

## Farmer Mac Represents Stability in Rural America

**Price \$104.38**

**Dividend Holding**

**September 24, 2021**

- 3.45% Dividend Yield – Modest 9-11% expected growth.
- Government-sponsored enterprise (GSE) dedicated to providing secondary loan market liquidity to traditionally underserved rural areas.
- Expanding business operations with the acquisition of loan servicer and the desire to branch into renewable energy loan acquisition.
- With the vast expansion of the agricultural market, production needs to double by 2050 to meet global demand.
- Solid loans are underlying mortgage securities with a low delinquency ratio (0.12% cumulatively).

### Investment Thesis

The Federal Agricultural Mortgage Corporation, or Farmer Mac (AGM), combines private investors with government sponsorship to provide a robust secondary market for loans made to rural borrowers.

Farmer Mac is a uniquely stable investment through its status as a government-sponsored enterprise. Through its 3.45% dividend yield and healthy financial metrics, we believe it is an excellent choice for dividends and capital appreciation.

### History and Function

Farmer Mac was created by Congress in 1988 as a government-sponsored enterprise (GSE) to facilitate better interest rates and financing options to the traditionally underserved rural markets. To do this, it would purchase and resell loans or guarantee them to attract new investors to the rural markets.

Like any of the other GSEs, Farmer Mac has stringent requirements to what it can buy or guarantee. This includes mortgages backed by agricultural real estate, rural housing, USDA development loans for agriculture, and loans for financing rural areas' electrification and telecommunications infrastructure.

## Business

Farmer Mac conducts business in four different segments: farm and ranch, USDA guarantees, rural utility, and institutional credit.

The farm and ranch program is how Farmer Mac purchases individual loans that are eligible under the program. In this case, eligibility stems from the loan being issued on agricultural land or otherwise rural land. In addition, Farmer Mac offers financial institutions that do not wish to sell the loans a credit enhancement service, in which Farmer Mac will agree to purchase any loans should they become delinquent (3-4 months of no payment). In this way, Farmer Mac earns revenue from the interest payments on individual loans it holds and collects fees from guaranteeing loans to financial institutions.

The USDA guarantees the program is made up of the USDA-guaranteed portion of loans given on agricultural property. The USDA offers a program in which a portion of a private-sector loan to a farm, ranch, or other agricultural business, will be guaranteed (usually 90% of principal). Many of these loans use farm equipment, rural businesses assets, or community facilities as collateral, so the guaranteeing of such loans is an important part of protecting both the lender and receiver. As of 2021, Farmer Mac has never incurred a loss in relation to this program.

The rural utility program is a facility by which Farmer Mac buys loans from electric cooperatives to facilitate the construction of rural electrification or telecommunications infrastructure. In a similar fashion to the farm and ranch operation, Farmer Mac either purchases the debt outright or offers guarantees. As of 2021, Farmer Mac has never incurred a loss in relation to this program.

Finally, institutional credit operation is one in which Farmer Mac guarantees securitized loans that are made up of the previous sectors, either by issuing them themselves or backing other issuers. These are called AgVantage securities.



**BUILDING  
BENJAMINS**

BuildingBenjamins.com  
973.699.3890



AGM quick-facts sheet

## Growth and Acquisition

It is estimated that agricultural productivity must double to meet global demand for food and animal products by 2050, and Farmer Mac has a 6.2% market share of the fast-expanding \$300 billion agricultural mortgage market. Additionally, Farmer Mac is targeting the ability to deepen the markets it operates in, including renewable energy financing projects, streamlining the loan process, and increasing the number of telecommunications loans.

Previously, Farmer Mac did not service the loans it held and instead hired through a network of third-party servicers. In August, however, Farmer Mac acquired one of its largest services, Conterra, to give them better oversight into its USDA and farm and ranch operations.

## Risk

As a GSE, Farmer Mac is uniquely separated from many forms of market competition. However, there is indirect competition from other financial institutions that purchase, securitize, or otherwise finance loans made up of agricultural and rural pools.

Farmer Mac does incur credit risk as a part of its operations. However, many of its facilities, such as the USDA guarantees or rural utility program, have never incurred a loss.

## Metrics

Farmer Mac saw a growth of \$334.6 million in business volume, raising the 20-year CAGR to 10.3%. Farmer Mac also saw a massive interest income increase of \$6.8 million, bringing the total to just over \$55 million.

