FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K
March 17, 2008

As filed with the Securities and Exchange Commission on
March 17, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007.

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 001-14951

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
(Exact name of registrant as specified in its charter)

Federally chartered instrumentality of the United States (State or other jurisdiction of incorporation or organization)	52-1578738 (I.R.S. employer identification number)
1133 Twenty-First Street, N.W., Suite 600, Washington, D.C. (Address of principal executive offices)	20036 (Zip code)

(202) 872-7700
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Exchange on which registered
Class A voting common stock	New York Stock Exchange

Class C non-voting common stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class B voting common stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. §229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market values of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant were $25,151,032 and $302,099,806, respectively, as of June 30, 2007, based upon the closing prices for the respective classes on June 29, 2007 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 1, 2008, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,332,699 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2008 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part II and Part III of this Annual Report on Form 10-K as described herein).

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PART I

Item 1. Business

General

The Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") was chartered by the U.S. Congress in the Agricultural Credit Act of 1987 (12 U.S.C. §§ 2279aa et seq.), which amended the Farm Credit Act of 1971 (collectively, as amended, the "Act"). Farmer Mac is a stockholder-owned instrumentality of the United States that was created to establish a secondary market for agricultural real estate and rural housing mortgage loans and to increase the availability of long-term credit at stable interest rates to American farmers, ranchers and rural homeowners. Farmer Mac conducts these activities through two programs—Farmer Mac I and Farmer Mac II. As of December 31, 2007, total volume in these two programs was $8.5 billion.

Under the Farmer Mac I program, Farmer Mac creates a secondary market for agricultural mortgage loans and accomplishes its congressional mission of providing liquidity and lending capacity to agricultural mortgage lenders by:

- purchasing newly originated and pre-existing ("seasoned") eligible mortgage loans directly from lenders;
- guaranteeing mortgage-backed securities backed by eligible mortgage loans, which are referred to as "Farmer Mac I Guaranteed Securities";
- exchanging newly issued Farmer Mac I Guaranteed Securities for eligible mortgage loans that back those securities in "swap" transactions; and
- issuing long-term standby purchase commitments ("LTSPCs") for newly originated and seasoned eligible mortgage loans.

To be eligible for the Farmer Mac I program, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation and other standards that are discussed in "Business—Farmer Mac Programs—Farmer Mac I." Farmer Mac may retain Farmer Mac I Guaranteed Securities in its portfolio or sell them to third parties. As of December 31, 2007, outstanding loans held by Farmer Mac and loans that either back Farmer Mac I Guaranteed Securities or are subject to LTSPCs in the Farmer Mac I program totaled $7.6 billion.

Under the Farmer Mac II program, Farmer Mac purchases the portions of loans guaranteed by the United States Department of Agriculture (the "USDA-guaranteed portions") pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.) and guarantees securities backed by those USDA-guaranteed portions ("Farmer Mac II Guaranteed Securities"). Farmer Mac I Guaranteed Securities and Farmer Mac II Guaranteed Securities are sometimes collectively referred to as "Farmer Mac Guaranteed Securities." As of December 31, 2007, outstanding Farmer Mac II Guaranteed Securities totaled $946.6 million.

Farmer Mac's two principal sources of revenue are:

- fees received in connection with outstanding Farmer Mac Guaranteed Securities and LTSPCs; and
- net interest income earned on its portfolio of Farmer Mac Guaranteed Securities, mortgage loans and investments.

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Farmer Mac funds its purchases of Farmer Mac Guaranteed Securities, mortgage loans and investments primarily by issuing debt obligations of various maturities. As of December 31, 2007, Farmer Mac had $2.2 billion of discount notes and $2.4 billion of medium-term notes outstanding. During 2007, the Corporation continued its strategy of regularly issuing debt to increase its presence in the capital markets. To the extent the proceeds of the debt issuances exceed Farmer Mac's need to fund program assets, those proceeds are invested in high quality non-program liquid assets.

For more information about Farmer Mac's program assets, its financial performance and sources of capital and liquidity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Farmer Mac is an institution of the Farm Credit System (the "FCS"), but is not liable for any debt or obligation of any other institution of the FCS. Likewise, neither the FCS nor any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac.

The Farm Credit Administration ("FCA"), acting through its Office of Secondary Market Oversight, has general regulatory and enforcement authority over Farmer Mac, including the authority to promulgate rules and regulations governing the activities of Farmer Mac and to apply FCA's general enforcement powers to Farmer Mac and its activities. For a discussion of Farmer Mac's statutory and regulatory capital requirements and its actual capital levels, and particularly FCA's role in the establishment and maintenance of those requirements and levels, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review—Capital" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements."

Farmer Mac has three classes of common stock outstanding—Class A voting, Class B voting and Class C non-voting. See "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" for information regarding Farmer Mac's common stock. Farmer Mac has one class of preferred stock outstanding. See "Business—Farmer Mac Programs—Financing—Equity Issuance" for information regarding Farmer Mac's preferred stock.

As of December 31, 2007, Farmer Mac employed 42 people, located primarily at its principal executive offices at 1133 Twenty-First Street, N.W., Washington, D.C. 20036. Farmer Mac's main telephone number is (202) 872-7700.

Farmer Mac makes available free of charge, through the "Investors" section of its internet website at www.farmermac.com, copies of materials it files with, or furnishes to, the U.S. Securities and Exchange Commission (the "SEC"), including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after electronically filing such materials with, or furnishing such materials to, the SEC. Please note that all references to www.farmermac.com in this Annual Report on Form 10-K are inactive textual references only and that the information contained on Farmer Mac's website is not incorporated by reference into this Annual Report on Form 10-K.

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FARMER MAC PROGRAMS

Farmer Mac I

Under the Farmer Mac I program, Farmer Mac assumes, for a fee, the credit risk on agricultural mortgage loans by guaranteeing the timely payment of principal and interest on securities backed by, or representing interests in, eligible mortgage loans, or by issuing LTSPCs to acquire designated mortgage loans to accomplish the same result. Farmer Mac also may assume the credit risk on eligible mortgage loans by purchasing and retaining them, which transactions constituted approximately 6 percent of 2007 Farmer Mac I program volume and 4 percent of 2006 Farmer Mac I program volume.

Loan Eligibility

A loan is eligible for the Farmer Mac I program if it is:

- secured by a fee simple mortgage or a long-term leasehold mortgage, with status as a first lien on agricultural real estate or rural housing (as defined below), located within the United States;
- an obligation of a citizen or national of the United States, an alien lawfully admitted for permanent residence in the United States or a private corporation or partnership that is majority-owned by U.S. citizens, nationals or legal resident aliens;
- an obligation of a person, corporation or partnership having training or farming experience that is sufficient to ensure a reasonable likelihood that the loan will be repaid according to its terms; and
- in conformance with the Farmer Mac I underwriting, collateral valuation, documentation and other standards. See "—Underwriting and Collateral Valuation (Appraisal) Standards" and "—Sellers" for a description of these standards.

For purposes of the Farmer Mac I program, agricultural real estate is one or more parcels of land, which may be improved by permanently affixed buildings or other structures, that:

- is used for the production of one or more agricultural commodities or products; and
- either consists of a minimum of five acres or generates minimum annual receipts of $5,000.

Although the Act does not prescribe a maximum loan size for a Farmer Mac I eligible agricultural mortgage loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac limits the size of these loans to 10 percent of Farmer Mac's core capital, resulting in a current maximum loan size of approximately $23 million for those loans, except that the maximum loan size of loans collateralizing AgVantage obligations may not exceed $50 million. For a description of core capital, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review—Capital" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements." For a Farmer Mac I eligible agricultural mortgage loan secured by more than 1,000 acres of agricultural real estate, the Act authorizes a maximum loan size of $9.0 million (adjusted annually for inflation).

For purposes of the Farmer Mac I program, rural housing is a one- to four-family, owner-occupied, moderately priced principal residence located in a community with a population of 2,500 or less. The current maximum purchase price or current appraised value for a dwelling, excluding the land to which the dwelling is affixed, that secures a rural housing loan is $247,184. That limit is adjusted annually for inflation each November. In addition to the dwelling itself, an eligible rural housing loan can be secured by land associated with the dwelling having an appraised value of no more than 50 percent of the total appraised value of the combined property. As of December 31, 2007, rural housing loans did not represent a significant part of Farmer Mac's business.

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Purchases

Loan Purchases. Farmer Mac offers credit products designed to increase the secondary market liquidity of agricultural mortgage loans and the lending capacity of financial institutions that originate agricultural mortgage loans. Farmer Mac enters into mandatory and optional delivery commitments to purchase loans and offers rates to price such commitments daily. Farmer Mac also purchases portfolios of newly originated and seasoned loans on a negotiated basis. Primarily, Farmer Mac purchases fixed- and adjustable-rate loans, but it also purchases other types of loans. Loans purchased by Farmer Mac have a variety of maturities and often include balloon payments. Loans purchased or subject to purchase commitments may include provisions that require a yield maintenance payment or some other form of prepayment penalty in the event a borrower prepays a loan (depending upon the level of interest rates at the time of prepayment). During 2007, Farmer Mac purchased $128 million of loans in the Farmer Mac I program, which represented 6 percent of 2007 Farmer Mac I program volume. Of the loans purchased during 2007, 72 percent included balloon payments and 10 percent included yield maintenance prepayment protection. By comparison, during 2006, Farmer Mac purchased $99 million of loans under the Farmer Mac I program, which represented 4 percent of 2006 Farmer Mac I program volume. Of the loans purchased during 2006, 71 percent included balloon payments and 13 percent included yield maintenance prepayment protection.

