Coverage</strong> (See Seller/Servicer Guide, Section 202.3)</td>
<td>≥ 1.00 for 2 year average</td>
<td>≥ 1.25</td>
<td>≥ 1.50</td>
<td>≥ 1.35; must meet TDC after 3% rate shock</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>≥ 1.00</td>
<td>≥ 1.25</td>
<td>≥ 1.50</td>
<td>≥ 1.25</td>
</tr>
<tr>
<td>Debt to Asset</td>
<td>≤ 40%</td>
<td>≤ 50%</td>
<td>≤ 40%</td>
<td>≤ 50%</td>
</tr>
<tr>
<td>Loan-to-Value</td>
<td>≤ 55%</td>
<td>&lt;70%*</td>
<td>≤ 60%</td>
<td>≤ 50%**</td>
</tr>
<tr>
<td><strong>Credit Score (FICO)</strong> (Individual borrowers/guarantors)</td>
<td>≥ 720</td>
<td></td>
<td></td>
<td>≥ 680</td>
</tr>
<tr>
<td>D&amp;B PAYDEX Score</td>
<td>N/A</td>
<td></td>
<td></td>
<td>≥ 70</td>
</tr>
<tr>
<td>(required if no individual borrowers/guarantors)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
AGXPRESS SCORECARD

- Maximum Loan Size: $1,500,000 per applicant
  - Max aggregate AgXpress exposure of $1.5 million
  - Total maximum exposure for an existing FAMC borrower (and affiliates) cannot exceed $10 MM including AgXpress

- Maximum LTV: 55% of total combined bare land and permanent plantings
  - If the property does not include permanent plants, the max LTV of 55% is based off the bare land value only
  - Improvements are allowed, but will not be used in the LTV calculation

- All title holders must be applicants
- No restrictions on commodities or use of funds
- No restrictions on loan products (Fixed, VRM)
- Monthly or semi-annual payment frequencies
- Choice Pricing automatically applies
- Recommended minimum credit score of 720 for all applicants
- General Farmer Mac Underwriting guidelines apply
HELPFUL TIPS – FARM & RANCH UNDERWRITING

• Timing
  • Getting the 2020 tax returns for analysis
  • BS dated within 90 days of loan submission
  • Credit Reports within 90 days

• Narrative Details
  • Expected production for 2021
    – Several areas are dry around US – speak on expected yields
    – Commodity Prices
    – Risk Management
MORE HELPFUL TIPS

• **Collateral:**
  • Eligible properties
  • Estimated value of improvements
  • Is this the primary residence
  • If above 60% - remember TDC, D/A, CR requirements

• **Other Reminders**
  • Growing Crops
  • Government Payments
  • Operating Lender – previous, current, going forward
TREASURY UPDATE
FEDERAL RESERVE UPDATE: PIVOTING TOWARDS NORMALIZATION

- **Current Overnight Fed Policy Target Rate**: 0% to 0.25%
- **Market Expectations for Fed Policy Rate**: 4 interest rate hikes by Q3 2024
- **Fed Asset Purchases**: Expected to begin phasing out (or “tapering”) purchases of Treasury and mortgage securities as soon as November with purchases ending by mid-2022
- **Fed Governance Update**: The Fed Chair, Jerome Powell, has his term end in February 2022. A decision on renomination, or a new chair, is expected to be announced sometime Q4
- **Developments to Watch**: Inflation gauges, primarily the Personal Consumption Expenditure (“PCE”) and the Consumer Price Index (“CPI”) have increased steadily with price pressures broadening out due to supply chain constraints, labor market mismatches and pent-up demand from consumers following COVID-19 pandemic lockdowns
  - Continued elevated inflation pressures could lead to a faster phase out of the Fed asset purchase program and policy rates to normalize faster than market expectations
  - A faster pace of interest rate normalization is not being priced into the market and could lead to a steady period of rising rates; similar to 2004-2006 period where the Fed raised rates 0.25% at 17-consecutive meetings

