

Kansas Farm Service Agency
Guaranteed Farm Loan Programs
2009 Annual Lender Training ~ Webinar

Hi Yg! '8YW%) 'r ' - 'U"a "cf Thurs – DeW17 ~ 1:30 p.m.

Agenda

Opening Comments

Arlyn Stiebe

Funding Projections

Arlyn Stiebe

New Loan Limits

Arlyn Stiebe

Interest Assistance Refresher

Shelly Wolf

Servicing Distressed Accounts

Shelly Wolf



Farm Loan Programs

Secondary Market – Farmer Mac

Patrick Kerrigan



Questions and Answers

FSA and Farmer Mac

After Webinar Contact Information:

Arlyn Stiebe, Farm Loan Chief

arlyn.stiebe@ks.usda.gov

Shelly Wolf, Farm Loan Specialist

shelly.wolf@ks.usda.gov

On the Web: fsa.usda.gov/ks

Follow USDA-FSA on Facebook, Twitter and YouTube

Patrick Kerrigan, Director of Business Development

Email: opportunities@farmermac.com

On the Web: farmermac.com

Follow Farmer Mac on Facebook, Twitter and YouTube

**Kansas
Farm Service Agency
Guaranteed Farm Loan Programs**



2009 Annual Lender Training

via Webinar

New Loan Limits

- The dollar limit of guaranteed loans is adjusted annually based on the percentage change in the Prices Paid by Farmers Index, as compiled by USDA. **Guaranteed Loan Limits have been increased to \$1,112,000.** Total combined outstanding direct and guaranteed FO, OL & SW balances cannot exceed \$1,412,000 and if there is an EM involved, combined balances cannot exceed \$1,912,000

2010 Farm and Ranch Planning Prices

Wheat-bu.\$ 4.65
Milo-bu.....\$ 2.90
Corn-bu.....\$ 3.50

Soybeans-bu.....\$ 8.50

Oats-bu.....\$ 1.75
Pinto Beans-cwt.....\$ 28.00
Oil Sunflowers – cwt\$ 17.00
Confection Sunflowers - cwt\$19.00
Alfalfa-ton.....\$ 95.00
Other Hay-ton.....\$ 50.00
Corn Silage-ton.....\$ 25.00
Other Silage-ton.....\$ 21.00

Cotton-lb.....\$ 0.53
Cows-cwt.....\$ 49.00
450# Calves-cwt.
(Blended Price..\$113.00
750# Calves-cwt.
(Blended Price).\$102.00
Fat Cattle-cwt.....\$ 88.00
Sows-cwt.....\$ 24.00
Feeder Pigs(50-60 lbs.)...\$ 22.00/hd
Market Hogs-cwt. (live)....\$ 39.00
Cull Ewes& Rams.-lb.....\$ 0.25
Market Lambs-lb.....\$ 0.87
Grade A Milk-cwt.\$ 15.74

*2010 Planning Prices were updated on 9/10/09 and emailed to County Offices and lenders who are signed up to receive email from the Kansas FSA State Office. If you would like a **complete** copy of the planning prices sheet, please contact your Farm Loan Manager.*

Operating Loans with Interest Assistance (IA)

- Kansas IA activity for the past 5 fiscal years is as follows:

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Loans Made | 33 | 23 | 49 | 60 | 36 |

- On June 8, 2007, several eligibility criteria was changed.

Eligibility Criteria for Interest Assistance (IA)

- A feasible plan cannot be achieved without IA, but can with IA. Note: A typical year plan must demonstrate that the borrower will have a feasible plan through the term of the loan EVEN AFTER the IA subsidy payments cease.
- Must not have received IA for 5 or more years.
- Must not have received IA on guaranteed loans of \$400,000 or more.
- Must not have Debt to Asset Ratio of less than 50 percent.
- Must consider any significant non-essential assets.

Feasible Plan with IA

2-FLP Paragraph 224 B

- Submit two cash flows – one demonstrating the need for IA (*Cash flow not feasible w/o IA*) and one supporting the need (*Cash flow feasible plan with IA*)
- The typical year cash flow plan must demonstrate that the borrower will have a feasible plan throughout the term of the loan.
 - The lender must demonstrate long term viability and document how the operation will cash flow after IA subsidy ceases.

Nonessential Assets with IA 2-FLP Paragraph 224 C

- The lender must determine that the borrower, including members of the entity, does not own any significant assets that do not contribute directly to essential family living or farm operations.
 - Insignificant assets will be given a market value and applied towards debt reduction. The cash flow will be reviewed based on the assumption of those assets being sold.

Debt to Asset Ratio with IA 2-FLP Paragraph 224 D

- A borrower may only receive IA if their total debts prior to the new loan exceed 50 percent of their total assets.
 - Note: This is TOTAL debts and assets on a combined balance sheet, including personal debt.
 - Beginning farmers are excluded from this requirement.