During 2007, Farmer Mac's top ten sellers generated 4 percent of 2007 Farmer Mac I program volume (69 percent of the total Farmer Mac I loan purchase volume). Zions First National Bank, Farmer Mac's largest combined Class A and Class C stockholder, accounted for 2 percent of 2007 Farmer Mac I program volume (36 percent of 2007 loan purchase volume). The top ten sellers in 2006 generated 3 percent of 2006 Farmer Mac I program volume (75 percent of Farmer Mac I loan purchase volume). Zions First National Bank accounted for 1 percent of 2006 Farmer Mac I program volume (27 percent of 2006 loan purchase volume). For more information regarding loan volume, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume." For more information regarding Farmer Mac's business with related parties, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions" and Note 3 to the consolidated financial statements.

AgVantage Transactions. Collateralized mortgage obligation transactions in the Farmer Mac I program include Farmer Mac's guarantee and purchase of bonds that are Farmer Mac I Guaranteed Securities. Those AgVantage securities, issued by institutions approved by Farmer Mac, are corporate obligations of the issuer, collateralized by eligible mortgage loans and guaranteed by Farmer Mac as to timely payment of principal and interest. Before approving an institution as a participant in AgVantage transactions, Farmer Mac assesses the institution's agricultural mortgage loan performance as well as its creditworthiness. AgVantage is a registered trademark of Farmer Mac.

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Each AgVantage security held by Farmer Mac is a general obligation of the issuing institution and is secured by eligible collateral in an amount of at least 111 percent of the outstanding principal amount of the security. Eligible collateral may consist of:

- loans that meet the same loan eligibility criteria applied by Farmer Mac in its Farmer Mac I loan purchases and commitments;
- limited amounts of cash;
- securities issued by the U.S. Treasury or guaranteed by an agency or instrumentality of the United States; or
- other highly-rated securities.

During 2007, Farmer Mac purchased ten AgVantage securities for $14.6 million with maturities ranging from one month to ten years from two institutions. During 2006, Farmer Mac purchased three AgVantage securities for $5.2 million with maturities ranging from one month to ten years from three institutions. As of December 31, 2007 and 2006, the outstanding principal amount of AgVantage securities held by Farmer Mac was $30.8 million and $23.5 million, respectively. As of December 31, 2007, Farmer Mac had experienced no losses, nor had it been called upon to make a guarantee payment, on any of its AgVantage securities. For information on AgVantage securities that are off-balance sheet guarantees, see "—Off-Balance Sheet Guarantees and Commitments—AgVantage Transactions" below.

Off-Balance Sheet Guarantees and Commitments

Swap Transactions and LTSPCs. Farmer Mac offers two Farmer Mac I credit enhancement alternatives that allow approved agricultural and rural residential mortgage lenders both to retain the cash flow benefits of their loans and increase their liquidity and lending capacity:

- a swap transaction, in which Farmer Mac acquires eligible loans from sellers in exchange for Farmer Mac I Guaranteed Securities backed by those loans. As consideration for its assumption of the credit risk on loans underlying the Farmer Mac I Guaranteed Securities, Farmer Mac receives guarantee fees payable in arrears out of periodic loan interest payments and based on the outstanding balance of the related Farmer Mac I Guaranteed Securities; and
- an LTSPC, which is not a guarantee of loans or securities, is a Farmer Mac commitment to purchase eligible mortgage loans from a segregated pool of loans under enumerated circumstances on one or more undetermined future dates. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives commitment fees payable monthly in arrears in an amount approximating what would have been the guarantee fees if the transaction were structured as a swap transaction. The loans underlying an LTSPC can be converted into Farmer Mac I Guaranteed Securities in a swap transaction at the option of the seller, with no conversion fee paid to Farmer Mac.

Both of these alternative products result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business.

A swap transaction or an LTSPC may involve loans with payment, maturity and interest rate characteristics that differ from Farmer Mac's cash purchase product offerings. Both types of transactions permit a seller to nominate from its portfolio a segregated pool of loans for participation in the Farmer Mac I program, subject to review by Farmer Mac for conformance with its underwriting, collateral valuation, documentation and other standards. Upon Farmer Mac's acceptance of the eligible loans, whether under a swap transaction or an LTSPC, the seller effectively transfers the credit risk on those loans to Farmer Mac, thereby reducing the seller's credit and concentration risk exposures and, consequently, its regulatory capital requirements and its loss reserve requirements. Only the LTSPC structure permits the seller to retain the segregated loan pool in its portfolio until such time, if ever, as the seller delivers some or all of the segregated loans to Farmer Mac for purchase under the LTSPC. An LTSPC commits Farmer Mac to a future purchase of loans that met Farmer Mac's standards at the time the loans first became subject to the LTSPC and Farmer Mac assumed the credit risk on the loans.

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Farmer Mac generally purchases loans subject to an LTSPC at:

- par plus accrued interest (if the loans become delinquent for at least four months);
- a mark-to-market price or in exchange for Farmer Mac I Guaranteed Securities (if the loans are not delinquent and are standard cash purchase Farmer Mac loan products); or
- either a mark-to-market negotiated price for all (but not some) loans in the pool, based on the sale of Farmer Mac I Guaranteed Securities in the capital markets or the funding obtained by Farmer Mac through the issuance of matching debt in the capital markets, or converted to Farmer Mac I Guaranteed Securities in a swap transaction (if the loans are not four months delinquent).

In 2007, Farmer Mac entered into $970.8 million of LTSPCs, compared to $1.1 billion in 2006. LTSPCs remain the preferred credit enhancement alternative for new non-cash transactions and are a significant portion of the Farmer Mac I program. During 2007, three sellers converted $681.7 million of LTSPCs into Farmer Mac I Guaranteed Securities in swap transactions. Taking account of those conversions, as of December 31, 2007, Farmer Mac's outstanding LTSPCs covered 6,922 mortgage loans with an aggregate principal balance of $1.9 billion and outstanding off-balance sheet Farmer Mac I Guaranteed Securities were backed by 8,401 mortgage loans having an aggregate principal balance of $2.0 billion. Additionally, as of December 31, 2007, Farmer Mac's outstanding off-balance sheet AgVantage securities totaled $2.5 billion. For more information regarding guarantee and LTSPC volume, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

AgVantage Transactions. Securities generated in AgVantage transactions may be retained by Farmer Mac or sold into the capital markets. The latter, off-balance sheet AgVantage securities, are Farmer Mac guaranteed general obligations of highly-rated issuing institutions collateralized by eligible loans in a principal amount equal to at least 103 percent of the outstanding principal amount of the security. In April 2007, Farmer Mac guaranteed $1.0 billion of off-balance sheet AgVantage securities supported by a ten-year obligation of Metropolitan Life Insurance Company ("MetLife") backed by eligible loans. In two transactions in 2006, Farmer Mac guaranteed an aggregate $1.5 billion principal amount of AgVantage securities supported by five-year obligations of MetLife backed by eligible loans.

Underwriting and Collateral Valuation (Appraisal) Standards

As required by the Act, Farmer Mac has established credit underwriting and collateral valuation (appraisal) standards for loans under the Farmer Mac I program that at a minimum are intended to:

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- Ÿ provide that no agricultural mortgage loan with a loan-to-value ratio ("LTV") in excess of 80 percent may be eligible;
- Ÿ require each borrower to demonstrate sufficient cash-flow to adequately service the agricultural mortgage loan;
- Ÿ protect the integrity of the appraisal process with respect to any agricultural mortgage loans; and
- Ÿ confirm that the borrower is or will be actively engaged in agricultural production for an agricultural mortgage loan.

Loans collateralizing AgVantage securities that are, or are backed by, corporate obligations of highly-rated sellers are required to meet these statutory standards in place of the underwriting standards set forth below.

Farmer Mac utilizes experienced internal agricultural credit underwriters and external agricultural loan servicing and collateral valuation contractors (under Farmer Mac supervision and review) to perform those respective functions on loans that come into the Farmer Mac I program. Those contractors afford Farmer Mac the benefits of their servicing centers at fees based on their marginal costs, which allows Farmer Mac to avoid the fixed costs, and some of the marginal costs, associated with such operations. Farmer Mac believes that the combined expertise of its own internal staff and those third-party service providers provides the Corporation adequate resources for performing the necessary underwriting, collateral valuation and servicing functions.