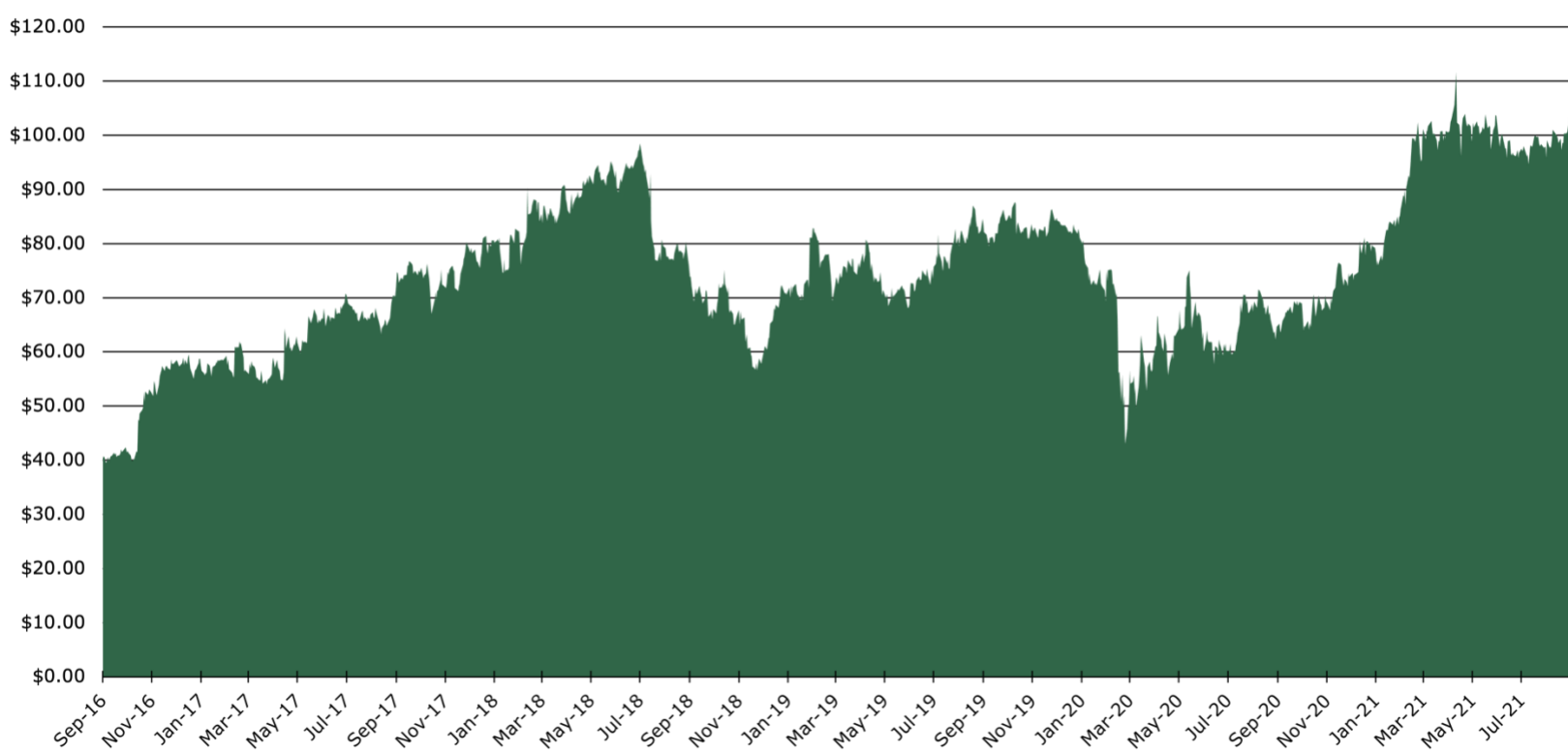
Farmer Mac has re-instated its share buyback program after pausing it during COVID-19. It currently has \$9.8 million in repurchases remaining. In addition, farmer Mac Targets approximately 35% of core earnings as a payout of dividends. This had allowed it to raise its dividend from \$0.70 per share in 2019 when the program was initiated to \$0.88 per share now.

Federal Agricultural Mortgage Corp (AGM)	E2021	E2022	E2023
Price-to-Sales	4.6	4.3	3.9
Price-to-Earnings	10.0	9.3	8.1
EV/Revenue	7.8	7.2	6.6

Estimated Next 12 Months	Dividend Yield	Price-to-Sales	Price-to-Earnings
Federal Agricultural Mortgage Corp (AGM)	3.5%	4.3	9.4
SLM (SLM)	0.8%	4.00	6.3
Home Capital Group (HCG)	0.9%	3.0	6.9
Green Dot (GDOT)	1.7%	3.7	7.8



## Farmer Mac (AGM)



**BUILDING  
BENJAMINS**

BuildingBenjamins.com  
973.699.3890

## Disclaimer and Related Information

This article is a financial publication and is provided for educational purposes only. **It is not an investment recommendation nor investment advice.** It does not take into account your personal circumstance and whether this investment is appropriate for you, your objectives, or your risk tolerance. Under no circumstance is Building Benjamins LLC responsible for any actions that you may take after reading this educational information. Nothing from Building Benjamins should be considered personal investment advice. Building Benjamins, the website, emails, interviews, social media pages and other materials are published by Building Benjamins LLC. Investing, and in particular, stock investing, is risky and may result in losses and sometimes loss of your entire investment. Stock investing has company-specific operational risks like demand, competition, legal and regulatory, as well as broader financial market risks like liquidity, economic cycle, and government policy. You may lose money in any stock investment that you make, and you are solely responsible for those decisions.

Mr. Halliburton and/or his family office will have positions in the securities discussed in this educational report. Mr. Halliburton is sharing his investment knowledge and strategy with you as an educational endeavor. He may transact in the security discussed at a later date prior to or without notification in this format. This is not investment advice but only a discussion of select investments that Mr. Halliburton has made or actions that he has taken in his own portfolios. This is an investment blog about Mr. Halliburton's portfolio.

Building Benjamins is an investment newsletter, and the information contained cannot be reproduced, copied, or redistributed without the written authorization of Building Benjamins LLC. US copyright laws apply. We rely on information from sources we believe to be reliable, including the companies themselves but cannot guarantee the accuracy of the information that we provide. You rely on this information at your own risk and are responsible for the verification of the data.

