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

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

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

<table>
<thead>
<tr>
<th>Product</th>
<th>1/5/2016</th>
<th>7/5/2016</th>
<th>1/17/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-year ARM</td>
<td>3.77%</td>
<td>3.06%</td>
<td>3.77%</td>
</tr>
<tr>
<td>15-year Fixed, 15-year Amortization</td>
<td>4.51%</td>
<td>3.76%</td>
<td>4.30%</td>
</tr>
<tr>
<td>15-year Reset, 30-year Amortization</td>
<td>4.86%</td>
<td>4.09%</td>
<td>4.68%</td>
</tr>
<tr>
<td>25-year Fixed, 25-year Amortization</td>
<td>4.98%</td>
<td>4.18%</td>
<td>4.98%</td>
</tr>
</tbody>
</table>

- 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

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<th>1/17/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 year Reset, 30 year Amortization</td>
<td>3.09%</td>
<td>2.36%</td>
<td>3.23%</td>
</tr>
<tr>
<td>10 year Reset, 30 year Amortization</td>
<td>3.59%</td>
<td>2.84%</td>
<td>3.80%</td>
</tr>
<tr>
<td>15 year Reset, 30 year Amortization</td>
<td>3.93%</td>
<td>3.11%</td>
<td>4.08%</td>
</tr>
<tr>
<td>20 year Fixed</td>
<td>3.87%</td>
<td>3.06%</td>
<td>3.97%</td>
</tr>
<tr>
<td>30 year Fixed</td>
<td>4.39%</td>
<td>3.56%</td>
<td>4.37%</td>
</tr>
</tbody>
</table>
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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