Underwriting. To manage its credit risk, to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting to all participating sellers and potential sellers in its programs, Farmer Mac has adopted credit underwriting standards that vary by type of loan and program product under which the loan is brought to Farmer Mac. These standards were developed based on industry norms for similar mortgage loans and are designed to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac as the guarantor of mortgage-backed securities representing interests in, or obligations backed by, pools of such mortgage loans. Further, Farmer Mac requires sellers of agricultural mortgage loans to make representations and warranties regarding the conformity of eligible mortgage loans to these standards and any other requirements the Corporation may impose from time to time.

Farmer Mac I credit underwriting standards require that the LTV of any loan not exceed 70 percent, with the following permitted exceptions:

- Ÿ a loan secured by a livestock facility and supported by a contract with an approved integrator may have an LTV of up to 80 percent;
- Ÿ a part-time farm loan supported by private mortgage insurance may have an LTV of up to 90 percent; and
- Ÿ a rural housing loan supported by private mortgage insurance may have an LTV of up to 97 percent.

Farmer Mac may require that a loan have a lower LTV when it determines that such lower LTV is appropriate.

In the case of newly-originated farm loans, particularly loans secured by agricultural real estate with building improvements contributing more than 60 percent of the appraised value of the property (referred to by Farmer Mac as facility loans), borrowers on the loans must, among other criteria set forth in Farmer Mac's credit underwriting standards, meet the following standard underwriting ratios on a pro forma basis (i.e., giving effect to the new loan):

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- total debt service coverage ratio, including farm and non-farm income, of not less than 1.25:1;
- debt-to-asset ratio of 50 percent or less;
- ratio of current assets to current liabilities of not less than 1:1; and
- cash flow debt service coverage ratio on the mortgaged property of not less than 1:1.

Part-time farm and rural housing loans are underwritten to residential lending guidelines of government-sponsored enterprises ("GSEs"), with fully documented income and assets and liabilities. Borrowers' credit scores are obtained and used in the underwriting process.

Loans secured by eligible collateral with LTVs not greater than 55 percent and made to borrowers with high credit scores may be accepted without demonstration of all the standard underwriting ratios. In addition, Farmer Mac's underwriting standards provide for acceptance of loans that do not conform to one or more of the standard underwriting ratios when those loans:

- exceed minimum requirements for one or more of the underwriting standards to a degree that compensates for noncompliance with one or more other standards, referred to as compensating strengths; and
- are made to producers of particular agricultural commodities or products in a segment of agriculture in which such compensating strengths are typical of the financial condition of sound borrowers in that segment.

Farmer Mac's use of compensating strengths is not intended to provide a basis for waiving or lessening the requirement that eligible mortgage loans under the Farmer Mac I program be of consistently high quality. In fact, loans approved on the basis of compensating strengths are fully underwritten and have not demonstrated a significantly different rate of default, or loss following default, than loans that were approved on the basis of conformance with all of the standard underwriting ratios. As of December 31, 2007, a total of $1.8 billion (35.5 percent) of the outstanding balance of loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities issued after the enactment of the Farm Credit System Reform Act of 1996 (the "1996 Act") were approved based upon compensating strengths ($93.2 million of which had original LTVs of greater than 70 percent). The original LTV of a loan is calculated by dividing the loan's principal balance at the time of guarantee, purchase or commitment by the appraised value at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase or commitment. During 2007, $447.9 million (40.8 percent) of the loans purchased or added under LTSPCs were approved based upon compensating strengths ($49.8 million of which had original LTVs of greater than 70 percent), as compared to 2006 when $183.8 million (14.9 percent) of the loans purchased or added under LTSPCs were approved based upon compensating strengths ($5.4 million of which had original LTVs of greater than 70 percent). The increased reliance upon compensating strengths in approving those loans for guarantee, purchase or commitment was based principally upon the ability of the borrowers to cover their total debt obligations, rather than the adequacy of the income derived from the mortgaged property to cover the obligation on the loan.

In the case of a seasoned loan, Farmer Mac considers sustained historical performance to be a reliable alternative indicator of a borrower's ability to pay the loan according to its terms. A seasoned loan generally will be deemed an eligible loan if:

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- it has been outstanding for at least five years and has an LTV of 60 percent or less;
- there have been no payments more than 30 days past due during the previous three years; and
- there have been no material restructurings or modifications for credit reasons during the previous five years.

A seasoned loan that has been outstanding for more than one year but less than five years must substantially comply with the applicable underwriting standards for newly originated loans as of the date the loan was originated by the lender. The loan must also have a payment history that shows no payment more than 30 days past due during the three-year period immediately prior to the date the loan is either purchased by Farmer Mac or made subject to an LTSPC. There is no requirement that each loan's compliance with the underwriting standards be re-evaluated after Farmer Mac accepts the loan into its program.

The due diligence Farmer Mac performs before purchasing, guaranteeing securities backed by, or committing to purchase seasoned loans includes:

- evaluation of loan database information to determine conformity to the criteria set forth in the preceding paragraphs;
- confirmation that loan file data conform to database information;
- validation of supporting credit information in the loan files; and
- review of loan documentation and collateral valuations.

These and other due diligence procedures are performed utilizing methods that give due regard to the size, age, leverage and nature of the collateral for the loans.

Required documentation for all Farmer Mac I loans includes a first lien mortgage or deed of trust, a written promissory note and assurance of Farmer Mac's lien position through either a title insurance policy or title opinion from an experienced real estate attorney in geographic areas where title insurance is not the industry practice.

As Farmer Mac develops new credit products, it establishes underwriting guidelines for them. Those guidelines result in industry-specific measures equivalent to the basic underwriting standards and provide Farmer Mac the flexibility to deliver the benefits of a secondary market to farmers, ranchers and rural homeowners in diverse sectors of the agricultural economy.

Collateral Valuations (Appraisals and Evaluations). Farmer Mac's collateral valuation standards for newly originated loans purchased or placed under a Farmer Mac I Guaranteed Security or LTSPC require, among other things, that a current valuation be performed, or has been performed within the preceding 12 months, independently of the credit decision-making process and, for appraisals, conform to the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Standards Board.

Farmer Mac's collateral valuation standards require that the valuation function be conducted or administered by an individual meeting specific qualification and competence criteria who:

- is not associated, except by the engagement for the collateral valuation, with the credit underwriters making the loan decision, though the appraiser or evaluator and the credit underwriter may be directly or indirectly employed by a common employer;

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- receives no financial or professional benefit of any kind by virtue of the report content, valuation or credit decision made or based on the valuation report; and
- has no present or contemplated future direct or indirect interest in the property serving or to serve as collateral.

Farmer Mac's collateral valuation standards require uniform reporting of reliable and credible opinions of the market value based on analyses of comparable property sales, including consideration of the property's income producing capacity and, if relevant thereto, the market's response to the cost of improvements, as well as information regarding market trends. For seasoned loans, Farmer Mac obtains collateral valuation updates as considered necessary in its assessment of collateral risk determined in the due diligence process. If a current or updated collateral valuation is required for a seasoned loan, the collateral valuation standards described above would apply.

Sellers

As of December 31, 2007, Farmer Mac had 224 approved loan sellers eligible to participate in the Farmer Mac I program, ranging from single-office to multi-branch institutions, spanning community banks, FCS institutions, mortgage companies, commercial banks and insurance companies. The increase in the number of approved Farmer Mac I loan sellers from 177 as of December 31, 2006 is principally the result of Farmer Mac's marketing efforts related to the Corporation's alliance with the American Bankers Association, as well as seller training seminars Farmer Mac conducts in key regional locations and through the internet. In addition to participating directly in the Farmer Mac I program, some of the approved loan sellers facilitate indirect participation by other lenders in the Farmer Mac I program by managing correspondent networks of lenders from which they purchase loans to sell to Farmer Mac. As of December 31, 2007, approximately 250 lenders were participating in those networks. As of December 31, 2007, more than 500 lenders were participating, directly or indirectly, in one or both of the Farmer Mac I or Farmer Mac II programs.

To be considered for approval as a Farmer Mac I seller, a financial institution must meet the criteria that Farmer Mac establishes, including:

- owning a requisite amount of Farmer Mac Class A or Class B voting common stock according to a schedule prescribed for the size and type of institution;
- having, in the judgment of Farmer Mac, the ability and experience to make or purchase and sell agricultural mortgage loans eligible for the Farmer Mac I program and service such mortgage loans in accordance with Farmer Mac requirements either through its own staff or through contractors and originators;
- maintaining a minimum adjusted net worth of $1.0 million; and
- entering into a Seller/Servicer agreement to comply with the terms of the Farmer Mac Seller/Servicer Guide, including representations and warranties regarding the eligibility of the loans and accuracy of loan data provided to Farmer Mac.

Servicing

Farmer Mac generally does not directly service loans held in its portfolio, although it does act as "master servicer" for pools of loans and loans underlying Farmer Mac I Guaranteed Securities. Farmer Mac also may assume direct servicing for defaulted loans. Loans held by Farmer Mac or underlying Farmer Mac Guaranteed Securities are serviced only by Farmer Mac-approved entities designated as "central servicers" that have entered into central servicing contracts with Farmer Mac. Sellers of eligible mortgage loans sold into the Farmer Mac I program have a right to retain certain "field servicing" functions (typically direct borrower contacts) and may enter into contracts with Farmer Mac's central servicers that specify such servicing functions. Loans underlying LTSPCs and AgVantage securities are serviced by the holders of those loans in accordance with those lenders' servicing procedures, which are reviewed and approved by Farmer Mac before entering into those transactions.

