FARMER MAC

Capital Markets Update

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Introduction

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Interest Rate and Economic Summary

Interest Rate and Economic Summary

- Long term interest rates remain low by historical standards, even after a post election sell off with the anticipation of increased fiscal spending
  - Rates stabilized some in December, with the 10 year UST oscillating within a 25bps range and finishing the month unchanged at 2.45%
  - Long term rates have fallen marginally to start the year

- Shorter term interest rates inched higher for the year as anticipation of 2016 Fed hike became more certain
  - Market is pricing in two Fed hikes for 2017, however Fed commentary has indicated a potential for three
  - 1-month LIBOR moved 0.35% higher in 2016

- Continued job growth in 2016 lowered the unemployment rate to 4.6%, the lowest since 2007
  - Nonfarm Payrolls increased by 180k per month in 2016, with only one month with sub 100k job growth
  - Wage growth is at the highest level since 2009

- 3rd quarter 2016 GDP increased to 3.5%, from 1.4% in 2nd quarter
  - Increased consumer spending drove overall economic growth

Interest Rate Forecasts

- Economists are forecasting short term rates to increase more than long term rates over the next 12 months

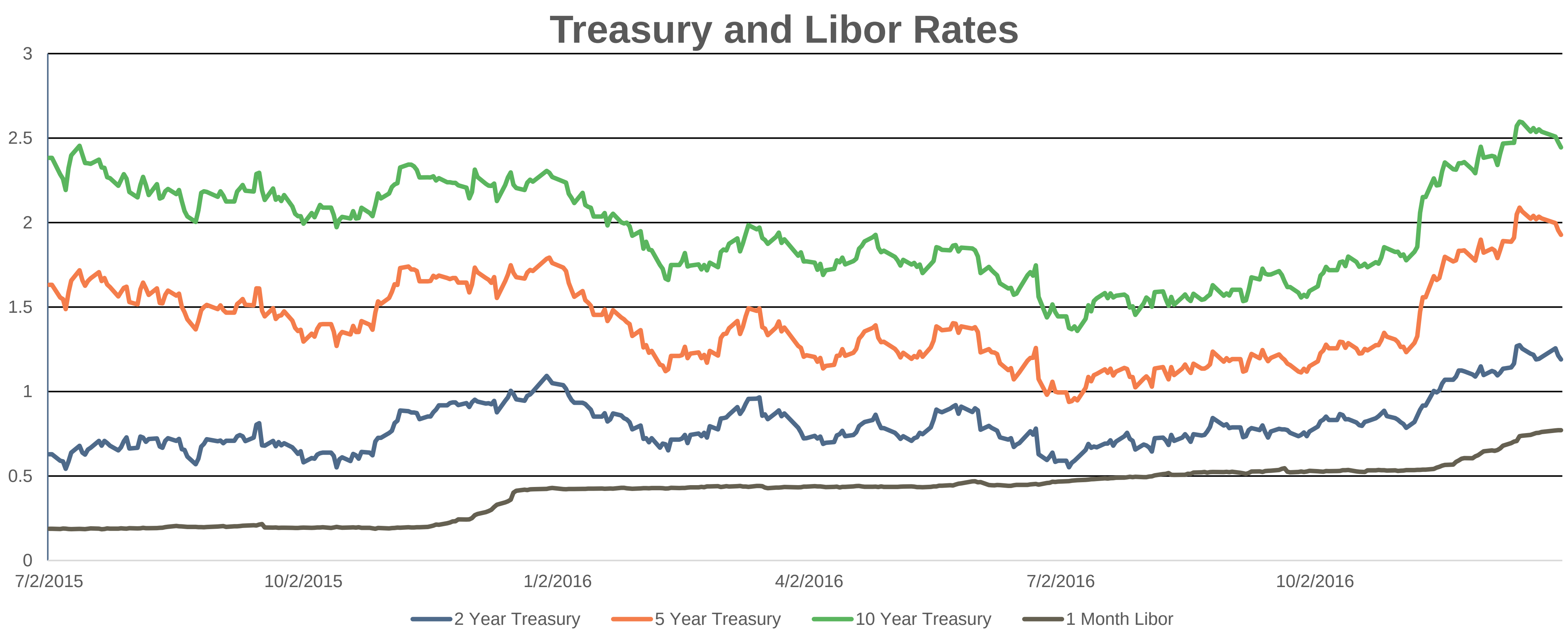
- Market pricing implies slower rate hike pace than Fed member indications
  - Based on futures market, traders are pricing in the effective overnight Fed Rate to be 1.16% by end of 2017