Servicing Distressed Accounts

- Distressed account is when a borrower is in default. When a borrower is delinquent on their FSA Guaranteed loan 30 days or more past the due date.
- Distressed can also be non-monetary where the borrower is found to be in violation of provisions of the loan documents.

- When the borrower defaults on his loan (30 days after the payment due date), the lender will take the following action:
 - Schedule a meeting within 45 days of the missed payment.
 - The lender may not call the loan until the 60 day consideration for Interest Assistance has passed.
 - Within 120 days after the missed payment date, the loan restructuring plan will be implemented or a decision to liquidate will be made.

Borrower – Lender Meeting

- As soon as possible after the missed payment due date and before 45 days has passed the lender will schedule a meeting with the borrower to develop a course of action to remedy the default. If requested, a FSA credit officer may be invited to attend.
- At the meeting, a current balance sheet and cash flow will be prepared.
- After the meeting has concluded, the lender will summarize the meeting and proposed solutions. At this time FSA 2248 will be completed and submitted, as well. Lenders that have LINC access will enter the report online. FSA 2248 will be completed every 60 days thereafter until the loan is no longer in default.

Servicing Tools Available

- Rescheduling
 - This is where the loan principal is rescheduled over a longer period of time. In some case interest may be capitalized. Balloon payments are permitted if a longer term is needed.
 - FO loans may be amortized over the remaining term of the note or rescheduled with an uneven payment schedule over a period not to exceed 40 years from the date of the original note.
 - OL notes must be rescheduled over a period not to exceed 15 years from the date of the rescheduling.
 - A LOC must be rescheduled over a period not exceed 7 years from the date of rescheduling or 10 years from the date of the original note, whichever is less. No more advances can be made on the LOC
- Deferral of Payments
 - Payments may be deferred up to 5 years but not beyond the final due date of the note.

FSA Reporting for Default Loans

- PLP Lenders will service the loan in default according to their Lender's Agreement.
- SEL and CLP Lenders will report to the Agency within 90 days of default as to whether or not restructuring will occur or steps will be taken to liquidate the security. SEL must obtain prior written approval on all restructuring actions.
- All lenders will complete FSA 2248 "Guaranteed Farm Loan Default Status Report"

A General Requirements

For any restructuring action, the following conditions apply.

- The borrower meets the eligibility criteria of § 762.120, except the provisions regarding prior debt forgiveness and delinquency on a Federal debt do not apply.

Note: When a lender submits a request for FSA concurrence with a restructuring action, the authorized agency official will review the borrower's eligibility for the loan. However, the eligibility provisions of subparagraphs 108 C and D do not apply to the restructuring of existing loans.

- The borrower's ability to make the amended payment is documented by the following: (SEL and CLP lender only; PLP lender shall see the lender's agreement)

- a feasible plan (see section 762.102(b))

Note: If interest assistance is required to achieve a feasible plan, the items required by Sec. 762.150(d) must be submitted with a restructuring request.

- current financial statements from all liable parties
- verification of nonfarm income
- verification of all debts of \$1,000 or more
- applicable credit reports
- financial history (and production history for standard eligible lenders) for the past 3 years to support the cash flow projections.
- A final loss claim may be reduced, adjusted, or rejected as a result of negligent servicing after the concurrence with a restructuring action under this section.

The lender's security position will not be adversely affected because of the restructuring. New security instruments may be taken if needed but a loan does not have to be fully secured in order to be restructured, unless it is restructured with a balloon payment. When a loan is restructured using a balloon payment, the lender must take a lien on ALL assets and project the loan to be fully secured at the time the balloon payment comes due.

| Collateral Type | Years of Consideration | Guidelines |
|-------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Machinery and Equipment | 7 years to 10 years | Machinery and equipment will normally have a depreciation of 7 years. A longer period, NTE 10 years, may be considered if justified by age, quality and maintenance/replacement practices. The burden of proof is on the lender when an amortization beyond 7 years is used. Tax or book depreciation will not be the sole factor. |
| Breeding Livestock | Cattle – 7 to 10 years Hogs – 7 years Sheep – 5 years | 10 years for cattle can be considered if justified by the age and culling practices of the borrower. The borrower must have a proven history and be documented by the lender. |
| Irrigation Sprinklers | New – Not to exceed 15 years Used – Not to exceed 10 years | A new sprinkler has a life expectancy of 15 years. Used sprinklers will have a depreciated value not to exceed 10 years based on condition and other factors as described above. |

--Note: The depreciation periods outlined in this supplement are to be guidelines only. Although unlikely, the years of consideration may be exceeded if adequately justified by the lender.--

Interest may be capitalized – contact the County Office for additional information.