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Farmer Mac I Guaranteed Securities

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac Guaranteed Securities. Farmer Mac Guaranteed Securities backed by agricultural mortgage loans eligible for the Farmer Mac I program are referred to as “Farmer Mac I Guaranteed Securities.”

Farmer Mac’s statutory charter requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act of 1933, as amended (“the “Securities Act”) unless an exemption for an offering is available. Farmer Mac also may offer Farmer Mac Guaranteed Securities in offerings exempt from registration under the Securities Act such as in private, unregistered offerings. U.S. Bank National Association, a national banking association based in Minneapolis, Minnesota, or Farmer Mac serves as trustee for the trusts that acquire eligible loans and issue Farmer Mac Guaranteed Securities.

Farmer Mac I Guaranteed Securities represent beneficial interests in pools of agricultural mortgage loans or in obligations issued by agricultural lenders, which obligations are backed by pools of agricultural mortgage loans, and guaranteed by Farmer Mac. These securities are customarily issued through special purpose trusts and entitle each investor in a class of securities to receive a portion of the payments of principal and interest on the related underlying pool of loans or obligation equal to the investor’s proportionate interest in the pool or obligation as specified in the applicable transaction documents. Farmer Mac I Guaranteed Securities issued prior to the enactment of changes to Farmer Mac’s statutory charter in 1996 are supported by first-loss subordinated interests that represented 10 percent of the balance of the loans underlying the securities at issuance and are neither guaranteed nor owned by Farmer Mac.

Farmer Mac is liable under its guarantee on the securities to make timely payments to investors of principal (including balloon payments) and interest based on the scheduled payments on the underlying loans or obligations, regardless of whether the trust has actually received such scheduled payments. Because it guarantees timely payments on Farmer Mac I Guaranteed Securities, Farmer Mac assumes the ultimate credit risk of borrower defaults on the underlying loans and issuer default on the underlying obligations which are backed by agricultural mortgage loans. All of the loans supporting Farmer Mac I Guaranteed Securities are subject to the applicable underwriting standards described above in “—Underwriting and Collateral Valuation (Appraisal) Standards.” See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans.”

Farmer Mac receives guarantee fees in return for its guarantee obligations on Farmer Mac I Guaranteed Securities. These fees typically are collected out of installment payments made on the underlying loans or obligations until those loans or obligations have been repaid or otherwise liquidated (generally as a result of default). The aggregate amount of guarantee fees received on Farmer Mac I Guaranteed Securities depends upon the amount of such securities outstanding and on the applicable guarantee fee rate, which Farmer Mac’s statutory charter caps at 50 basis points (0.50 percent) per annum. The Farmer Mac I guarantee fee rate typically ranges from 15 to 50 basis points (0.15 to 0.50 percent) per annum, depending on the credit quality of and other criteria regarding the loans or obligations. The amount of Farmer Mac I Guaranteed Securities outstanding representing interests in loans is influenced by the repayment rates on the underlying loans and by the rate at which Farmer Mac issues new Farmer Mac I Guaranteed Securities. In general, when the level of interest rates declines significantly below the interest rates on loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to increase; conversely, when interest rates rise above the interest rates on the loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to decrease. In addition to changes in interest rates, the rate of principal payments on Farmer Mac I Guaranteed Securities also is influenced by a variety of economic, demographic and other considerations, such as yield maintenance provisions that may be associated with loans underlying Farmer Mac I Guaranteed Securities. For more information regarding yield maintenance provisions, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk.”

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For each of the years ended December 31, 2007 and 2006, Farmer Mac sold Farmer Mac I Guaranteed Securities in the amounts of $1.3 million and $4.0 million, respectively, to related parties. In 2007 and 2006, Farmer Mac recognized no gain or loss on any sale of Farmer Mac Guaranteed Securities. In addition to the Farmer Mac I Guaranteed Securities it sold in those years, in the years ended December 31, 2007 and 2006, Farmer Mac guaranteed AgVantage securities supported by obligations of MetLife backed by eligible loans in the amounts of $1.0 billion and $1.5 billion, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

Farmer Mac I Transactions

During the year ended December 31, 2007, Farmer Mac purchased or placed under guarantee or LTSPC $2.1 billion of loans under the Farmer Mac I program. As of December 31, 2007, loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs totaled $7.6 billion. The 1996 Act revised Farmer Mac's statutory charter to eliminate the requirement of a first-loss subordinated interest in Farmer Mac I Guaranteed Securities. As of December 31, 2007, $3.2 million of Farmer Mac I Guaranteed Securities issued prior to the 1996 Act remained outstanding.

The following table summarizes loans purchased or newly placed under guarantees or LTSPCs under the Farmer Mac I program for each of the years ended December 31, 2007, 2006 and 2005.

	For the Year Ended December 31,		
	2007	2006	2005
	(in thousands)		
Loans and Guaranteed Securities	$ 1,127,709	$ 1,598,673	$ 110,056
LTSPCs	970,789	1,139,699	461,441
Total	$ 2,098,498	$ 2,738,372	$ 571,497

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The following table presents the outstanding balances of Farmer Mac I loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs as of the dates indicated:

	As of December 31,		
	2007	2006	2005
		(in thousands)	
Post-1996 Act:			
Loans and Guaranteed Securities	$ 5,645,023	$ 4,338,698	$ 2,094,410
LTSPCs *	1,948,941	1,969,734	2,329,798
Pre-1996 Act	3,174	5,057	13,046
Total Farmer Mac I program	$ 7,597,138	$ 6,313,489	$ 4,437,254

* During 2007 and 2006, sellers converted $681.7 million and $1.0 billion, respectively, of pre-existing LTSPCs into Farmer Mac I Guaranteed Securities in the form of swap transactions.

Funding of Guarantee and Purchase Commitment Obligations

The principal sources of funding for the payment of Farmer Mac's obligations under its guarantees and LTSPCs are the fees for its guarantees and commitments, net interest income and the proceeds of debt issuances. Farmer Mac satisfies its guarantee and purchase commitment obligations by purchasing defaulted loans out of LTSPCs and from the related trusts for Farmer Mac Guaranteed Securities. Farmer Mac typically recovers a significant portion of the value of defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties or foreclosure and sale of the property securing the loans. Ultimate losses arising from Farmer Mac's guarantees and commitments are reflected in the Corporation's charge-offs against its allowance for losses and gains and losses on the sale of real estate owned. During 2007, Farmer Mac's net charge-offs were $0.5 million, compared to $0.7 million during 2006.

The Act requires Farmer Mac to set aside, as an allowance for losses in a reserve account, a portion of the guarantee fees it receives from its guarantee activities. Among other things, that reserve account must be exhausted before Farmer Mac may issue obligations to the U.S. Treasury against the $1.5 billion Farmer Mac is statutorily authorized to borrow from the U.S. Treasury to fulfill its guarantee obligations. That borrowing authority is not intended to be a routine funding source and has never been used. Although total outstanding guarantees and LTSPCs exceed the amount held as an allowance for losses and the amount the Corporation may borrow from the U.S. Treasury, Farmer Mac does not expect its obligations under the guarantees and LTSPCs to exceed amounts available to satisfy those obligations. For information regarding the allowance for losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans" and Note 2(j) and Note 8 to the consolidated financial statements. For a more detailed discussion of Farmer Mac's borrowing authority from the U.S. Treasury, see "Business—Farmer Mac's Authority to Borrow from the U.S. Treasury."

Portfolio Diversification

It is Farmer Mac's policy to diversify its portfolio of loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs, both geographically and by agricultural commodity/product. Farmer Mac directs its marketing efforts toward agricultural lenders throughout the nation to achieve commodity/product and geographic diversification in its exposure to credit risk. Farmer Mac evaluates its credit exposure in particular geographic regions and commodities/products, adjusted for the credit quality of the loans in those particular geographic regions or commodity/product groups relative to the total principal amount of all outstanding loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

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Farmer Mac is not obligated to purchase, or commit to purchase, every loan that meets its underwriting and collateral valuation standards submitted by an eligible seller. Farmer Mac considers other factors such as its overall portfolio diversification, commodity and farming forecasts and risk management objectives in deciding whether to accept the loans into the Farmer Mac I program. For example, if industry forecasts indicate possible weakness in a geographic area or agricultural commodity or product, Farmer Mac may decide not to purchase or commit to purchase an affected loan as part of managing its overall portfolio exposure to areas of possible heightened risk exposure. Because Farmer Mac effectively assumes the credit risk on all loans under an LTSPC, Farmer Mac's commodity/product and geographic diversification disclosures reflect all loans under LTSPCs and any loans that have been purchased out of LTSPC pools. For information regarding the diversification of Farmer Mac's existing portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans" and Note 8 to the consolidated financial statements.

