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Partnering with Farmer Mac to Promote Rural Development

By W. David Hemingway, Executive Vice President, Zions First National Bank



Serving the needs of farmers and ranchers has been a primary line of business for Zions First National Bank since 1873. With principal offices in Salt Lake City and Ames, Iowa, our Agricultural Finance division maintains a national network of loan originators, correspondent community bank relationships, and mortgage brokers, providing financing for capital expansion, farm and ranch land acquisition, and refinancing existing debt.

In 1988, Congress chartered the Federal Agricultural Mortgage Corporation — better known as Farmer Mac — for the broad purpose of attracting new capital to finance agricultural real estate and providing greater liquidity to rural lenders, principally by creating a secondary market for U.S. Department of Agriculture guaranteed farm program and rural development loans. We began securitizing USDA guaranteed loans through Farmer Mac in 1991. Last year, for the fourth year in a row, Zions ranked as the nation's top originator of new secondary market agricultural real estate mortgage loans sold through Farmer Mac, having originated and sold \$90.8 million of such loans.

Farmer Mac has two principal programs, Farmer Mac I and Farmer Mac II. Under the first, Farmer Mac guarantees mortgage loans secured by first liens on agricultural real estate. Under the second, Farmer Mac guarantees the guaranteed portions of USDA farm ownership and farm operating loans, rural business and community development loans, and various other USDA loans. Banks can use Farmer Mac II as a vehicle for secondary market selling of all of their USDA guaranteed loans.

To date, Farmer Mac has purchased over \$1 billion of USDA guaranteed portions. Over 600 lenders in 45 states are actively utilizing Farmer Mac II, and that number continues to grow. Any lender, or other seller of guaranteed portions, may participate in the Farmer Mac II program, as long as they make guaranteed loans in accordance with existing USDA standards and procedures.

Farmer Mac has taken a special interest in the USDA's Community Facilities (CF) and Business and Industry (B&I) guaranteed loan programs and is working closely with lenders to facilitate the completion of loan transactions. These programs are helping to spur essential rural development by giving rural lenders an opportunity to profitably finance a wide range of much-needed community services and businesses — including: manufacturing, processing, distributing, and retail facilities; electrical contractors; health care facilities, including medical/dental clinics and nursing homes; child

care centers; fire departments; libraries; jails; agricultural fairgrounds; and general construction. The article in the electronic edition of *Community Developments* entitled “Leveraging Bank Financing Using USDA’s Community Facilities Loan Guarantee Program” which describes several examples of banks originating USDA-guaranteed Community Facilities loans. These are the types of guaranteed loans that lenders sell to Farmer Mac every day in order to enhance the liquidity of their portfolios.

Through the years, Congress has created government-sponsored enterprises (“GSEs”) to improve the flow of investment capital to specific segments of the economy. The Federal Home Loan Bank System, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) were created to improve the availability of credit for housing. Farmer Mac and the Farm Credit System were created to help farmers and ranchers. Of these, the Farm Credit System is the only GSE to lend directly to the designated borrowers, while all other GSEs, including Farmer Mac, work through financial institutions.

Our experience — and that of many other bankers — testifies to the value of this approach. Zions is much more active in agricultural lending today than it would be if Farmer Mac did not provide its programs to purchase unguaranteed agricultural mortgage loans and USDA guaranteed loans. This is a partnership arrangement that we can recommend to any bank, large or small, that is interested in building a stronger, financially sound rural America.

For more information, contact Rick Floyd, Senior Vice President and Manager, Zions Agricultural Finance at (801) 524-8997 or via e-mail s281pmf@zionsbank.com. Website: www.zionsbank.com.

Farmer Mac I Program

Farmer Mac purchases 100 percent of the principal amount of agricultural mortgage loans that qualify under this program. The loan-to-value can be as high as 70 percent. Generally the loan size must be under \$3.8 million. The loans can have a fixed or floating interest rate and a maturity of up to 15 years. As with most agricultural loans, principal and interest payments are due only twice a year, on January 1 and July 1. The law creating Farmer Mac requires that Farmer Mac hold a first mortgage on the real estate for every loan it purchases.

Farmer Mac II Program

Lenders sell directly to Farmer Mac the portions of agricultural program loans, rural business and industry loans, and community development loans that are guaranteed by USDA. The selling lenders usually retain the portions of the loans that are not guaranteed, and maintain servicing responsibilities, for which they receive servicing fees on the guaranteed portion.

Participating in the Farmer Mac II program affords lenders ready access to the competitive funding rates that Farmer Mac obtains in the capital market. The benefits of efficient capital markets pricing are passed through to the participating lenders, and from the lenders through to their borrowers in the form of longer term loans, lower rates, or both. The Farmer Mac II program allows participating lenders to:

- Minimize interest rate risk while still offering borrowers intermediate and long-term fixed rate loans;

- Increase the liquidity of their guaranteed loan portfolios, enabling them to re-lend to new borrowers;
- Enhance the return on assets on the unguaranteed portion they retain;
- Convert a portion of their USDA guaranteed loan portfolio into Farmer Mac securities which can be used for pledging, repurchase agreements, or liquidity;
- Respond to the credit needs of family farmers within an economic cycle in which USDA support payments have been decreasing; and
- Build customer relationships by offering borrowers a wide variety of competitively priced loan products that otherwise might not be available — allowing small community lenders to offer the same services that their larger regional competitors offer.

W. David Hemingway is Executive Vice President, Zions First National Bank and serves on the Board of Directors of Farmer Mac.