



**FARMER  AC**

***Refresh Webinar  
Farm & Ranch Program Updates***

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June 22, 2016



***2015 Annual Report***

## 2015 Annual Report

### THE VALUE OF OUR COLLEGIAL COLLABORATION.

Create a collaborative culture where we attract, retain, and develop a diverse group of talented professionals who continually seek knowledge while bringing energy and mutual respect to fulfilling our mission.

WE RELISH OUR TIME SPENT IN AG COMMUNITIES WHERE WE'RE NEEDED MOST. SEE HOW MUCH GROUND WE HAVE COVERED IN 2015.



## 2015 Annual Report

ANNUAL REPORT 2015 COVER PAGE 12 | 13



OUTSTANDING BUSINESS VOLUME BY LINES OF BUSINESS

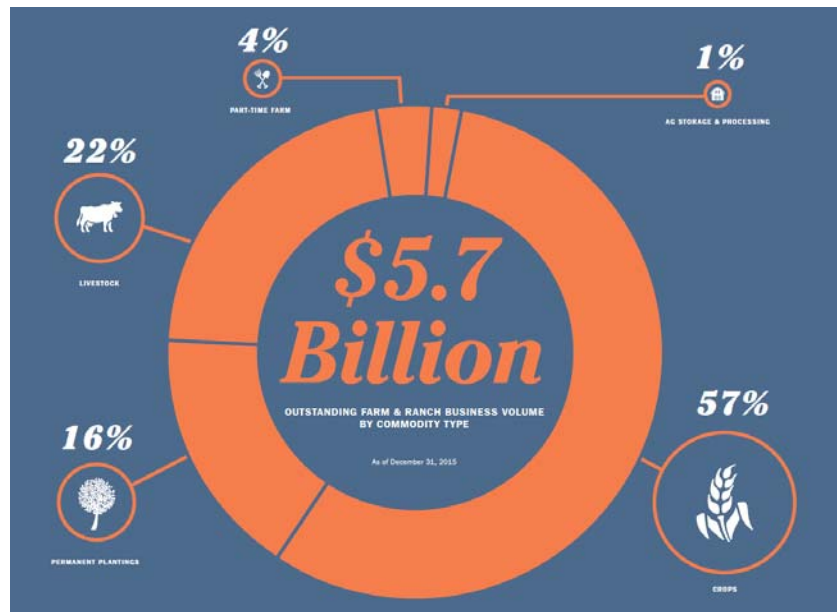
# \$15.9 Billion

AS OF DECEMBER 31, 2015

Averaged \$1 billion in annual net outstanding business volume growth in the last four years.



## 2015 Annual Report

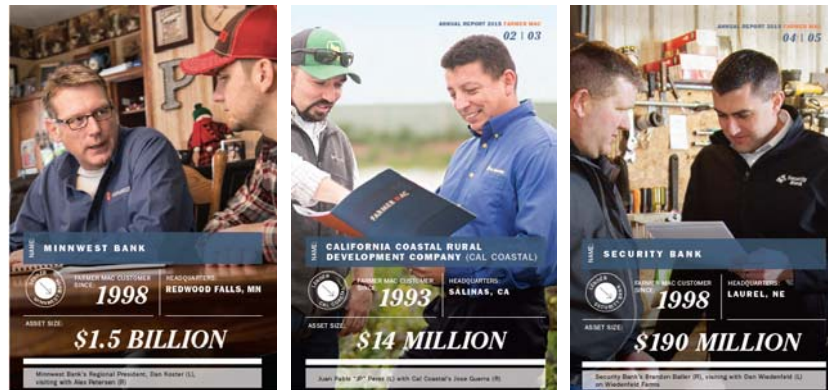


## 2015 Annual Report



## 2015 Annual Report

- Thank you to all our dedicated lenders!



## Off to a Good Start in 2016

- 1<sup>st</sup> Quarter new business volume:
  - \$927 million of AgVantage securities
  - \$198 million of Farm & Ranch loan purchases
  - \$99 million of USDA guaranteed portion purchases
  - \$68 million of Purchase Commitments





## *General Updates*



## AgVisory

- 2015 merger of Contour and AgVisory
- New management
  - Jodi Pries, President & CEO
  - Dick Gilmore, SVP
- AgVisory Services
  - Appraisals
  - Reviews
  - Consulting
- Contact info:
  - [www.agvisory.com](http://www.agvisory.com)
  - [info@agvisory.com](mailto:info@agvisory.com)
  - 302-270-5165