The Fed is expected to wind down its securities purchases by mid-2022 and begin increasing its short-term policy rate thereafter. Continued high inflation readings could quicken the pace of interest rate increases

Source: Bloomberg, Federal Reserve Board of Governors
INFLATION: MARKING TO MARKET PRICE PRESSURES

• **Recent Inflation Readings**: Price pressures remain elevated as illustrated by various inflation indices (CPI, PCE) being at highest levels in over a decade
  - CPI at 5.3% is the highest since July 2008 while core-PCE at 3.6% is highest since March 1991

• **Drivers of Inflation**: Supply chain disruptions due to COVID-19 globally along with rising energy prices and labor market mismatches are the drivers of price pressures

• **Transitory or Start of Inflationary Cycle**: The critical question is whether the price pressures seen in the last 6-12 months are the start of an inflationary cycle, or they are temporary and should normalize as the economy reopens, supply chains get back on track and the labor market improves

• **Global Issue**: The inflationary pressures seen in the US are happening across the globe with areas that have traditionally struggled with deflation (Europe, Asia) seeing similarly large price increases
  - Global energy prices, used vehicles, housing, and labor are sectors supplying upward pressure to prices

Inflation as measured by the CPI or PCE index has increased significantly and near highest levels in 10+ years. Debate remains open over this being temporary or start of a new inflationary environment

Source: Bloomberg, Bureau of Economic Analysis, Bureau of Labor Statistics
INTEREST RATE MARKET UPDATE

• **Long-term Interest Rate Market Developments:** Intermediate and longer-term interest rates have steadied after increasing in Q1
  – Following a summertime decline, 5-year and 10-year rates have increased 0.40%-0.50%

• **Short-term Interest Rate Market Developments:** Short-term interest rates have remained pinned near historic lows with the 2-year Treasury rate averaging 0.18% in 2021 while the Fed overnight target rate remains at record lows

• **Interest Rate Market Volatility:** Strong liquidity continues in the fixed income market, assisted by the Federal Reserve, has helped keep measure of interest rate volatility low and stable
  – Low interest rate volatility can lower the cost to protect against unforeseen moves in interest rates and help to lower costs to hedge prepayment risk

Source: Bloomberg
<table>
<thead>
<tr>
<th>Products</th>
<th>Term</th>
<th>Amortization</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>
</tr>
<tr>
<td>1-month VRM</td>
<td>15</td>
<td>20</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>1-year VRM</td>
<td>15</td>
<td>20</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>3-year VRM</td>
<td>15</td>
<td>20</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>5-year VRM</td>
<td>25</td>
<td>30</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>7-year VRM</td>
<td>25</td>
<td>30</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>10-year VRM</td>
<td>25</td>
<td>30</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>15-year VRM</td>
<td>25</td>
<td>30</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>15-year VRM</td>
<td>25</td>
<td>30</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>7-year Fixed</td>
<td>7</td>
<td>15</td>
<td>25</td>
<td>3.09%</td>
</tr>
<tr>
<td>10-year Fixed</td>
<td>10</td>
<td>10</td>
<td>3.13%</td>
<td>2.78%</td>
</tr>
<tr>
<td>15-year Fixed</td>
<td>15</td>
<td>15</td>
<td>3.40%</td>
<td>3.05%</td>
</tr>
<tr>
<td>15-year Fixed</td>
<td>15</td>
<td>15</td>
<td>3.40%</td>
<td>3.05%</td>
</tr>
<tr>
<td>20-year Fixed</td>
<td>20</td>
<td>20</td>
<td>3.56%</td>
<td>3.21%</td>
</tr>
<tr>
<td>25-year Fixed</td>
<td>25</td>
<td>25</td>
<td>3.72%</td>
<td>3.37%</td>
</tr>
<tr>
<td>30-year Fixed</td>
<td>30</td>
<td>30</td>
<td>3.82%</td>
<td>3.47%</td>
</tr>
</tbody>
</table>

- AgEquity, VRM and fixed rate loan products
- Maturities to 30-years
- Standard and Choice Rates
- Lender adds field servicing fee to the Farmer Mac Net Yield

