Role of Partnerships in Financing Rural America

FARMER MAC

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**Farmer Mac Overview**

**Created in the 1980s to help provide a deeper credit market for rural America**

- Provide wholesale financing, secondary market and credit enhancements for agricultural and rural utilities lenders
- Increase access to credit and drive more efficient credit pricing for rural America
- Reduce rural credit market volatility by increasing liquidity and lending capacity for rural lenders

**Lines of business – focused on customers**

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

**Diverse product suite provided to customers**

- Loan purchases
- Wholesale financing
- Credit protection

**1987**
Farmer Mac initially chartered by Congress as an instrumentality of the United States

**1996**
First major charter revision and expansion of authority (direct loan purchases)

**1998**
Outstanding business volume reaches $1 billion

**1999**
First listed on NYSE (AGM & AGM.A)

**2008**
Second major charter revision and expansion of authority (Rural Utilities)

**2016**
Outstanding business volume reaches $10 billion

Outstanding business volume reaches $15.6 billion
Cumulative History of Farmer Mac Business

- $38 billion in cumulative business volume
- Over $5 billion in USDA/FSA Guaranteed loans purchased
- Approximately 1,400 different institutions and lenders have participated in at least one program
- Customers in all 50 states
- Loans in all 50 states
- USDA Guaranteed program a company bedrock
**USDA Guaranteed Secondary Market**

- **Most major programs are eligible**
  - Farm Service Agency - Farm Ownership (FO) and Operating-Term (OL)
  - Rural Development - Business & Industry (B&I) and Community Facility (CF)

- **Farmer Mac has a highly efficient delivery system for USDA Guaranteed loan purchases**
  - No Farmer Mac underwriting analysis
  - No costs to sell loans
  - Diverse set of loan options out to 25-year fixed rate
  - No maximum or minimum loan sizes
  - Lender receives fee income over the life of the loan
  - Newly originated or seasoned loans
  - Hold in-portfolio or securitize and sell to other investors
  - Online Loan Application system makes selling easier than ever

- **Benefits of program accrue to all participants**
  - Improves market and liquidity for USDA Guaranteed Loans
  - Creates liquidity and investment opportunities for rural lenders
  - Creates more options for farmers, ranchers, and other members of Rural America
USDA Guaranteed Product Choices

- **Over 80 different product/payment option combinations**

- **Most farmers and ranchers choose 15 year fixed rate or longer**
  - 20-year fixed rate the top product for each of last five years

- **New AgAssist product launched in 2015 demonstrates flexibility and innovation**
  - 1st mortgage through Farmer Mac
  - 2nd mortgage FSA guaranteed
  - Allows borrower to finance up to 85% of collateral value
  - Shared risk between FSA and Farmer Mac
  - Great opportunity for new and beginning farmers as well as experienced farmers that need to restructure

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**2015 Farmer Mac USDA Guaranteed Loan Purchases**

- 68% > 10 Years Fixed
- 2015 Farmer Mac USDA Guaranteed Loan Purchases

Two-thirds of volume locked in rates longer than 10 years
Geography of USDA Guaranteed Partners

- Each dot represents a Farmer Mac customer
- Lenders in 47 states
- Nearly 1,000 different lending institutions
- High percentage are Commercial Banks
- Over $5.2 billion in USDA Guarantees purchased
- Over $200 million in servicing fees paid to lenders
Geography of USDA Guaranteed Borrowers

- Each dot represents a borrower with guaranteed loan purchased by Farmer Mac
- Borrowers in all 50 states
- Over 17,000 loans purchased
- Avg. note rates comparable or lower than industry
- Two-thirds with Farm Ownership Program
Many Partners – One Farmer Mac

Many, Many Others
• USDA programs
• Non-bank financials find new sources of capital for Rural America
• Lowering costs for Rural Electric Cooperatives and consumers

Commercial Banks
• Full suite of loan products
• Alliances with multiple industry groups
• Over 1,000 customers served

Insurance Companies
• Wholesale funding most popular
• Loans sales and credit protection also in mix

Farm Credit System
• Longstanding relationship and membership
• Products tailored to fit system needs
Farm Economy & Importance of Lending Partnerships

- All sectors of agriculture experiencing lower commodity prices
- Lower commodity prices drive down incomes
- Demand for loans (particularly USDA Guar.) inverse relationship to incomes

(1) Source: USDA, Economic Research Service, nominal dollars (as of November 2015).
(2) Source: USDA, National Agricultural Statistics Service; Indexed to 1999 as 100.
(3) Source: Federal Reserve Bank of Kansas City, Agricultural Finance Databook Demand for Loans Higher; Indexed to 1999 as 100.
Conclusions and Summary

• Farmer Mac is a proud partner of USDA and FSA to enhance the market for guaranteed lending

• The secondary market connects tens of thousands of lenders, farmers, and ranchers from coast-to-coast

• Beyond the USDA Guaranteed program, Farmer Mac partners with a multitude of different lenders to improve access to capital, lower costs, and bring liquidity to Rural America

• These partnerships will prove vital in the changing economic times ahead (lower incomes, higher loan demand, and potentially higher interest rates)

• Rural lending is built on these relationships and it is built to last