## [www.efarmermac.com](http://www.efarmermac.com): Resource Library

### Resource Library

#### Seller/Service Guide

Seller/Service Guide  
Conversion Grid  
Underwriting Grid  
Non-participating Spouse Estoppel Certificate  
2016 Rural Home Loan Moderately Priced Housing Value  
AgEquity Product Description  
ARM Product Description  
VRM Product Description  
Fixed Rate Product Description

#### Collateral Valuation Supplement

Collateral Valuation Supplement

#### Collateral Valuation Forms

Comment and Guidance on Collateral Valuation Report Forms  
Sample Fee Appraiser Engagement Letter (Form 1023A) \*  
Appraisal Report Content Requirements (Form 1027A)  
Assumptions and Limiting Conditions Example (Form 1037) \*  
Environmental Disclosure (Form 1010A) \*  
Irrigation and Drainage Supplement (Form 1013A)  
Permanent Planting Data Summary Example (Form 1034)  
Income Approach Example (Form 1035)  
Market Sale Data Summary Example (Form 1036)  
Collateral Assessment Report (CAR) (Form 1047)  
Collateral Inspection Report (Form 1038)





## *Underwriting Updates*

### *Updates*

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- Family Living
- AgEquity RLOC
- Amortization for New Hog Finishing Facilities
- Refinance of Short and Intermediate Term Debt



## ***Narratives***

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- Description of Operation
- Operating Lenders
- Risk Management Strategies
- Historical Balance Statements
- Pro-forma Cash Flow
- Verifications



## ***Appraisal***

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- Make sure appraiser is aware that the appraisal is for FAMC. Helpful to provide the appraiser with the following:
  - FAMC Engagement Letter
  - Appraisal Report Content Requirements (form 1023A)
  - Assumptions and LTD Conditions (form 1037)
  - Environmental Disclosure (Form 1010A)
  - Legal Description





## AgAssist

- Secondary market “Piggy Back” loan option for 1<sup>st</sup> mortgage ag real estate loans
- 1<sup>st</sup> mortgage loan which is sold to Farmer Mac, must meet post-close AgAssist underwriting criteria
- 2<sup>nd</sup> mortgage is guaranteed by a federal or state agency & must be at least 25% of the combined 1<sup>st</sup> and 2<sup>nd</sup> mortgages
- Potential uses:
  - Assist producers experiencing stress who are looking to restructure
  - Help stretch FSA guaranteed loan limits
  - Provide a competitive interest rate and longer maturity/amortization options for the 1<sup>st</sup> and 2<sup>nd</sup> mortgage loans.



## Underwriting Differences

	Standard Farmer Mac Underwriting Option	AgAssist Underwriting Option
Loan-to-Value Ratio	70%	45% (85% CLTV)
Debt-to-Asset Ratio	50%	60%
Current Ratio	1.25:1	1.00:1
Debt Service Coverage	1.25:1	1.10:1
Credit Scores	680	660
Tax Returns	3-Yrs	3-Yrs
Maximum Loan Size	\$12.6/\$50m	\$5.59m w FSA

- More detail: <http://www.efarmermac.com/Resource/Index.aspx>
- For “Standard Underwriting Option,” maximum LTV is 60% in the following states: ND, SD, MN, IA, OH, MO and NE.



## ***AgAssist – Sample Transaction***

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

1st Mortgage	2nd Mortgage
<ul style="list-style-type: none"><li>• Loan: \$601,000</li><li>• FM AgAssist</li><li>• 24% LTV on 640 acres</li><li>• 5.00% Note Rate</li><li>• 15-Year Reset (15-15)</li><li>• 30-Year Maturity</li><li>• 0.73% Lender's Servicing Fee</li></ul>	<ul style="list-style-type: none"><li>• Loan: \$1,399,000</li><li>• 90% FSA FO Guarantee</li><li>• Guaranteed: \$1,259,100</li><li>• Unguaranteed: \$139,900</li><li>• 80% CLTV on 640 acres</li><li>• 5.00% Note Rate</li><li>• 15-Year Reset (15-15)</li><li>• 30-Year Maturity</li><li>• 1.68% Lender's Servicing Fee</li></ul>



## ***Capital Markets Update***

## ***Federal Reserve Update***

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- Raised the fed funds rate by 0.25% in December 2015; the first increase since 2006. Fed has held the overnight rate steady since that December increase
- The Fed Board of Governors continues to project two more rate increases in 2016
  - Upcoming Presidential election and slowdown in economic data may make it challenging for the Fed to increase rates twice in 2016
- Fed Funds futures market projects a 42% probability of one rate increase in 2016, likely in September or December
- Job growth, wage gains and inflation will be the main factors to determine when and how much to increase rates
  - Sluggish growth and negative interest rates abroad are also headwinds facing the Fed as they attempt to normalize interest rates