Deferrals and Debt writedowns are not fairly used or common; however, they are available as a servicing option. Should the borrower-lender and FSA determine that a debt writedown will be feasible, contact the County Office for further guidance.

PLP lenders will restructure loans in accordance with their Lender's Agreement. A PLP lender may request guidance on or concurrence with a restructuring proposal. Upon completion of the restructuring, PLP will submit a cover letter explaining what took place, a copy of any restructured note or addendum AND FSA-2248 Default Status Report.

After other requirements are met and approved for **SEL and CLP lenders**, a copy of any restructured note or addendum will be forwarded to the FSA County Office along with FSA-2248 Default Status Report.

Any new notes taken MUST REFERENCE the original note tied to the Loan Guarantee. The original note must not be released.



FARMERMAC
Financing Rural America

Kansas FSA
Secondary Market
Webinar

December 2009

- Secondary Market for USDA Guaranteed Portions
 - Eligible guaranteed loans include:
 - Farm Service Agency (FSA)
 - Farm Ownership (FO)
 - Operating (OL)
 - Rural Development Mission Area
 - Community Facility (CF)
 - Business & Industry (BI)



- Secondary Market for USDA Guaranteed Portions
 - Program is open to all USDA lenders
 - Farmer Mac Seller/Service Agreement not required
 - No stock ownership requirement
 - No minimum or maximum loan sizes



- Secondary Market for USDA Guaranteed Portions
 - Lender Benefits include:
 - Increased liquidity and lending capacity
 - Increased profitability
 - Reduced interest rate risk
 - Ability to offer a greater variety of loan products



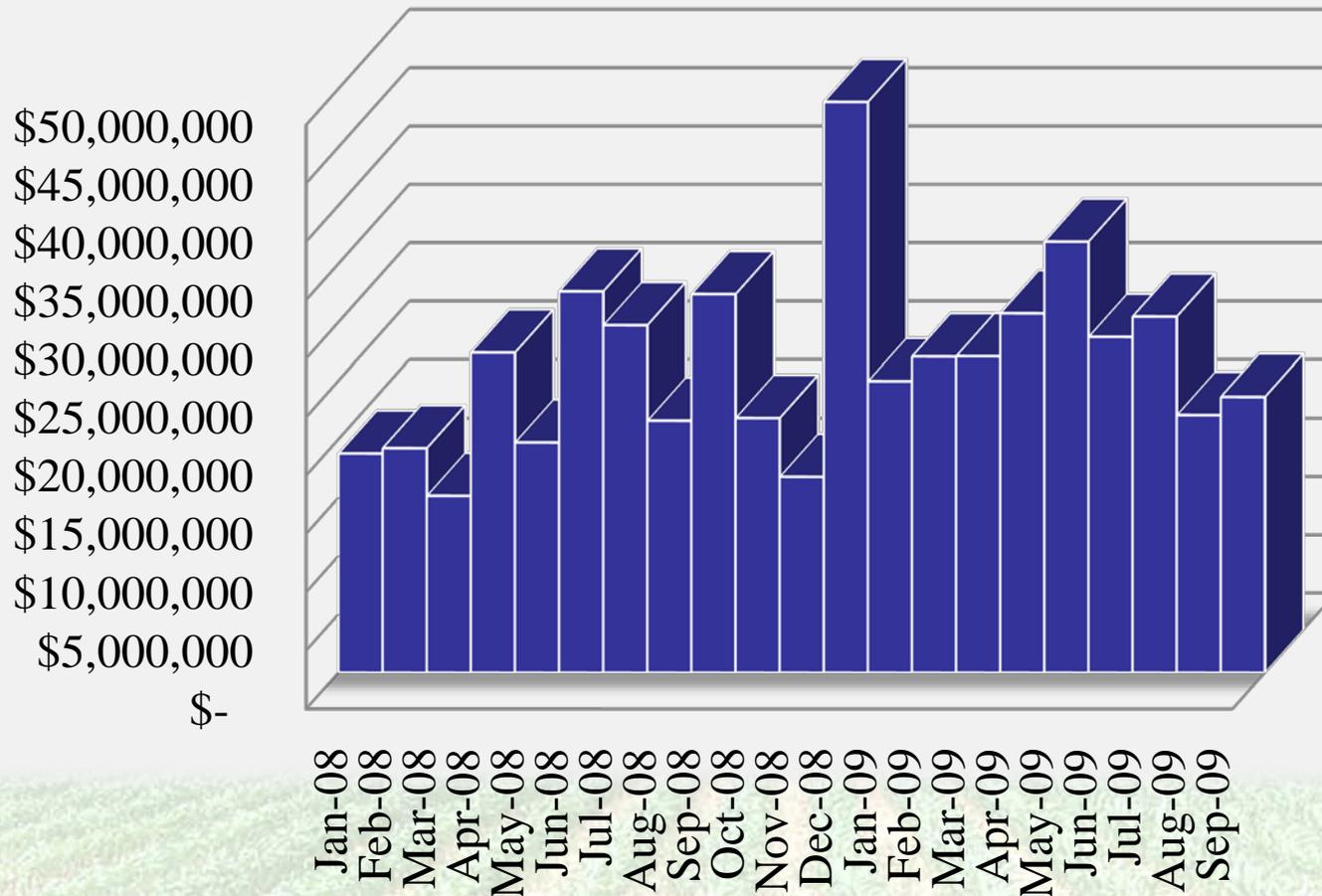
- \$1,000,000 Farm Ownership Loan with a 90% FSA Guarantee