Farmer Mac II

General

The Farmer Mac II program was initiated in 1992 and is authorized under sections 8.0(3) and 8.0(9)(B) of Farmer Mac's statutory charter (12 U.S.C. §§ 2279aa(3) and 2279aa(9)(B)), which provide that:

- USDA-guaranteed portions of loans guaranteed under the Consolidated Farm and Rural Development Act (7 U.S.C. § 1921 et seq.) are statutorily included in the definition of loans eligible for Farmer Mac's secondary market programs;
- USDA-guaranteed portions are exempted from the credit underwriting, collateral valuation, documentation and other standards that other loans must meet to be eligible for Farmer Mac programs, and are exempted from any diversification and internal credit enhancement that may be required of pools of other loans eligible for Farmer Mac programs; and
- Farmer Mac is authorized to pool and issue Farmer Mac Guaranteed Securities backed by USDA-guaranteed portions.

United States Department of Agriculture Guaranteed Loan Programs

The United States Department of Agriculture ("USDA"), acting through its various agencies, currently administers the federal rural credit programs first developed in the mid-1930s. The USDA makes direct loans and guarantees portions of loans made and serviced by USDA-qualified lenders for various purposes. The USDA's guarantee is supported by the full faith and credit of the United States. USDA-guaranteed portions represent up to 95 percent of the principal amount of guaranteed loans.

Through its Farmer Mac II program, Farmer Mac is one of several competing purchasers of USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities and other loans that are fully guaranteed as to principal and interest by the USDA (collectively, the "guaranteed loans").

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USDA Guarantees. Each USDA guarantee is a full faith and credit obligation of the United States and becomes enforceable if a lender fails to repurchase the USDA-guaranteed portion from its owner within 30 days after written demand from the owner when:

- the borrower under the guaranteed loan is in default not less than 60 days in the payment of any principal or interest due on the USDA-guaranteed portion; or
- the lender has failed to remit to the owner the payment made by the borrower on the USDA-guaranteed portion or any related loan subsidy within 30 days after the lender's receipt of the payment.

If the lender does not repurchase the USDA-guaranteed portion as provided above, the USDA is required to purchase the unpaid principal balance of the USDA-guaranteed portion together with accrued interest (including any loan subsidy) to the date of purchase, less the servicing fee, within 30 days after written demand upon the USDA by the owner. While the USDA guarantee will not cover the note interest to the owner on USDA-guaranteed portions accruing after 90 days from the date of the original demand letter of the owner to the lender requesting repurchase, Farmer Mac has established procedures to require prompt tendering of USDA-guaranteed portions.

If, in the opinion of the lender (with the concurrence of the USDA) or in the opinion of the USDA, repurchase of the USDA-guaranteed portion is necessary to service the related guaranteed loan adequately, the owner will sell the USDA-guaranteed portion to the lender or USDA for an amount equal to the unpaid principal balance and accrued interest (including any loan subsidy) on such USDA-guaranteed portion less the lender's servicing fee. Federal regulations prohibit the lender from repurchasing USDA-guaranteed portions for arbitrage purposes.

Lenders. Any lender authorized by the USDA to obtain a USDA guarantee on a loan may be a seller in the Farmer Mac II program. As of December 31, 2007, there were 151 active sellers in the Farmer Mac II program, consisting mostly of community and regional banks, compared to 181 sellers as of December 31, 2006, for a decrease of 30 active sellers. In the aggregate, more than 500 sellers were participating either directly or indirectly in one or both of the Farmer Mac I or Farmer Mac II programs during 2007.

Loan Servicing. The lender on each guaranteed loan is required by regulation to retain the unguaranteed portion of the guaranteed loan, to service the entire underlying guaranteed loan, including the USDA-guaranteed portion, and to remain mortgagee and/or secured party of record. The USDA-guaranteed portion and the unguaranteed portion of the underlying guaranteed loan are to be secured by the same security with equal lien priority. The USDA-guaranteed portion cannot be paid later than, or in any way be subordinated to, the related unguaranteed portion.

Farmer Mac II Guaranteed Securities

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac II Guaranteed Securities backed by USDA-guaranteed portions. Farmer Mac does not guarantee the repayment of the USDA-guaranteed portions, only the Farmer Mac II Guaranteed Securities that are backed by USDA-guaranteed portions. In addition to purchasing USDA-guaranteed portions for retention in its portfolio, Farmer Mac offers Farmer Mac II Guaranteed Securities to lenders in swap transactions or to other investors for cash.

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Farmer Mac II Transactions

During the years ended December 31, 2007, 2006 and 2005, Farmer Mac issued $210.0 million, 234.7 million and $200.2 million, respectively, of Farmer Mac II Guaranteed Securities. As of December 31, 2007, 2006 and 2005, $946.6 million, $925.8 million and $835.7 million, respectively, of Farmer Mac II Guaranteed Securities were outstanding. See Note 5 and Note 12 to the consolidated financial statements. The following table presents Farmer Mac II Guaranteed Securities issued for each of the years indicated:

	For the Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Purchased and retained	$ 204,931	$ 234,684	$ 199,843
Purchased and sold	5,109	-	-
Swaps (issued to third parties)	-	-	325
Total	$ 210,040	$ 234,684	$ 200,168

The following table presents the outstanding balance of Farmer Mac II Guaranteed Securities as of the dates indicated:

	Outstanding Balance of Farmer Mac II Guaranteed Securities as of December 31,		
	2007	2006	2005
		(in thousands)	
On-balance sheet	$ 921,802	$ 892,667	$ 796,224
Off-balance sheet	24,815	33,132	39,508
Total	$ 946,617	$ 925,799	$ 835,732

As of December 31, 2007, Farmer Mac had experienced no credit losses on any of its Farmer Mac II Guaranteed Securities. As of December 31, 2007, Farmer Mac had outstanding $0.4 million of principal and interest advances on Farmer Mac II Guaranteed Securities, compared to $0.1 million as of December 31, 2006 and $0.4 million as of December 31, 2005.

Financing

Debt Issuance

Farmer Mac funds its purchases of program, mission-related and non-program assets primarily by issuing debt obligations of various maturities in the public capital markets. Debt obligations issued by Farmer Mac include discount notes and fixed and floating rate medium-term notes, including callable notes. The interest and principal on Farmer Mac's debt are not guaranteed by, and do not constitute debts or obligations of, FCA or the United States or any agency or instrumentality of the United States other than Farmer Mac. Farmer Mac is an institution of the FCS, but is not liable for any debt or obligation of any other institution of the FCS. Likewise, neither the FCS nor any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac. Income to the purchaser of a Farmer Mac discount note or medium-term note is not exempt under federal law from federal, state or local taxation. The Corporation's discount notes and medium-term notes are not currently rated by a nationally recognized statistical rating organization ("NRSRO").

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Farmer Mac's board of directors has authorized the issuance of up to $7.0 billion outstanding of discount notes and medium-term notes, subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing requirements. Farmer Mac invests the proceeds of such issuances in loans, Farmer Mac Guaranteed Securities, mission-related assets and non-program investment assets in accordance with policies established by its board of directors. In compliance with regulations issued by FCA in 2005, including dollar amount, issuer concentration and credit quality limitations, Farmer Mac's current policies authorize non-program investments in:

- obligations of the United States;
- obligations of GSEs;
- municipal securities;
- international and multilateral development bank obligations;
- money market instruments;
- diversified investment funds;
- asset-backed securities;
- corporate debt securities; and
- mortgage securities.

For more information about Farmer Mac's outstanding investments and indebtedness, see Note 4, Note 7, and Note 15 to the consolidated financial statements.

Equity Issuance

The Act authorizes Farmer Mac to issue voting common stock, non-voting common stock and non-voting preferred stock. Only banks, other financial entities, insurance companies and institutions of the FCS eligible to participate in one or more of the Farmer Mac programs may hold voting common stock. No holder of Class A voting common stock may directly or indirectly be a beneficial owner of more than 33 percent of the outstanding shares of Class A voting common stock. No ownership restrictions apply to Class C non-voting common stock or preferred stock, and they are freely transferable.

Upon liquidation, dissolution or winding up of the business of Farmer Mac, after payment and provision for payment of outstanding debt of the Corporation, the holders of shares of preferred stock would be paid in full at par value, plus all accrued dividends, before the holders of shares of common stock received any payment. The dividend rights of all three classes of the Corporation's common stock are the same, and dividends may be paid on common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to the payment of dividends on outstanding preferred stock.

As of December 31, 2007, 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock, 8,363,580 shares of Class C non-voting common stock and 700,000 shares of 6.40 percent non-voting cumulative preferred stock, Series A were outstanding. Farmer Mac may obtain additional capital from future issuances of voting and non-voting common stock and non-voting preferred stock. Farmer Mac has no present intention to issue any additional shares of common stock, except pursuant to programs in which members of the board of directors may purchase Class C non-voting common stock, or employees, members of management or the board of directors may exercise options to purchase Class C non-voting common stock as part of their compensation arrangements.