## ***Summary & Market Trends***

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- **Interest rates significantly lower in 2016**
  - 2-year to 3-year yields have fallen 0.35% to 0.50% this year as market priced in a slower pace of rate hikes from the Fed
  - Longer term interest rates 5-years and longer have dropped over 0.65% in 2016 as weak growth, low inflation and negative rates abroad have sent investors to safe haven Treasuries
- **Job growth has slowed in 2016 with an average of 150,000 jobs added per month, down from 229,000 per month in 2015**
  - The unemployment rate is at 4.7%, the lowest since 2008 and down from 5.3% in June 2015
  - Certain parts of the labor market continue to show slack, which is partially driving the Fed to remain very gradual in rate normalization

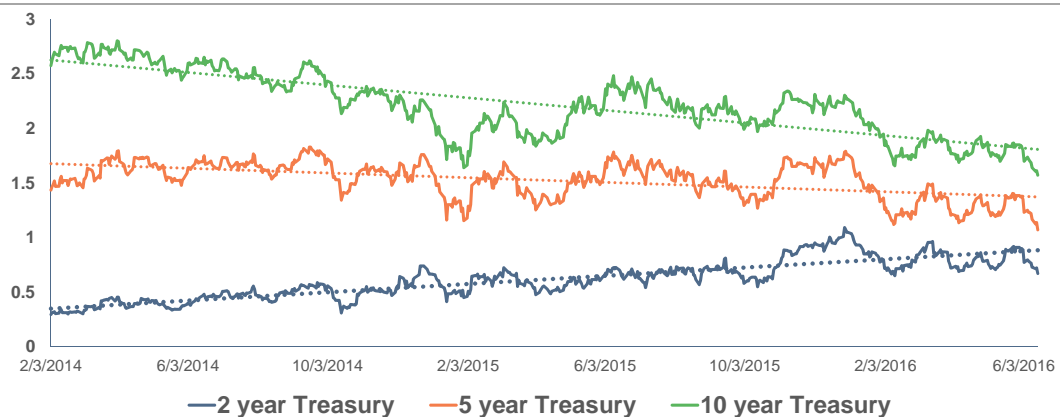


## Summary & Market Trends (continued)

- 1st quarter GDP slowed to 0.9%, from 1.4% in 4th quarter 2015
  - Weakness in the energy sector, the strong dollar and weak fixed investment driving factors in low growth
  - 2016 was the third year in a row with weak 1st quarter growth
    - 2014 Q 1 GDP: -0.9%    2015 Q1 GDP: 0.6%
- 2<sup>nd</sup> quarter GDP projected to rebound to 2.7%
  - Gains should come from continued job growth, weaker US dollar and rebound in energy prices as oil has climbed nearly 60% YTD



## Long Term Interest Rates: 2014 to 2016 Treasury Yields



- **Longer-term rates** remain in a downward trend as weak growth abroad and low inflation has led investors to buy long-term US treasuries
- After steadily climbing in the 2<sup>nd</sup> half of 2015, **short-term rates** have fallen as the pace of rate increases from the Fed has slowed
- Low inflation, inconsistent growth and negative rates abroad has led the Fed to reduce their planned rate hikes in 2016 from four increases to two increases



## Interest Rates: Product Impact

- Net Yields have dropped significantly in 2016
  - USDA segment seeing strong demand in long term fixed products
  - Farm and Ranch seeing strong demand in hybrid ARMs and LIBOR floating rate products
    - 15-year Fixed Rate product becoming more competitive in recent weeks

Product	9/30/2015	12/16/2015	6/16/2016
Farm and Ranch 15-year Fixed	4.47%	4.88%	4.13%
Farm and Ranch 5-year ARM	3.22%	3.79%	3.15%
USDA 20 year Fixed	3.74%	3.93%	3.16%
USDA 5 year Reset	2.76%	3.12%	2.47%

- LIBOR-based reset product (1-month ARM, AgEquity) remain popular and benefit from low short-term rates and a gradual Fed rate hike cycle
  - These products are much more sensitive to actions by the Federal Reserve than products with initial fixed rate periods greater than 5-years
  - 1-month LIBOR ARM's paired with longer-term fixed rate products can help to bring a lower blended rate to end borrower



## Interest Rate Forecasts

- Economists expect interest rates to rise gradual over the next year
  - Most economists expect rates to rise between 0.25% and 0.70% over the next 12 months, with longer term rates staying well below historical averages
  - Short-term interest rates are expected to increase roughly in line with longer-term interest rates as inflation, growth and wage gains pick up pace
  - Low inflation and weak first quarter growth are key drivers of interest rate increases proceeding at a slower pace
  - The Federal Reserve has continued to characterize the rate hiking cycle as being gradual and data dependent.
    - Fed hinted that there could be prolonged periods throughout the normalization cycle where the Fed Funds rate remains on hold