| | | | |
|--------------------------------------------|--------------------------------------|-----------------------------------------|--|
| 1. Unguaranteed Portion (10%) | | | |
| | \$ 100,000 | Unguaranteed Portion | |
| | 5.00% | Note Rate | |
| | \$ 5,000 | Interest on Unguaranteed Portion | |
| 2. Guaranteed Portion (90%) | | | |
| | \$ 900,000 | Guaranteed Portion | |
| | 1.00% | Servicing Rate | |
| | \$ 9,000 | Servicing Fee | |
| 3. Interest & Fee Income Year 1 | | | |
| | \$5,000 + \$9,000 = \$14,000 | | |
| 4. Return | | | |
| | \$14,000 / \$100,000 = 14.00% | | |
| | | | |
| | | | |

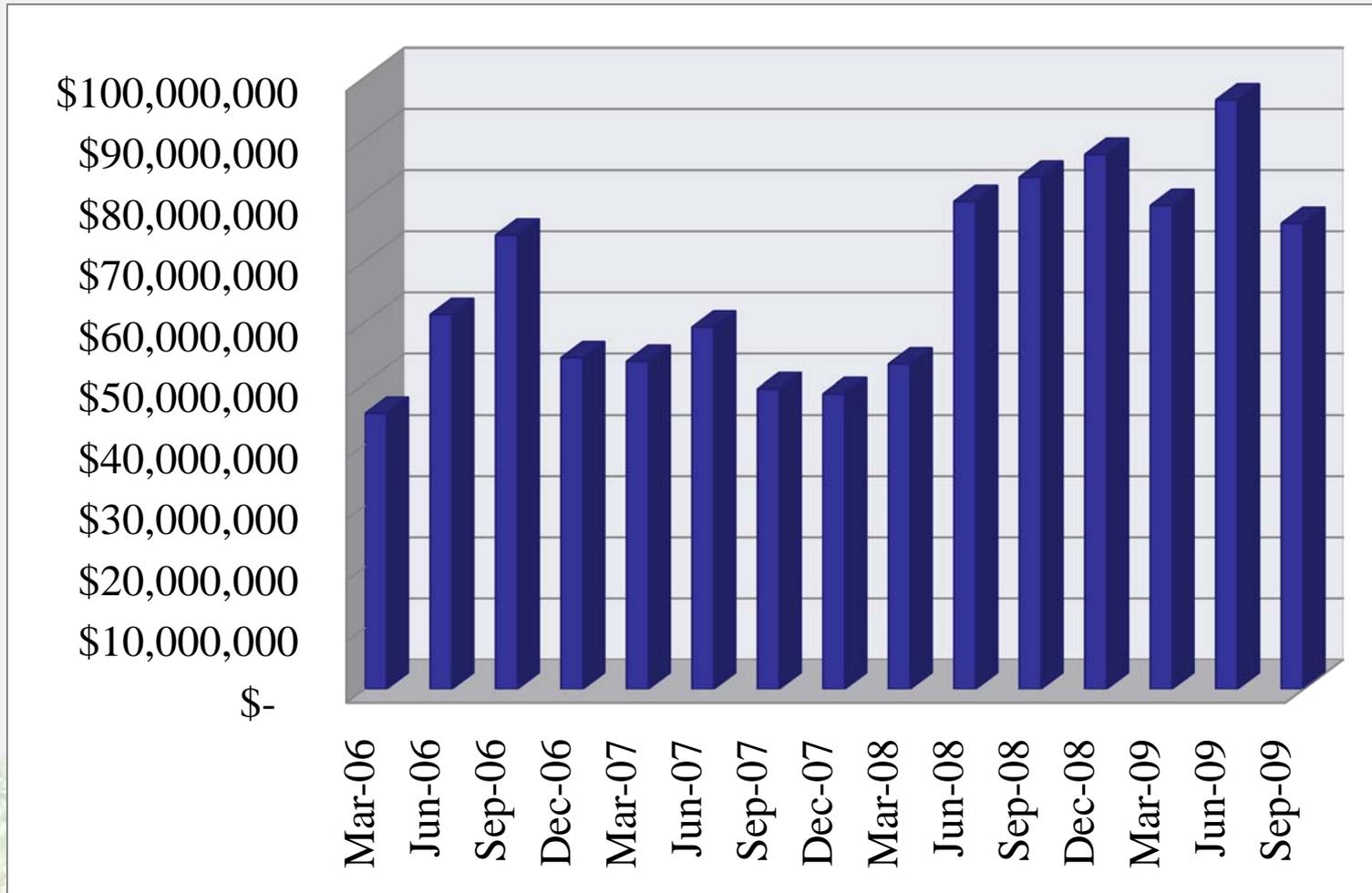
Recent Transactions

| State | Loan Type | Balance | Note Rate | Net Yield | Lender Fee | Product |
|-----------|-----------|-------------------|--------------|--------------|--------------|------------------------|
| OH | FO | \$ 263,250 | 2.49% | 1.24% | 1.25% | FM 3-Mo COFI |
| VT | FO | \$ 503,100 | 4.25% | 1.24% | 3.01% | FM 3-Mo COFI |