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The following table presents the dividends declared on the common stock during and subsequent to 2007:

Date Dividend Declared		Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 5, 2007	$	0.10	January 1, 2007	March 31, 2007	March 30, 2007
April 5, 2007		0.10	April 1, 2007	June 30, 2007	June 29, 2007
August 2, 2007		0.10	July 1, 2007	September 30, 2007	September 28, 2007
October 4, 2007		0.10	October 1, 2007	December 31, 2007	December 31, 2007
February 7, 2008		0.10	January 1, 2008	March 31, 2008	*

* The dividend declared on February 7, 2008 is scheduled to be paid on March 31, 2008.

Farmer Mac's ability to declare and pay common stock dividends could be restricted if it were to fail to comply with its regulatory capital requirements. See Note 9 to the consolidated financial statements and "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement levels."

The cumulative preferred stock, Series A has a redemption price and liquidation preference of $50.00 per share, plus accrued and unpaid dividends. The preferred stock does not have a maturity date. Beginning on June 30, 2012, Farmer Mac has the option to redeem the preferred stock at any time, in whole or in part, at the redemption price of $50.00 per share, plus accrued and unpaid dividends through and including the redemption date. The costs of issuing the preferred stock were charged to additional paid-in capital. Farmer Mac pays cumulative dividends on the preferred stock quarterly in arrears, when and if declared by the board of directors. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements. The following table presents the dividends declared on the preferred stock during and subsequent to 2007:

Date Dividend Declared		Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 5, 2007	$	0.80	January 1, 2007	March 31, 2007	April 2, 2007
April 5, 2007		0.80	April 1, 2007	June 30, 2007	July 2, 2007
August 2, 2007		0.80	July 1, 2007	September 30, 2007	October 1, 2007
October 4, 2007		0.80	October 1, 2007	December 31, 2007	December 31, 2007
February 7, 2008		0.80	January 1, 2008	March 31, 2008	*

* The dividend declared on February 7, 2008 is scheduled to be paid on March 31, 2008.

During fourth quarter 2005, Farmer Mac established a program to repurchase up to 10 percent, or 958,632 shares, of the Corporation's outstanding Class C non-voting common stock. The aggregate number of shares repurchased by Farmer Mac under that program reached the maximum number of authorized shares during first quarter 2007, thereby terminating the program according to its terms. At that time, Farmer Mac announced the establishment of an additional program to repurchase up to one million additional shares of the Corporation's outstanding Class C

Non-Voting Common Stock. Repurchases under that program commenced in accordance with its terms upon termination of the previous program. During 2007 and 2006, Farmer Mac repurchased 1,086,541 shares and 796,450 shares, respectively, of its Class C Non-Voting Common Stock at an average price of $26.61 and $26.82 per share, respectively, pursuant to both of the Corporation’s previously announced stock repurchase programs. These 2007 and 2006 repurchases reduced the Corporation’s stockholders’ equity by approximately $29.0 million and $22.0 million, respectively. The aggregate number of shares purchased by Farmer Mac under the stock repurchase program announced in 2007 reached the maximum number of authorized shares during first quarter 2008, thereby terminating the program according to its terms.

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All of the shares repurchased under Farmer Mac's stock repurchase programs were purchased in open market transactions and were retired to become authorized but unissued shares available for future issuance.

FARMER MAC'S AUTHORITY TO BORROW FROM THE U.S. TREASURY

Farmer Mac may, in extreme circumstances, issue obligations to the U.S. Treasury in a cumulative amount not to exceed $1.5 billion. The proceeds of such obligations may be used solely for the purpose of fulfilling Farmer Mac's guarantee obligations under the Farmer Mac I and Farmer Mac II programs. The Act provides that the U.S. Treasury is required to purchase such obligations of Farmer Mac if Farmer Mac certifies that:

- a portion of the guarantee fees assessed by Farmer Mac has been set aside as a reserve against losses arising out of Farmer Mac's guarantee activities in an amount determined by Farmer Mac's board of directors to be necessary and such reserve has been exhausted; and
- the proceeds of such obligations are needed to fulfill Farmer Mac's guarantee obligations.

Such obligations would bear interest at a rate determined by the U.S. Treasury, taking into consideration the average rate on outstanding marketable obligations of the United States as of the last day of the last calendar month ending before the date of the purchase of the obligations from Farmer Mac, and would be required to be repurchased from the U.S. Treasury by Farmer Mac within a "reasonable time."

The United States government does not guarantee payments due on Farmer Mac Guaranteed Securities, funds invested in the equity or debt securities of Farmer Mac, any dividend payments on shares of Farmer Mac stock or the profitability of Farmer Mac.

GOVERNMENT REGULATION OF FARMER MAC

General

Farmer Mac's statutory charter requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act unless an exemption for an offering is available. Farmer Mac also is required to file reports with the SEC pursuant to the SEC's periodic reporting requirements.

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Regulation

Office of Secondary Market Oversight

As an institution of the FCS, Farmer Mac is subject to the regulatory authority of FCA. FCA, acting through its Office of Secondary Market Oversight, has general regulatory and enforcement authority over Farmer Mac, including the authority to promulgate rules and regulations governing the activities of Farmer Mac and to apply its general enforcement powers to Farmer Mac and its activities. The Director of the Office of Secondary Market Oversight, who is selected by and reports to the FCA board, is responsible for the examination of Farmer Mac and the general supervision of the safe and sound performance by Farmer Mac of the powers and duties vested in it by the Act. The Act requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of its regulatory activities, including the cost of any examination. Farmer Mac is required to file quarterly reports of condition with FCA.

Capital Standards

General. The Act, as amended by the 1996 Act, establishes three capital standards for Farmer Mac:

- Minimum capital – Farmer Mac's minimum capital level is an amount of core capital equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of Farmer Mac's aggregate off-balance sheet obligations, specifically including:
  - o the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
  - o instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
  - o other off-balance sheet obligations of Farmer Mac.
- Critical capital – Farmer Mac's critical capital level is an amount of core capital equal to 50 percent of the total minimum capital requirement at that time.
- Risk-based capital – The Act directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters. While the Act does not specify the required level of risk-based capital, that level is permitted to exceed the statutory minimum capital requirement applicable to Farmer Mac, if so indicated by the risk-based capital stress test.

Farmer Mac is required to comply with the higher of the minimum capital requirement or the risk-based capital requirement.

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The risk-based capital stress test promulgated by FCA is intended to determine the amount of regulatory capital (core capital plus the allowance for losses, but excluding the valuation allowance for real estate owned) that Farmer Mac would need to maintain positive capital during a ten-year period in which:

- annual losses occur at a rate of default and severity “reasonably related” to the rates of the highest sequential two years in a limited U.S. geographic area; and
- interest rates increase to a level equal to the lesser of 600 basis points or 50 percent of the ten-year U.S. Treasury rate, and interest rates remain at such level for the remainder of the period.

The risk-based capital stress test then adds an additional 30 percent to the resulting capital requirement for management and operational risk. On September 13, 2007, FCA published a proposed rule that, if adopted as proposed, would amend the FCA regulation governing the risk-based capital stress test applicable to Farmer Mac. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters.”

As of December 31, 2007, Farmer Mac’s minimum and critical capital requirements were $186.0 million and $93.0 million, respectively, and its actual core capital level was $226.4 million, $40.4 million above the minimum capital requirement and $133.4 million above the critical capital requirement. Based on the risk-based capital stress test, Farmer Mac’s risk-based capital requirement as of December 31, 2007 was $42.8 million and Farmer Mac’s regulatory capital of $230.3 million exceeded that amount by approximately $187.5 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements” for a presentation of Farmer Mac’s current regulatory capital position.

Enforcement levels. The Act directs FCA to classify Farmer Mac within one of four enforcement levels for purposes of determining compliance with capital standards. As of December 31, 2007, Farmer Mac was classified as within level I—the highest compliance level.

Failure to comply with the applicable required capital level in the Act would result in Farmer Mac being classified as within level II (below the applicable risk-based capital level, but above the minimum capital level), level III (below the minimum capital level, but above the critical capital level) or level IV (below the critical capital level). In the event that Farmer Mac were classified as within level II, III or IV, the Act requires the Director of the Office of Secondary Market Oversight to take a number of mandatory supervisory measures and provides the Director with discretionary authority to take various optional supervisory measures depending on the level in which Farmer Mac is classified. The mandatory measures applicable to level II include:

- requiring Farmer Mac to submit and comply with a capital restoration plan;
- prohibiting the payment of dividends if such payment would result in Farmer Mac being reclassified as within level III or IV, and requiring the pre-approval of any dividend payment even if such payment would not result in reclassification as within level IV; and
- reclassifying Farmer Mac as within level III if it does not submit a capital restoration plan that is approved by the Director, or the Director determines that Farmer Mac has failed to make, in good faith, reasonable efforts to comply with such a plan and fulfill the schedule for the plan approved by the Director.