Interest Rate Forecasts	6/16/2016	*9/30/2016	*3/31/2017	*6/30/2017
Overnight Fed Rate	0.50%	0.70%	1.00%	1.20%
3-month LIBOR	0.64%	0.83%	1.14%	1.33%
2-year US Treasury	0.67%	0.97%	1.31%	1.45%
10-year US Treasury	1.55%	1.99%	2.25%	2.35%

\*Note: Estimates pulled via Bloomberg consensus forecasts of Economists polled. Surveys include greater than 20 economists estimates however do not include the view of Farmer Mac's on staff Economist





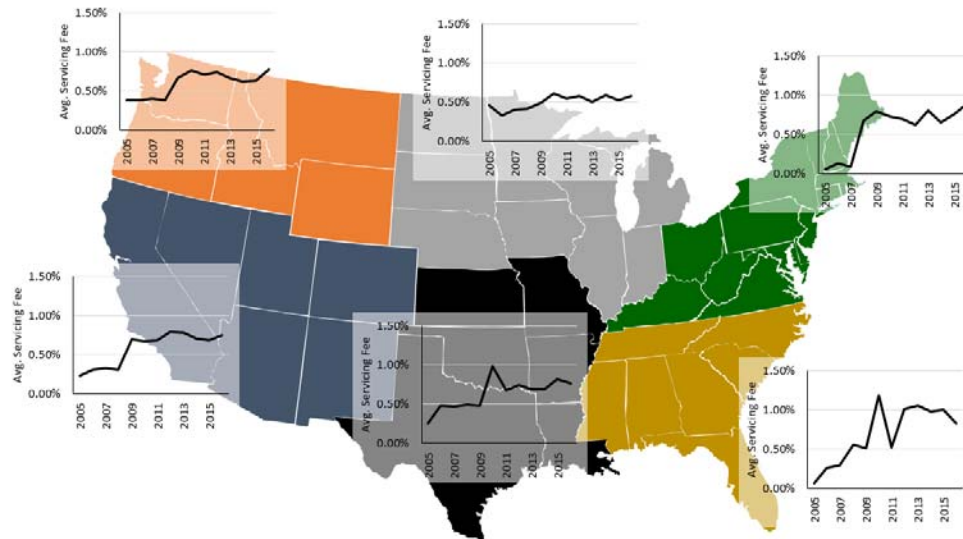
## *Farm & Ranch Rates and Servicing Fees*

### *Field Servicing Fees*

Product	2014 Avg.	2015 Avg.	5-Yr Avg.	5-Yr % of Vol
All Regions	0.66%	0.66%	0.65%	100%
15-Yr Fixed	0.63%	0.62%	0.60%	26.63%
10/1 ARM	0.58%	0.60%	0.58%	14.21%
AgEquity	0.67%	0.76%	0.66%	11.03%
5-Yr ARM	0.83%	0.55%	0.83%	10.43%
1-Mo LIBOR	1.01%	1.11%	0.93%	6.41%
10-Yr Fixed	0.59%	0.48%	0.56%	3.68%
10-Yr VRM (30)	0.49%	0.61%	0.69%	3.05%
20-Yr Fixed	0.56%	0.53%	0.50%	2.72%
3-Yr ARM	0.70%	1.02%	0.80%	2.52%
7/1 ARM	0.75%	0.72%	0.73%	2.45%
Top 10 Prod:	0.69%	0.69%	0.67%	83.15%



## Field Servicing Fees



## F&R Pricing Options (6/21/2016)

Product	Term	Amort.	Farmer Mac Standard Net Yield	Average Servicing Fee	Sample Note Rate
AgEquity	20-25-30	Varies	2.45%	0.66%	3.11%
1-Mo LIBOR	15	15/25	2.44%	0.66%	3.10%
5-Yr ARM	15	15/25	3.23%	0.66%	3.89%
10/1 ARM	15	15/25	3.63%	0.66%	4.29%
10-Yr VRM	25/30	25/30	4.05%	0.66%	4.71%
15-Yr VRM	25/30	25/30	4.27%	0.66%	4.93%
15-Yr Fixed	15	15	3.94%	0.66%	4.60%
15-Yr Fixed	15	25	4.24%	0.66%	4.90%
20-Year Fixed	20	20	4.13%	0.66%	4.79%
25-Year Fixed	25	25	4.28%	0.66%	4.94%
30-Year Fixed	30	30	4.40%	0.66%	5.06%