| OR | FO | \$ 396,000 | 5.42% | 3.92% | 1.50% | FM 5-Yr Reset |
| WI | FO | \$ 529,000 | 5.05% | 4.05% | 1.00% | FM 5-Yr Reset |
| UT | FO | \$ 203,000 | 6.06% | 3.91% | 2.15% | FM 5-Yr Reset |
| IA | FO | \$ 416,500 | 7.18% | 5.27% | 1.91% | FM 10-Yr Reset |
| NE | FO | \$ 207,000 | 7.00% | 5.88% | 1.12% | FM 15-Yr Reset |
| IL | FO | \$ 234,000 | 6.42% | 5.68% | 0.74% | FM 15-Yr Reset |
| MN | OL | \$ 517,500 | 5.35% | 4.57% | 0.78% | 7-Yr Fixed Rate |
| NY | OL | \$ 117,000 | 6.34% | 4.21% | 2.13% | 7-Yr Fixed Rate |
| IA | OL | \$ 391,500 | 5.60% | 4.57% | 1.03% | 7-Yr Fixed Rate |
| IL | FO | \$ 984,600 | 6.43% | 5.43% | 1.00% | 15-Yr Fixed Rate |
| UT | FO | \$ 369,000 | 6.50% | 5.56% | 0.94% | 15-Yr Fixed Rate |
| SD | FO | \$ 229,500 | 7.00% | 5.72% | 1.28% | 20-Yr Fixed Rate |
| WI | FO | \$ 139,500 | 7.49% | 5.92% | 1.57% | 25-Yr Fixed Rate |
| SD | FO | \$ 149,400 | 7.40% | 6.30% | 1.10% | 30-Yr Fixed Rate |

