

## Bank leverages Farmer Mac to grow with clients

BY JANET KUBAT WILLETTE

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**NORWOOD YOUNG AMERICA, Minn.** — Bob Kloth likes doing business with people he knows at his hometown bank.

"It's just nice going into the bank, the people. ... They're all your friends and you know when you go in there you're going to get good help for your operation," said Kloth, 60, who runs 1,900 acres near Norwood Young America and has three loans through Farmer Mac, two 10-year and one 25-year.

Citizens State Bank of Norwood Young America has turned to Farmer Mac to help it keep pace with the rising costs of agriculture, while still retaining relationships with its farmer clients.

Because farming is so expensive, farmers may outgrow their hometown bank.

"You can only hold so much debt per customer period per state law and so on customers of varying sizes, some of the larger ones, we have to be willing to give up some of their loans in order to keep the rest of them," said Perry Forst, president of Citizens State Bank of Norwood Young America. "If you can't service their needs then ... you risk losing the whole relationship or it will slowly keep whittling away or chiseling away. Somebody starts out with this and then they're after the part you may have on your books and pretty soon you might lose the customer if you don't have a tool like this to work with them."

Citizens State Bank has used Farmer Mac programs since 2009, when Jason Winter joined the staff. Winter, a financial services officer, did home loans before joining the bank. That skill set proved a good fit for working with loans through Farmer Mac, Forst said.



Contributed photo

Perry Forst, president of Citizens State Bank of Norwood Young America, farmer Bob Kloth and Jason Winter, financial services officer with Citizens State Bank.

Citizens State Bank has sold loans outright to Farmer Mac and also uses the Purchase Commitment program.

Selling loans outright is the primary way they use Farmer Mac, Forst said. It allows the community bank to offer favorable terms they would not otherwise be able to offer, while also allowing them to retain their customer and grow with the customer's farming operation.

"The originating creditor like us would no longer hold any of the debt, however, we still service the loan," Forst said. "We still deal with our customer. We keep the loan file up-to-date. So we don't really lose the relationship even though we don't have the loan on our books anymore. ... That customer is still our customer. We're still their primary lender."

Farmers will sit down with them and look at the extensive menu of options available through Farmer Mac, Forst said. They may say they want a 10-year fixed rate or a 15-year fixed rate or their loan amortized over 10 years or 15 years.

"There's many choices as

to what the customer can choose," he said.

Typically, at a community bank, they are able to offer a fixed rate for three to five years for the purchase of agricultural real estate, with a balloon at the end of term, Winter said. Farmer Mac offers up to 25 years for a fixed interest mortgage loan.

Their No. 1 product now is a 15-year fixed rate loan, said Patric Kerrigan, director of business services for Farmer Mac. Producers want to take advantage of record low interest rates and using Farmer Mac is one way to do that.

"We offer a wide spectrum of products from short-term variable to long-term fixed so it's really up to each individual lender to see what suits them," Kerrigan said.

Farmer Mac is a Government Sponsored Enterprise. It was started by federal law in 1987 following the farm crisis to give farm lenders a more stable source of capital and liquidity, Kerrigan said. Farmer Mac received no government dollars to start. It went into the market and sold stock to capitalize. It is

traded on the New York Stock Exchange and regulated and supervised by the Farm Credit Administration.

Farmer Mac works with ag lenders from across the nation. It has helped fund loans to more than 60,000 borrowers from 900 different financial institutions, an investment of nearly \$35 billion.

"We don't make the loan," Kerrigan said. "We make the loan better."

The loans through Farmer Mac are mortgage loans, they aren't loans to purchase cattle or machinery, he said. The property must generate at least \$5,000 in agricultural production.

The second way that Citizens State Bank uses Farmer Mac is through the purchase commitment program.

Through the program, Farmer Mac commits to purchase a loan in the future if certain scenarios occur, say the loan goes 90 days past due. The bank pays an ongoing fee for the service.

This gives the farm lender peace of mind, Kerrigan said, as it's almost a type of insurance on the loan.

It allows the lender to offload the risk, Forst said, and the bank's capital isn't subject to any future loan loss.

Interest rates available through Farmer Mac vary, but a 10- to 15-year fixed rate was running in the mid 4 percent to low 5 percent range the last week of October.

"The long and short of it for us (is) we can offer very attractive rates as a community bank that can compete with any other lender that's in the farm loan market whether that's another community bank or other types of lenders that do farm financing," Forst said.

For Kloth, it means he can deal with people he knows.

"It really means a lot to me," he said.