Farmer Mac Refresh

Portfolio Product Review

May 19, 2016

Solutions Ag Bankers Trust

Transactions types available to Farmer Mac approved Sellers:

- Loan purchases
  - Transfer of credit and ALM risk from lender to Farmer Mac through purchase of new or existing mortgages

- Loan funding
  - Access “agency pricing” via a covered bond structure, with Farmer Mac counter-party as obligor (AgVantage)

- Credit enhancements
  - Transfer of credit risk from lender to Farmer Mac through a Purchase Commitment (LTSPC)
2015 Results

Eligible Borrowers and Properties (F&R)

- 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
## Underwriting Grid

<table>
<thead>
<tr>
<th></th>
<th>Full UW Standard</th>
<th>Fast Track</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Max Loan Size</strong></td>
<td>$12.6/$50m</td>
<td>$1,000k</td>
</tr>
<tr>
<td><strong>LTV Ratio</strong></td>
<td>70%</td>
<td>55%</td>
</tr>
<tr>
<td><strong>Debt to Asset Ratio</strong></td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Current Ratio</strong></td>
<td>1.25:1</td>
<td>1:1</td>
</tr>
<tr>
<td><strong>Debt Service</strong></td>
<td>1.25:1</td>
<td>1:1</td>
</tr>
<tr>
<td><strong>Credit Scores</strong></td>
<td>680</td>
<td>720</td>
</tr>
<tr>
<td><strong>Tax Return</strong></td>
<td>3-Yrs</td>
<td>2-Yrs</td>
</tr>
</tbody>
</table>

(More detail: http://www.efarmermac.com/Resource/Index.aspx)

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**AgVantage Program**
Today’s Discussion

• AgVantage Program
  – Farmer Mac approved Sellers are eligible
    • Must be a Farmer Mac Seller in Good Standing
    • Submit AgVantage Certified Facility Application
    • Farmer Mac reviews Seller’s performance and rating
      – KROLL rating must be B- or better
  – Master Mortgage-Backed Bond and Security Agreement
    • Governs the issuance and repayment of, and the security for the bonds

Certified Facility Application

• Includes:
  – Most recent audited financial statements
  – Copy of ag mortgage underwriting, appraisal, administration and loan servicing procedures and standards
  – Attest that it is authorized to sell mortgage-backed bonds
**Bank Ratings**

- Kroll Bond Rating Agency (KBRA)
- Minimum acceptable rating is B-

**FIRST NATIONAL BANK**

- **Last Financial Report (Q4 2015):**
  - **Rating:** B
  - **Sound Financial Condition:**
    - Product: Domestic Banks
    - C-Corporation: Yes
    - City: 
    - State: 
    - ABA: 
    - Cert. Number: 
    - RUSO ID: 
  - Total Assets ($M): $189.3

**AgVantage Credit Line Calculation**

- Farmer Mac establishes maximum amount of AgVantage bonds that an Issuer may place:
  - 5x Issuer’s capital, or
  - 20% of assets
  - $50 million max exposure

**AgVantage Issuer Approval - Calculation of Credit Limit**

<table>
<thead>
<tr>
<th>Applicant</th>
<th>First National Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculations based on Farmer Mac Guidelines (in 000’s)</td>
<td></td>
</tr>
<tr>
<td>Equity Capital</td>
<td>$20,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$195,000</td>
</tr>
<tr>
<td>Max Limit</td>
<td>$50,000</td>
</tr>
<tr>
<td>&gt;5 yr Limit</td>
<td>$39,000</td>
</tr>
</tbody>
</table>

As of 12/31/15 Asset & Equity Capital Data (LACE)
**AgVantage Bond Program**

- AgVantage Bond Characteristics:
  - Non-amortizing
  - Monthly pay
  - Interest only payments
    - Payments due on 1st day of each month
  - Principal payable at maturity
  - Make whole fee for early prepayment

**AgVantage Pricing**

- 30-Day: 0.84%
- 90-Day: 1.04%
- 1-Year: 1.12%
- 3-Year: 1.68%
- 5-Year: 2.25%
- 10-Year: 3.26%
AgVantage Bond Commitment

**AGREEMENT TO ISSUE MORTGAGE-BACKED BONDS**

Subject to Farmer Mac’s Mortgage-Backed Bond Issuance Purchase Commitment Agreement, Farmer Mac hereby accepts the offer of the Issuer named below on the terms stated below to issue Farmer Mac Mortgage-Backed Bonds in accordance with the Master Mortgage-Backed Bond Agreement and Security Agreement between the Issuer and Farmer Mac, and the TCC, each of which is fully incorporated herein by reference.