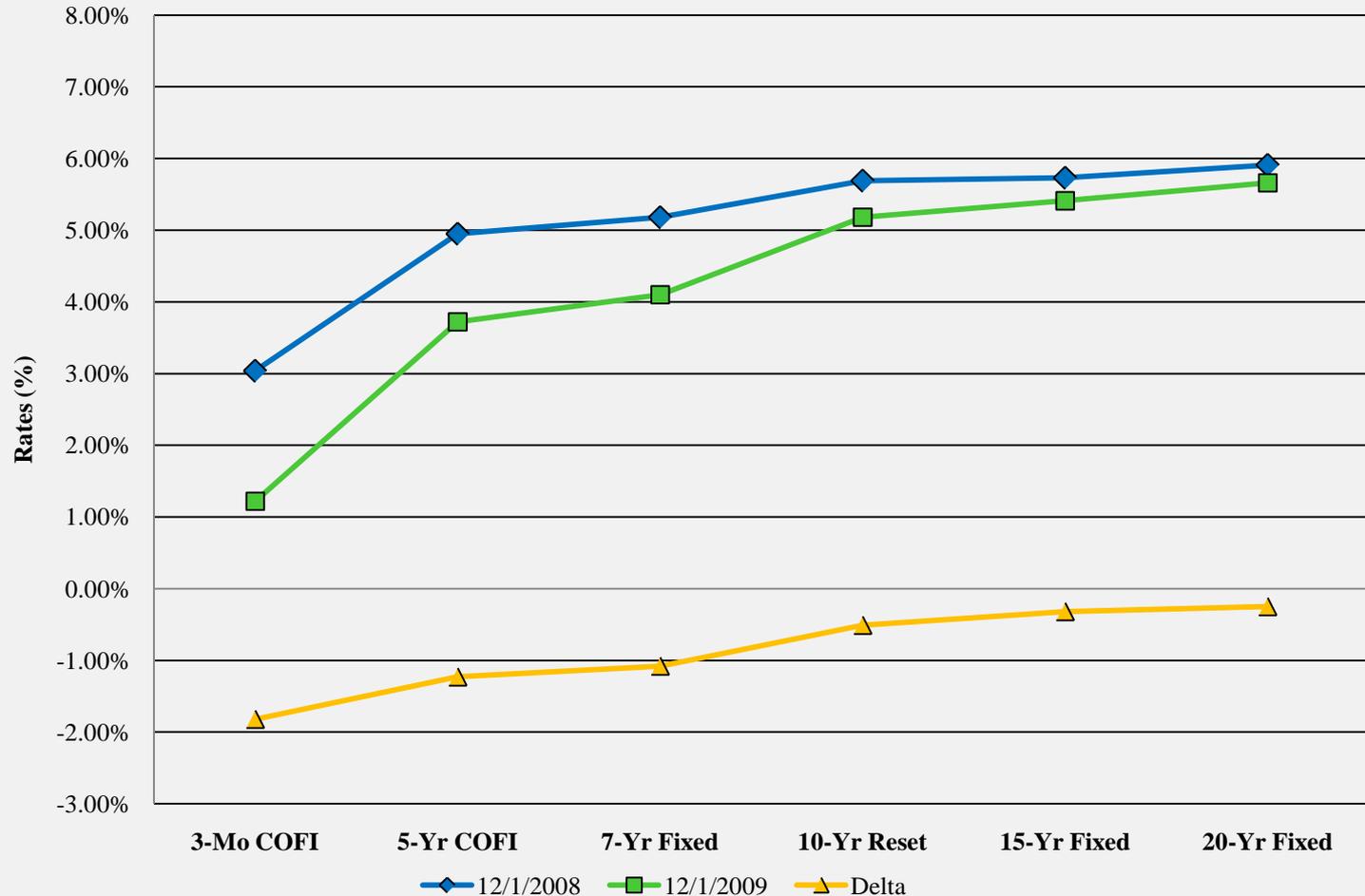
- Secondary market sales remain strong



- Current portfolio volume is approaching \$1.2 billion
 - Significant increase in purchases starting 2Q 2008