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The mandatory measures applicable to level III include:

- requiring Farmer Mac to submit and comply with a capital restoration plan;
- prohibiting the payment of dividends if such payment would result in Farmer Mac being reclassified as within level IV and requiring the pre-approval of any dividend payment even if such payment would not result in reclassification as within level IV; and
- reclassifying Farmer Mac as within a lower level if it does not submit a capital restoration plan that is approved by the Director or the Director determines that Farmer Mac has failed to make, in good faith, reasonable efforts to comply with such a plan and fulfill the schedule for the plan approved by the Director.

If Farmer Mac were classified as within level III, then, in addition to the foregoing mandatory supervisory measures, the Director of the Office of Secondary Market Oversight could take any of the following discretionary supervisory measures:

- imposing limits on any increase in, or ordering the reduction of, any obligations of Farmer Mac, including off-balance sheet obligations;
- limiting or prohibiting asset growth or requiring the reduction of assets;
- requiring the acquisition of new capital in an amount sufficient to provide for reclassification as within a higher level;
- terminating, reducing or modifying any activity the Director determines creates excessive risk to Farmer Mac; or
- appointing a conservator or a receiver for Farmer Mac.

The Act does not specify any supervisory measures, either mandatory or discretionary, to be taken by the Director in the event Farmer Mac were classified as within level IV.

The Director of the Office of Secondary Market Oversight has the discretionary authority to reclassify Farmer Mac to a level that is one level below its then current level (for example, from level I to level II) if the Director determines that Farmer Mac is engaging in any action not approved by the Director that could result in a rapid depletion of core capital or if the value of property subject to mortgages backing Farmer Mac Guaranteed Securities has decreased significantly.

Item 1A. Risk Factors

Farmer Mac's business activities, financial performance and results of operations are, by their nature, subject to a number of risks and uncertainties. Consequently, the Corporation's net interest income, total revenues and net income have been, and are likely to continue to be, subject to fluctuations that reflect the effect of many factors, including the risk factors described below. Other sections of this Annual Report on Form 10-K may include additional factors that could adversely affect Farmer Mac's business and its financial performance and results of operations. Furthermore, because new risk factors likely will emerge from time to time, management can neither predict all such risk factors nor assess the effects of such factors on Farmer Mac's business, operating results and financial condition or the extent to which any factor, or combination of factors, may affect the Corporation's actual results and financial condition. If any of the following risks materialize, Farmer Mac's business, financial condition or results of operations could be materially adversely affected.

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Farmer Mac's business, operating results and financial condition may be materially and adversely affected by external factors that may be beyond its control.

Farmer Mac's business, operating results and financial condition may be materially and adversely affected by external factors that may be beyond its control, including, but not limited to:

- legislative or regulatory developments or interpretations of Farmer Mac's statutory charter that could adversely affect Farmer Mac, its ability to offer new products, the ability or motivation of certain lenders to participate in its programs or the terms of any such participation, or increase the cost of regulation and related corporate activities, including, but not limited to:
  - the possible establishment of additional statutory or regulatory restrictions or constraints on Farmer Mac that could hamper its growth or diminish its profitability; and
  - the possible effect of Farmer Mac's risk-based capital requirement, which could, under certain circumstances, exceed its statutory minimum capital requirement;
- Farmer Mac's access to the debt markets at favorable rates and terms;
- competitive pressures in the purchase of agricultural mortgage loans and the sale of Farmer Mac Guaranteed Securities and debt securities;
- substantial changes in interest rates, agricultural land values, commodity prices, export demand for U.S. agricultural products, the general economy, and other factors that may affect delinquency levels and credit losses on agricultural mortgage loans;
- protracted adverse weather, animal and plant disease outbreaks, costs of agricultural production inputs for farmers and ranchers, availability and cost of agricultural workers, market or other conditions affecting particular geographic regions or particular agricultural commodities or products related to agricultural mortgage loans backing Farmer Mac I Guaranteed Securities or under LTSPCs; and
- the effects of any changes in federal assistance for agriculture on the agricultural economy or the value of agricultural real estate.

Farmer Mac's business development and profitability depend on the continued growth of the secondary market for agricultural mortgage loans, the future of which remains uncertain.

Continued growth in Farmer Mac's business may be constrained by conditions that limit the need for agricultural lenders to obtain the benefits of Farmer Mac's programs, including, but not limited to:

- high levels of available capital and liquidity of agricultural lenders;
- the availability of alternative sources of funding, lending capacity and credit enhancement for agricultural lenders;
- downturns in the agricultural economy that could reduce growth rates and the need for capital in the agricultural mortgage market;
- increased competition in the secondary market for agricultural mortgage loans;
- reduced growth rates in the agricultural mortgage market, due largely to the strong liquidity of many farmers and ranchers;
- reduced capital requirements for the FCS, which lessen the demand for LTSPCs;
- the historical preference of many agricultural lending institutions to retain loans in their portfolios rather than to sell them into the secondary market, notwithstanding the corporate finance and capital planning benefits they might otherwise realize through participation in Farmer Mac's programs;

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- a small number of business partners currently provide a significant proportion of Farmer Mac's business volume, as distinguished from program revenue (which is obtained from diverse sources), as a result of the Corporation's successful marketing focus on large program transactions that emphasize high asset quality, with greater protection against adverse credit performance and commensurately lower compensation for the assumption of credit risk and administrative costs, resulting in projected risk-adjusted marginal returns on equity approximately equal to those of other Farmer Mac program transactions;
- the ability of some lending institutions to subsidize, in effect, their agricultural mortgage loan rates through low-return use of equity or acceptance of greater asset and liability mismatch; and
- legislative and regulatory developments in this area, as further discussed below.

As a result of these factors, Farmer Mac may not be able to meet its business development and profitability goals. To the extent that Farmer Mac fails to meet these goals, its total revenues, net income and financial condition could be materially adversely affected.

Farmer Mac is a government-sponsored enterprise whose continued growth may be adversely affected by legislative and regulatory developments.

Farmer Mac is a government-sponsored enterprise that is governed by a statutory charter controlled by the U.S. Congress and regulated by governmental agencies. Consequently, Farmer Mac is subject to risks related to legislative, regulatory or political developments. Such developments could affect the ability of lenders to participate in Farmer Mac's programs or the terms on which they may participate. Further, from time to time, legislative or regulatory initiatives are commenced that, if successful, could result in the enactment of legislation or the promulgation of regulations that could affect negatively the growth or operation of the secondary market for agricultural mortgages. Any of these political or regulatory developments could have a material and adverse effect on Farmer Mac's business. See "Government Regulation of Farmer Mac" in Item 1 of this Annual Report on Form 10-K for additional discussion on the rules and regulations governing Farmer Mac's activities.

Farmer Mac Guaranteed Securities and LTSPCs expose Farmer Mac to significant contingent liabilities and its ability to fulfill its obligations under its guarantees and LTSPCs may be limited.

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac Guaranteed Securities, which are backed by qualified agricultural real estate mortgage loans. As a result of its guarantee, Farmer Mac assumes the ultimate credit risk of borrower defaults on the underlying loans. Farmer Mac also issues LTSPCs for pools of qualified loans that commit Farmer Mac to purchase certain loans under enumerated circumstances on one or more undetermined future dates.

Repayment of the qualified loans underlying Farmer Mac Guaranteed Securities or subject to LTSPCs typically depends on the success of the related farming operation, which, in turn, depends on many variables and factors over which farmers may have little or no control, such as weather conditions, animal and plant disease outbreaks, economic conditions (both domestic and international) and political conditions. If the cash flow from a farming operation decreases (for example, as a result of adverse weather conditions that destroy a crop or that prevent the planting or harvesting of a crop), the farmer's ability to repay the loan may be impaired. Protracted adverse weather, animal and plant disease outbreaks, market or other conditions affecting a particular geographic region and particular commodities related to the agricultural mortgage loans backing Farmer Mac Guaranteed Securities or subject to LTSPCs, or significant loan payment defaults by farmers for other reasons, could require Farmer Mac to pay under its guarantees and LTSPCs and could have a material adverse effect on the Corporation's financial condition and results of operations.

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Farmer Mac Guaranteed Securities and LTSPCs are obligations of Farmer Mac only, and are not backed by the full faith and credit of the United States, FCA or any other agency or instrumentality of the United States other than Farmer Mac. Farmer Mac's principal source of funds for the payment of claims under its guarantees and purchase commitments are the fees received in connection with outstanding Farmer Mac Guaranteed Securities and LTSPCs. These amounts are, and will continue to be, substantially less than the amount of Farmer Mac's aggregate contingent liabilities under its guarantees and LTSPCs. Farmer Mac is required to set aside a portion of the fees it receives as a reserve against losses from its guarantee and commitment activities. Farmer Mac expects that its future contingent liabilities for its guarantee and commitment activities will continue to grow and will exceed Farmer Mac's resources, including amounts in the Corporation's allowance for losses and its limited ability to borrow from the U.S. Treasury.

Farmer Mac is exposed to credit risk and interest rate risk that could materially and adversely affect its financial condition and future earnings.