**Other Agreements**

Date of Commitment: 5/9/2016
Principal Amount: $5,000,000
Interest Rate: 4.00%
Maturity Date: 5/9/2016
Settlement Date: 6/10/2016
Day Count Convention: Actual/365
Bond Number: 106591

**PAYMENT SCHEDULE**

Date of Payment: May 10, 2016 and May 10, 2017
Interest Rate: 4.00%
Maturity Date: May 9, 2017

**Issuer:**

Resolution of Contract Details: Acknowledged by Issuer

**Certificate of Transfer:**

Date of Issuance: 5/9/2016
Principal Amount: $5,000,000
Interest Rate: 4.00%
Maturity Date: 5/9/2017

**Federal Agricultural Mortgage Corporation**

By:

**Name:**

**Title:**

**Acceptance**

**Agreement:**

**Certificate of Transfer:**

Date of Issuance: 5/9/2016
Principal Amount: $5,000,000
Interest Rate: 4.00%
Maturity Date: 5/9/2017

**Certificate of Transfer:**

Date of Issuance: 5/9/2016
Principal Amount: $5,000,000
Interest Rate: 4.00%
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**Certificate of Transfer:**

Date of Issuance: 5/9/2016
Principal Amount: $5,000,000
Interest Rate: 4.00%
Maturity Date: 5/9/2017

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**AgVantage Bond**

**FEDERAL AGRICULTURAL MORTGAGE CORPORATION**

Washington, D.C. 20006

MORTGAGE-BACKED BOND No. 106591

Non-Amortizing

For purposes of this Mortgage-Backed Bond the:

Issue Date shall be: 5/9/2016
Maturity Date shall be: 5/9/2017
Principal Amount shall be: $5,000,000
Interest Rate shall be: 4.00%
Amortization Date: Actual/365
Default Interest Rate: 5.00%

For value received, the undersigned maker (the “Issuer”) promises to pay to the order of FARMER MAC MORTGAGE SECURITIES CORPORATION (“FM/MSC”), the assignee of the Federal Agricultural Mortgage Corporation, and FM/MSC’s successors and assigns, the Principal Sum set forth above, with interest payable monthly from the Issue Date at the interest rate on the unpaid principal, interest payable at FM/MSC’s office on the first day of each month, a make-whole provision, and the difference between (a) the present value of the amount prepaid discounted at the interest rate on the Mortgage-Backed Bond and (b) the present value of the amount prepaid discounted at the current yield on an obligation of the United States having a maturity similar to that of this Mortgage-Backed Bond, if any, is equal to or greater than (c) the amount payable under the terms of this Mortgage-Backed Bond.

This Mortgage-Backed Bond may be prepaid in whole or in part. FM/MSC will charge a prepayment fee which will be calculated by Farmer Mac to be an amount equal to the difference between (a) the present value of the amount prepaid discounted at the interest rate on the Mortgage-Backed Bond and 5% of the present value of the amount prepaid discounted at the current yield on an obligation of the United States having a maturity similar to that of this Mortgage-Backed Bond. If it is equal to or greater than (c) there will be no prepayment fee.
**AgVantage Bond Collateral**

- Bond is secured by Farmer Mac Qualified Loans
  - Farm & Ranch mortgage loans
  - USDA guaranteed portions
- Relationship between bonds and collateral
  - No interest rate, cash flow, maturity, duration or other relationship between the terms of the Bond issued and the collateral