Farmer Mac II Net Yields: 2008 vs 2009



IMPORTANT

- Servicing Retained Net Yields*

Secondary Market for USDA Guaranteed Loan Programs

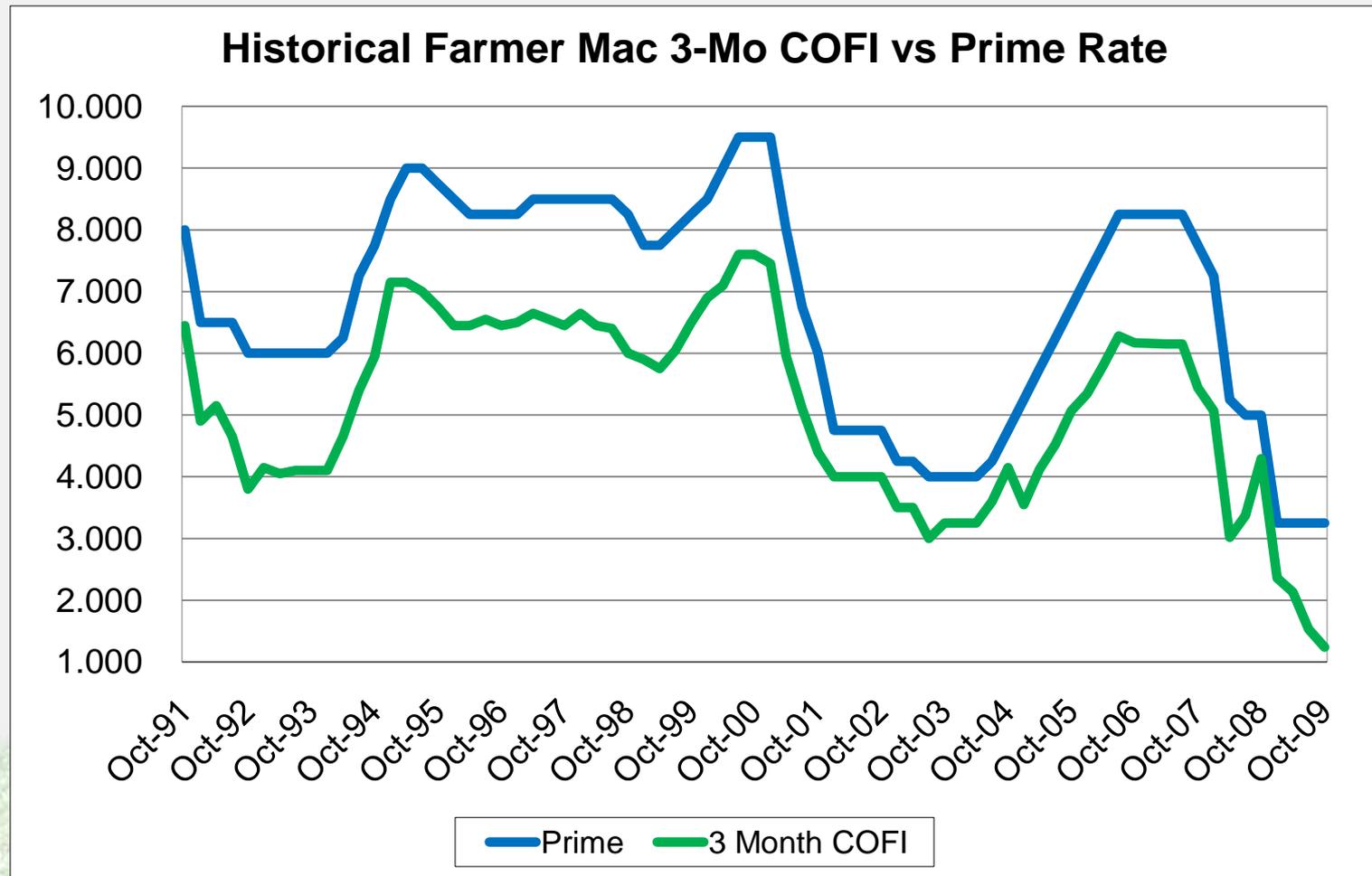
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| Product Types | Monthly Pay Cash | Monthly Pay 4-Week Rate Lock | Annual, S.A., & Qrtly Pay Cash | Annual, S.A., & Qrtly Pay 4-Week Rate Lock |
|-----------------------------------------------|------------------|------------------------------|--------------------------------|--------------------------------------------|
| Wall Street Journal Prime ** | 2.25% | N/A | 2.25% | N/A |
| Farmer Mac 3-Mo COFI | 1.22% | N/A | 1.22% | N/A |
| Farmer Mac 5-Yr Reset COFI, 20, 25, 30-Yr Am | 3.62% | 3.71% | 3.72% | 3.81% |
| Farmer Mac 10-Yr Reset COFI, 20, 25, 30-Yr Am | 5.08% | 5.17% | 5.18% | 5.27% |
| Farmer Mac 15-Yr Reset COFI, 20, 25, 30-Yr Am | 5.58% | 5.67% | 5.68% | 5.77% |
| 7-Yr Fixed Rate, 7-Yr Am | 4.00% | 4.09% | 4.10% | 4.19% |
| 7-Yr Fixed Rate, 15-Yr Am | 4.23% | 4.32% | 4.33% | 4.42% |
| 15-Yr Fixed Rate, 15-Yr Am | 5.31% | 5.40% | 5.41% | 5.50% |
| 15-Yr Fixed Rate, 25-Yr Am | 5.54% | 5.63% | 5.64% | 5.73% |
| 20-Yr Fixed Rate, 20-Yr Am | 5.56% | 5.65% | 5.66% | 5.75% |
| 25-Yr Fixed Rate, 25-Yr Am | 5.79% | 5.88% | 5.89% | 5.98% |
| 30-Yr Fixed Rate, 30-Yr Am | 5.85% | 5.94% | 5.95% | 6.04% |