10/13/21
### RECENT SUCCESS STORIES

<table>
<thead>
<tr>
<th>County</th>
<th>Texas</th>
<th>Washington</th>
<th>Illinois</th>
<th>Minnesota</th>
<th>Montana</th>
<th>Missouri</th>
<th>Oregon</th>
<th>Nebraska</th>
<th>Iowa</th>
<th>Kansas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity</td>
<td>Milk</td>
<td>Hay</td>
<td>Corn</td>
<td>Corn</td>
<td>Wheat</td>
<td>Corn</td>
<td>Cattle</td>
<td>Corn</td>
<td>Corn</td>
<td>Cattle</td>
</tr>
<tr>
<td>Program</td>
<td>Full Underwrite</td>
<td>Full Underwrite</td>
<td>Full Underwrite</td>
<td>Full Underwrite</td>
<td>Fast Track</td>
<td>Full Underwrite</td>
<td>Full Underwrite</td>
<td>Full Underwrite</td>
<td>AgXpress</td>
<td>Full Underwrite</td>
</tr>
<tr>
<td>Purchase Date</td>
<td>September</td>
<td>September</td>
<td>September</td>
<td>October</td>
<td>October</td>
<td>September</td>
<td>September</td>
<td>October</td>
<td>October</td>
<td>October</td>
</tr>
<tr>
<td>Loan ($)</td>
<td>3,900,000</td>
<td>3,700,000</td>
<td>3,425,000</td>
<td>2,860,000</td>
<td>2,500,000</td>
<td>2,350,000</td>
<td>1,900,000</td>
<td>750,000</td>
<td>510,000</td>
<td>1,900,000</td>
</tr>
<tr>
<td>LTV</td>
<td>60%</td>
<td>49%</td>
<td>45%</td>
<td>47%</td>
<td>54%</td>
<td>62%</td>
<td>41%</td>
<td>51%</td>
<td>53%</td>
<td>43%</td>
</tr>
<tr>
<td>Note Rate</td>
<td>4.00%</td>
<td>3.92%</td>
<td>4.18%</td>
<td>3.92%</td>
<td>4.20%</td>
<td>4.30%</td>
<td>4.05%</td>
<td>4.00%</td>
<td>3.50%</td>
<td>4.25%</td>
</tr>
<tr>
<td>Servicing Fee</td>
<td>0.15%</td>
<td>0.60%</td>
<td>0.40%</td>
<td>0.47%</td>
<td>0.71%</td>
<td>0.38%</td>
<td>0.93%</td>
<td>0.50%</td>
<td>0.56%</td>
<td>0.35%</td>
</tr>
<tr>
<td>Maturity Date</td>
<td>10/1/2051</td>
<td>1/1/2047</td>
<td>7/1/2051</td>
<td>10/1/2051</td>
<td>1/1/2052</td>
<td>1/1/2052</td>
<td>4/1/2042</td>
<td>1/1/2052</td>
<td>1/1/2042</td>
<td>1/1/2052</td>
</tr>
</tbody>
</table>

- Examples from ten different lenders
- Utilizing Full Underwrite, Fast Track and AgXpress
- LTVs from 41% to 62%
- Products range from 10-Yr VRM to 30-year fixed rate
- Borrower rates from 3.50% to 4.30%
CULTIVATING CUSTOMERS – WHITE PAPER

• Collaborative effort with American Bankers Association

• Features first-hand accounts of ABA member banks utilizing the secondary market
  – Carrollton Bank
  – Bank of the Rockies
  – Heartland Tri-States Bank

• ABA Ag Bankers Conference, November 14-17, Cincinnati, Ohio
• The Feed, Farmer Mac’s perspective on agriculture published quarterly

• Timely updates on farm income, farmland values, labor, farm finances, commodities, etc.
FARMER MAC ECONOMICS TEAM

The Feed, Farmer Mac’s perspective on agriculture published quarterly

Timely updates on farm income, farmland values, labor, farm finances, commodities, etc.

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