Interest Rate Forecasts	Current	3/31/2017	6/30/2017	12/31/2017
Overnight Fed Rate	0.67%	0.80%	1.00%	1.30%
3-month LIBOR	1.02%	1.06%	1.22%	1.53%
2-year US Treasury	1.16%	1.22%	1.36%	1.64%
10-year US Treasury	2.35%	2.40%	2.52%	2.70%

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

Interest Rates: Trends and Product Impact

Interest Rates: Recent Trends



- Long-term and short term rates increased in Q4 2016 driven by the December Fed Hike and the post election sell off
- 1 Month Libor climbed to a high of 77bps, a level not seen since 2008, impacted by both the Fed hike and Money Market fund reform

Product Impact – Farm & Ranch

- Rates finished 2016 slightly lower for the year
  - Strong demand for Farm and Ranch fixed rate loans
  - 15-year products becoming very attractive relative to other products
  - Adjustable rate products also saw high volume in 2016, with some demand shifting to fixed rate in Q4 as the fixed-adjustable rate differential narrowed

Product	1/5/2016	7/5/2016	1/17/2017
5-year ARM	3.77%	3.06%	3.77%
15-year Fixed, 15-year Amortization	4.51%	3.76%	4.30%
15-year Reset, 30-year Amortization	4.86%	4.09%	4.68%
25-year Fixed, 25-year Amortization	4.98%	4.18%	4.98%

- LIBOR-based reset product (1-month ARM, AgEquity) remain popular however demand beginning to moderate as rates rise
  - 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 ARMs have the a lot of flexibility regarding conversion options to longer-term fixed rate products

Product Impact – USDA

- Rates finished 2016 slightly lower for the year
  - 20-year Fixed and 15-year Reset products remained most popular in 2016
  - Reset products provide attractive initial pricing with flexibility of longer amortizations to help borrowers
  - 20-year Fixed remains attractive relative to 30-year Fixed
  - Steady demand for 25-year and 30-year Fixed Rate products
    - Even with relative premium for additional 5 or 10 years

Product	**1/5/2016**	**7/5/2016**	**1/17/2017**
5 year Reset, 30 year Amortization	3.09%	2.36%	3.23%
10 year Reset, 30 year Amortization	3.59%	2.84%	3.80%
15 year Reset, 30 year Amortization	3.93%	3.11%	4.08%
20 year Fixed	3.87%	3.06%	3.97%
30 year Fixed	4.39%	3.56%	4.37%

Agency Debt Market Update

Agency Debt Market Update

- The Agency debt market saw issuance decline in 2016
  - Largely driven by a drop in issuance from Fannie Mae and Freddie Mac
  - Federal Home Loan bank remained the largest issuer
- Agency debt spreads versus Treasuries remain near historical averages
- Cost of funds for Farmer Mac are most influenced by volatility in the rates market, treasury yields and supply/demand factors
- Farmer Mac is ramping up efforts to reach new investors
  - Goal is to lower cost of funds which should ultimately produce lower net yields on the Farmer Mac rate sheet

Wrap Up

Conclusion

- Rates remain low by historical standards, however have seen an uptick since July

- Benefit of staying in short-term adjustable rate products is narrowing versus locking in long-term fixed rate products

Rate Survey

- **Do you have market intelligence?**
- Farmer Mac is looking for participants to take our Rate Survey
- This data helps Farmer Mac to better estimate market conditions, product trends and demand
- The more data Farmer Mac can get about the market place, the better the pricing on the rate sheet can be

Questions?

Visit our Resource Library: www.efarmermac.com

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