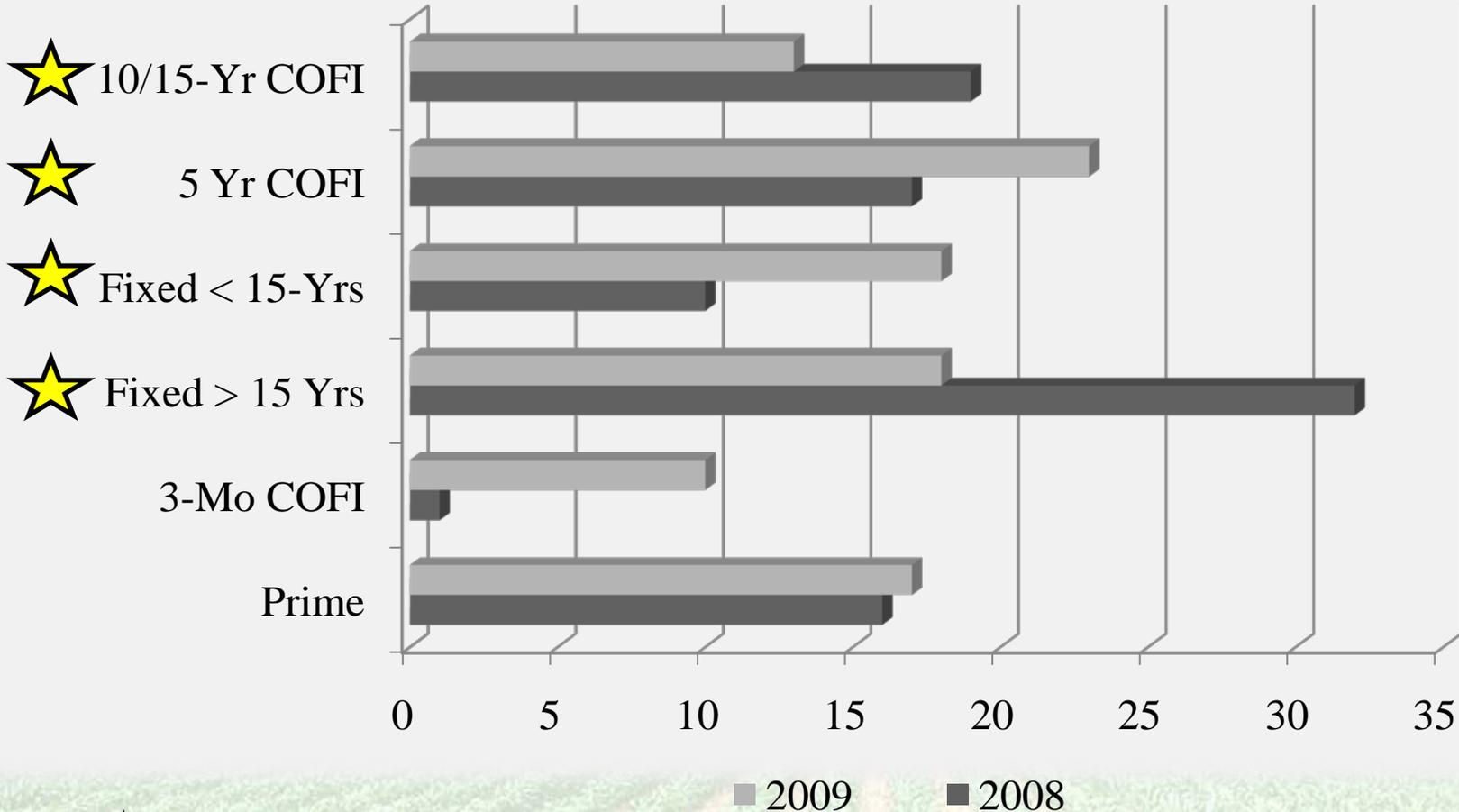
* Indications only - actual Net Yields are determined at time of pricing and may differ from those indicated.

** For daily, monthly and quarterly resets. For all other reset frequencies, please contact Farmer Mac.

- Farmer Mac's Cost of Funds Indices (COFI) enable lenders to compete with competitive rates and loan terms
 - Indices include 3-Month, 5-Year, 10-Year and 15-Year COFI



- Product Comparison: 2008 vs 2009



- 75% of 2009 purchases have fixed the borrower's interest rate for 5 years or longer

- Farmer Mac II offers loan sellers three transaction options for USDA Guaranteed Portions:
 - Purchases at par, lender retains the valuable excess servicing strip – most popular!
 - Purchases of floating rate loans at a premium, lender retains the basic servicing fee
 - Exchange the Guaranteed Portion for a timely-pay Farmer Mac guaranteed security backed by the same loan
-

- Step 1:
 - Obtain executed Assignment of Guarantee from your local FSA or RD office.
 - Step 2:
 - Assemble the following “Single Note” documents
 - One original Loan Note Guarantee
 - One original Assignment of Guarantee
 - One copy of fully executed Promissory Note (and note amendments if applicable)
 - Two original Farmer Mac II Sale Agreements
-

- Step 3:
 - Submit documents one week prior to anticipated settlement date
 - Submit required documents to:
 - Via U.S. Mail
Colson Services Corp.
Farmer Mac II Program
P.O. Box 916
Bowling Green Station
New York, NY 10274-0916
-

- Step 4:
 - Loan pricing occurs on the Wednesday prior to settlement (if price not previously agreed to via rate lock prior to Step 1).
 - Step 5:
 - Proceeds for guaranteed portions purchased are wired to sellers on Thursday, which is the weekly settlement date.
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- Visit our website – www.farmermac.com
 - View program information
 - Access rates
 - Review current news and bulletins
- Call us at (800) 879-3276
- E-mail us - opportunities@farmermac.com
- Connect with us on Facebook, Twitter and YouTube