**Bond Collateral**

- How much collateral is required?
  - Specific Pledge – 120% “overcollateralization”
    - 83% advance rate
    - New: 90% Advance Rate
  - General Pledge – 150% “overcollateralization”
    - 66% advance rate
- Mark-to-market valuation
  - Completed by Farmer Mac monthly
- Substitution of collateral
  - Can freely substitute with other Qualified Loans
Pledge Agreement

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

AgVantage
Master Mortgage-Backed Bond and Security Agreement

Specific Pledge

This Master Mortgage-Backed Bond and Security Agreement ("Agreement"), effective as of the ___ day of ___ month in the year of ___ is entered into between

[Issuer], with its principal offices at


WHEREAS, Farmer Mac has created AgVantage as a way of enabling certified agricultural mortgage marketing facilities ("Certified Facilities") to access its cash window program by selling obliga2

WHEREAS, Farmer Mac has developed terms and conditions under which Certified Facilities may participate in AgVantage (the "Terms and Conditions") and has prepared a certain master documentation that such entities may enter into in order to facilitate their participation in AgVantage.

WHEREAS, various Certified Facilities that meet Farmer Mac's credit rating criteria may make a specific pledge of eligible collateral to Farmer Mac to secure its outstanding obligations to Farmer Mac under which they are to specifically identify eligible collateral securing their obligation(s) without delivering such collateral to Farmer Mac, which collateral will be marketed to be sold by Farmer Mac on a periodic basis and

Monthly Collateral Report

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
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<td>Assignment of Mortgages or Deeds of Trust (AgV-03)</td>
<td>Assignment of Mortgages or Deeds of Trust (AgV-03)</td>
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<td>Issuer Name:</td>
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<td>Dated: May 1, 2016</td>
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<td>4 D</td>
<td>5 E</td>
<td>6 F</td>
<td>7 G</td>
<td>8 H</td>
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<td>45</td>
<td>46</td>
<td>47</td>
</tr>
</tbody>
</table>

Assignment of Mortgages or Deeds of Trust (AgV-03)
Schedule I to the Confirmatory Assignment
Issuer Name: 
Dated: May 1, 2016
Farm & Ranch Purchase Commitment

Purchase Commitment Program Benefits

- Reduce credit risk for loans in the Long-Term Standby Purchase Commitment (LTSPC) pool
  - Manage commodity, geographic and borrower concentrations
- Improve financial results
  - Improve borrower hold limit calculations
  - Repurchase sold participations, improving related profits
  - Reduce reserve requirements for potential loan losses
  - Free up capital through risk-weighting loans in pool at 20% versus 100% for portfolio loans
**Improve Financial Results**

- Sample LTSPC transaction

<table>
<thead>
<tr>
<th>Nominated &amp; Accepted Qualified Loans:</th>
<th>$10,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-Adjusted Capital</td>
<td></td>
</tr>
<tr>
<td>Percent (%):</td>
<td>100%</td>
</tr>
<tr>
<td>Current</td>
<td></td>
</tr>
<tr>
<td>Dollars ($)</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>with LTSPC</td>
<td>20%</td>
</tr>
<tr>
<td>Dollars ($)</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Capital Target @ 10%</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Freed-up Capital</td>
<td>$800,000</td>
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</tbody>
</table>

**Improve Financial Results**

- Sample LTSPC transaction

<table>
<thead>
<tr>
<th>Ag Real Estate</th>
<th>Ag Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation Loan:</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Purchase Commitment Loan:</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Loan Spread:</td>
<td>4.00%</td>
</tr>
<tr>
<td>Net Spread to Farmer Mac Fee:</td>
<td>0.50%</td>
</tr>
<tr>
<td>Participant:</td>
<td>3.75%</td>
</tr>
<tr>
<td>Lender’s S. Fee:</td>
<td>0.25%</td>
</tr>
<tr>
<td>Spread Retained by Lender:</td>
<td>3.50%</td>
</tr>
<tr>
<td>Benefits:</td>
<td>Reduce Credit Risk</td>
</tr>
<tr>
<td>Benefits:</td>
<td>Increase Profitability</td>
</tr>
<tr>
<td>Benefits:</td>
<td>Work Solely with Borrower</td>
</tr>
</tbody>
</table>
**Purchase Commitment by the Numbers**