- Rate Sheet Notes:
  - Products are Open Prepayment on any payment date
  - Standard rates are posted. Choice rates are 13bps to 20bps lower
  - Special product pricing available for ABA & ICBA members



## ***Recent Transactions***

### ***Recent Transactions – California***

#### **Transaction Details**

- Full Underwrite
- Loan Amount: \$2,620,000
- 5 Year ARM, 15 Years
- Semi-Annual Payments
- 25% LTV on 333 ac.
- Standard Pricing
- 3.92% Note Rate
- *0.45% Field Servicing Fee*
- *Refinance existing RE loan and cash out for property improvements*

#### **Commodity**





## Recent Transactions – Georgia

### Transaction Details

- Full Underwrite
- Loan Amount: \$3,200,000
- 1 Month ARM LIBOR, 15 Years
- Annual Payments
- 67% LTV on 690 ac.
- Standard Pricing
- 3.38% Note Rate
- *1.12% Field Servicing Fee*
- *Refinance existing RE loan*

### Commodity



## Recent Transactions – Oregon

### Transaction Details

- Full Underwrite
- Loan Amount: \$1,020,000
- 10 Year VRM, 30 Years
- Semi-Annual Payments
- 60% LTV on 238 ac.
- Standard Pricing
- 5.70% Note Rate
- *1.45% Field Servicing Fee*
- *Refinance existing RE loan*

### Commodity



## Recent Transactions – Arkansas

### Transaction Details

- Lifestyle Ranch
- Loan Amount: \$189,000
- 10/1 ARM, 15 Years
- Monthly Payments
- 67% LTV on 98 ac.
- Standard Pricing
- 4.50% Note Rate
- *1.26% Field Servicing Fee*
- *Purchase of a new hobby farm*

### Commodity



## Recent Transactions – Washington

### Transaction Details

- AgEquity RLOC
- Loan Amount: \$1,940,000
- 10 Year Draw, 30 Years
- Semi-Annual Payments
- 50% LTV on 349 ac.
- Standard Pricing
- 3.04% Note Rate
- *0.60% Field Servicing Fee*
- *New RLOC for future purposes and orchard development*

### Commodity



## Recent Transactions – Georgia

### Transaction Details

- Full Underwrite
- Loan Amount: \$2,065,703
- 7/1 ARM, 15 Years
- Semi-Annual Payments
- 70% LTV on 680 ac.
- Standard Pricing
- 4.37% Note Rate
- *0.83% Field Servicing Fee*
- *Purchase*

### Commodity



## Recent Transactions – Kentucky

### Transaction Details

- Full Underwrite
- Loan Amount: \$600,000
- 5 Year ARM, 15 Years
- Semi-Annual Payments
- 29% LTV on 413 ac.
- Standard Pricing
- 3.88% Note Rate
- *0.45% Field Servicing Fee*
- *Purchase*

### Commodity




## Conclusion

- Farmer Mac is a dependable partner for your institution
- One on one training is available and recommended for all lenders
- Visit our Resource Library at [www.efarmermac.com](http://www.efarmermac.com)
- For more information, contact:
  - Patrick Kerrigan, Director of Business Development
  - [PKerrigan@farmermac.com](mailto:PKerrigan@farmermac.com)



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## *July Refresh Webinar with Dr. Dave Kohl*

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### The Good, Bad and Ugly of Agriculture and Agri Lending

*Wednesday, July 6<sup>th</sup>, at 11:30 AM ET*

No, the good doctor has not overdosed on Clint Eastwood movies. The agricultural economic environment is certainly challenging for most commodities and businesses in rural areas. How long will the economic reset last? What are the variables globally and domestically that may influence the profit fortunes of agriculture? A special look at farm records data will provide some insight into which producers are struggling and which producers are actually doing quite well given the economic turbulence.

Financial characteristics and ratios as well as non-financial factors will be examined to help you minimize risk and exploit business opportunities. The first half of the year has been interesting from a producer and lender standpoint. Education and lifelong learning will be the first priority as we navigate the business white waters.



#### REGISTRATION INFORMATION

<https://www.farmermac.com/event/farmer-mac-refresh-featuring-dr-david-kohl/>

#### FORMAT:

45 minute session followed by Q & A

#### COST:

Free

#### ATTENDEES:

Bank Leadership, Credit and Funding  
Managers, Ag Lenders

#### QUESTIONS:

Betsy Urso 800.879.3276 ext. 5540  
or [burso@farmermac.com](mailto:burso@farmermac.com)