- Over 18 years of program history
- Over $10.8 billion in cumulative Purchase Commitment volume to date
- Over 31,500 loans under commitment
- Over 120 commodities represented in 49 states

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**Cumulative Program Volume**

![Graph showing cumulative program volume from 1999 to 2015, with a peak of $10,819,277,000 in 2015.](image)

Cumulative Purchased Loans from Lenders

$140,277,000
**How Does LTSPC Work?**

- Two legal documents support the LTSPC
  - LTSPC Agreement
    - Covers loans in the initial pool and subsequent loans
    - Farmer Mac commits to purchase loans in pool if they become 90 days delinquent
    - Lender pays annual fee on a monthly basis
  - Master Servicing Agreement
    - Agreement is dormant until such time as Farmer Mac buys a loan from the LTSPC and the lender begins servicing the loan for Farmer Mac
### How Does LTSPC Work?

- Lender offers initial commitment pool
  - Loan data is submitted to Farmer Mac
  - Farmer Mac reviews the loans represented by the lender
  - Loan-level commitment fee is assigned and a Qualified Loan Schedule (QLS) is created
  - QLS is signed by both parties and becomes effective for the pool

- Adding loans to the pool on a flow basis
  - Loans may be added on a flow basis and may be added on a pre or post-review basis
  - Participations in loans, pari passu, may be included
  - Loans are submitted for credit review via Farmer Mac’s online electronic portal
  - Farmer Mac reviews the loans and a loan level commitment fee is assigned and a QLS is created
  - QLS is signed by both parties and becomes effective for the pool
**Transaction Types**

- **LTSPC - Traditional**
  - Lender owns the loan until it becomes 90 days delinquent
  - Loans risk weighted at 20%
  - Loans can be nominated on an individual basis

- **LTSPC - Tranched**
  - Lender owns the loan until it becomes 90 days delinquent
  - Lender retains 3% first loss position and Farmer Mac retains the next 97% of risk
  - Minimum initial pool size is $50 million
  - Farmer Mac commitment fee reduced

**Farm & Ranch Loan Qualifiers**

- First mortgage on real estate used in agricultural production
- $12.6 million maximum per loan over 1,000 acres; $50 million if 1,000 acres or less
- 70% LTV up to $5 million and 60% thereafter
  - Higher LTVs for some livestock operations (e.g. swine, poultry)
- Higher LTVs for certain intensive livestock operations (e.g. swine, poultry)
- Ag facility underwriting guidelines apply if the value of the property improvements exceed 60% of the total appraised value
  - Refer to Chapter 205 of the Farmer Mac Seller Guide
**LTSPC – Traditional Pricing**

- Commitment fee is 50 bps for most ag real estate loans
- Processing, storage & marketing loans have negotiated pricing based on risk profile

**If Loans Become Delinquent**

- Lender works with the borrower to resolve the delinquency
- Restructured loan may result
- Farmer Mac can purchase when the loan is 90 days past due
- Lender begins to act in its capacity as Central Servicer on Farmer Mac's behalf
**Servicing LTSPC Loans**

- Use typical industry practices
- Apply typical least-cost analysis to borrower rights process
- Farmer Mac’s approval of proposed actions is needed:
  - Principal amortization is changed from what it was when the loan was first included under LTSPC
  - Collateral or obligors/guarantors supporting the loan is changed
- Actions not fitting these general categories do not need Farmer Mac approval (e.g. re-pricing)

**Application of Liquidation Proceeds**

1. To the Seller, accrued interest through six months following the first delinquency
2. To the Seller, protective advances and collection expenses
3. To Farmer Mac, interest from the purchase date
4. To Farmer Mac, the outstanding principal
5. To the Seller, other accrued interest
6. To the Servicer, unpaid servicing fees accrued during the period Farmer Mac owned the loan
7. To the Seller, default interest
8. To the Seller, prepayment penalties, if any
9. To Farmer Mac, the remainder, if any
**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

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*Farmer Mac's Quarterly Perspective on Agriculture*

*Spring 2016*

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