The primary types of risk in the conduct of Farmer Mac's business are:

- credit risk associated with the agricultural mortgage loans that Farmer Mac purchases or commits to purchase or that back Farmer Mac Guaranteed Securities;
- interest rate risk on all program, mission-related and non-program assets held on balance sheet, that results principally from:
  - potential changes in the relationship between the interest rates paid by the Corporation on its liabilities and the yields it receives on investments of like maturity or reset term; or
  - potential timing differences between the maturities or interest rate resets of the assets and the liabilities used to fund the acquisition and carry of the assets;
- credit risk associated with Farmer Mac's business relationships with other institutions, such as counterparties to swap and other hedging arrangements; and
- risks as to the creditworthiness of the issuers of AgVantage securities and the Corporation's non-program investments.

Any of these risks could materially and adversely affect Farmer Mac's financial condition and future earnings. For additional discussion about the Corporation's risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Risk Management" in Item 7 of this Annual Report on Form 10-K.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Farmer Mac currently occupies its principal offices, which are located at 1133 Twenty-First Street, N.W., Washington, D.C. 20036, under the terms of a lease that expires on November 30, 2011 and covers approximately 13,500 square feet of office space. Farmer Mac also maintains an office located at 1517 North Ankeny Boulevard, Ankeny, Iowa 50021, under the terms of a lease that expires on November 14, 2010 and covers approximately 1,358 square feet of office space. Farmer Mac's offices are suitable and adequate for its current and currently anticipated needs.

Item 3. Legal Proceedings

Farmer Mac is not a party to any material pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of Farmer Mac's security holders during fourth quarter 2007.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Farmer Mac has three classes of common stock outstanding. Ownership of Class A voting common stock is restricted to banks, insurance companies and other financial institutions or similar entities that are not institutions of the FCS. Ownership of Class B voting common stock is restricted to institutions of the FCS. There are no ownership restrictions on the Class C non-voting common stock. Under the terms of the original public offering of the Class A and Class B voting common stock, the Corporation reserved the right to redeem at book value any shares of either class held by an ineligible holder.

Farmer Mac's Class A voting common stock and Class C non-voting common stock trade on the New York Stock Exchange under the symbols AGM.A and AGM, respectively. The Class B voting common stock, which has a limited market and trades infrequently, is not listed or quoted on any exchange or other medium, and Farmer Mac is unaware of any publicly available quotations or prices for that class.

The information below represents the high and low closing sales prices for the Class A and Class C common stocks for the periods indicated as reported by the New York Stock Exchange.

	Sales Prices			
	Class A Stock		Class C Stock	
	High	Low	High	Low
	(per share)			
2008				
First quarter (through March 1, 2008)	$ 20.15	$ 16.50	$ 29.21	$ 24.04
2007				
Fourth quarter	25.38	15.79	34.78	24.44
Third quarter	25.15	17.54	35.81	25.02
Second quarter	25.70	19.55	35.73	27.00
First quarter	20.00	17.95	28.25	24.49
2006				
Fourth quarter	19.50	17.20	28.41	24.90
Third quarter	19.30	17.55	28.19	25.68
Second quarter	19.90	16.95	29.65	25.05
First quarter	21.95	18.60	31.06	27.53

Performance Graph. The following graph compares the performance of Farmer Mac's Class A voting common stock and Class C non-voting common stock with the performance of the New York Stock Exchange Composite Index (the "NYSE Comp") and the Standard & Poor's 500 Diversified Financials Index (the "S&P Div Fin") over the period from December 31, 2002 to December 31, 2007. The graph assumes that $100 was invested on December 31, 2002 in each of: Farmer Mac's Class A voting common stock; Farmer Mac's Class C non-voting common Stock; the NYSE Comp; and the S&P Div Fin. The graph also assumes that all dividends were reinvested into the same securities throughout the past five years.

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This performance graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC, and such performance graph shall not be incorporated by reference into any of Farmer Mac's filings under the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing (except to the extent Farmer Mac specifically incorporates this section by reference into such filing).

As of March 1, 2008, Farmer Mac estimates that there were 1,235 registered owners of the Class A voting common stock, 94 registered owners of the Class B voting common stock and 1,153 registered owners of the Class C non-voting common stock.

The dividend rights of all three classes of the Corporation's common stock are the same, and dividends may be paid on common stock only when, as and if declared by Farmer Mac's board of directors in its sole discretion. Since fourth quarter 2004, Farmer Mac has paid a quarterly dividend of $0.10 per share on all classes of the Corporation's common stock pursuant to a policy adopted by the Corporation's board of directors. On February 7, 2008, Farmer Mac's board of directors declared a quarterly dividend of $0.10 per share on the Corporation's common stock payable on March 31, 2008. Farmer Mac expects to continue to pay comparable quarterly cash dividends for the foreseeable future, subject to the outlook and indicated capital needs of the Corporation and the determination of the board of directors. Farmer Mac's ability to pay dividends on its common stock is subject to the payment of dividends on its outstanding preferred stock. Farmer Mac's ability to declare and pay dividends could also be restricted if it were to fail to comply with regulatory capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement levels."

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Information about securities authorized for issuance under Farmer Mac's equity compensation plans appears under "Equity Compensation Plans" in the Corporation's definitive proxy statement to be filed on or about April 23, 2008. That portion of the definitive proxy statement is incorporated by reference into this Annual Report on Form 10-K.

Farmer Mac is a federally chartered instrumentality of the United States and its common stock is exempt from registration pursuant to Section 3(a)(2) of the Securities Act. On October 3, 2007, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 727 shares of its Class C non-voting common stock, at an issue price of $29.36 per share, to the seven directors who elected to receive such stock in lieu of their cash retainers. Also on October 3, 2007, Farmer Mac granted options under its 1997 Incentive Plan to purchase an aggregate of 24,000 shares of Class C non-voting common stock, at an exercise price of $32.77 per share, to seven non-officer employees as incentive compensation.

(b) Not applicable.

(c) As shown in the table below, Farmer Mac repurchased 524,259 shares of its Class C non-voting common stock during fourth quarter 2007 at an average price of $26.51 per share. All of the repurchased shares were purchased in open market transactions and were retired to become authorized but unissued shares available for future issuance.

Issuer Purchases of Equity Securities

Period	Total Number of Class C Shares Purchased	Average Price Paid per Class C Share	Total Number of Class C Shares Purchased as Part of Publicly Announced Program*	Maximum Number of Class C Shares that May Yet Be Purchased Under the Program
October 1, 2007 - October 31, 2007	-	$ -	-	555,950
November 1, 2007 - November 30, 2007	237,102	26.89	237,102	318,848
December 1, 2007 - December 31, 2007	287,157	26.20	287,157	31,691
Total	524,259	26.51	524,259	31,691

* On February 5, 2007, Farmer Mac announced the establishment of a program to repurchase up to one million shares of the Corporation's outstanding Class C Non-Voting Common Stock. The aggregate number of shares purchased by Farmer Mac under this new stock repurchase program reached the maximum number of authorized shares during first quarter 2008, thereby terminating the program according to its terms.

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Item 6. Selected Financial Data

Summary of Financial Condition:	2007	2006	2005	2004	2003
	As of December 31, (dollars in thousands)				
Cash and cash equivalents	$ 101,445	$ 877,714	$ 458,852	$ 430,504	$ 623,674
Investment securities	2,624,366	1,830,904	1,621,941	1,056,143	1,064,782
Farmer Mac Guaranteed Securities	1,298,823	1,330,418	1,330,976	1,376,847	1,508,134
Loans, net	766,219	775,421	799,516	882,874	982,446
Total assets	4,977,613	4,953,673	4,341,445	3,847,410	4,299,670
Notes payable:					
Due within one year	3,829,698	3,298,097	2,587,704	2,620,172	2,799,384
Due after one year	744,649	1,296,691	1,406,527	864,412	1,138,892
Total liabilities	4,754,020	4,705,184	4,095,416	3,612,176	4,089,178
Stockholders' equity	223,593	248,489	246,029	235,234	210,492
Selected Financial Ratios:					
Return on average assets	0.09%	0.64%	1.15%	0.96%	0.92%
Return on average common equity	2.20%	14.03%	22.87%	20.76%	24.16%
Average equity to assets	4.75%	5.32%	5.88%	5.47%	4.61%

Summary of Operations:	2007	2006	2005	2004	2003
	For the Year Ended December 31, (in thousands, except per share amounts)				
Interest Income:					
Net interest income after recovery/ (provision) for loan losses	$ 44,668	$ 40,686	$ 50,689	$ 65,763	$ 72,278
Non-interest (loss)/income:					
Guarantee and commitment fees	25,232	21,815	19,554	20,977	20,685
(Losses)/gains on financial derivatives and trading assets	(40,274)	1,617	11,537	(14,687)	(17,653)
Gains on sale of available-for-sale investment securities	288	1,150	-	200	-
Gain on sale of Farmer Mac Guaranteed Securities	-	-	-	367	-
Gain on the repurchase of debt	-	-	116	-	-
Gains on the sale of real estate owned	130	809	34	523	178
Representation and warranty claims income	-	718	79	2,816	-
Other income	1,411	1,001	1,872	1,295	812
Non-interest (loss)/income	(13,213)	27,110	33,192	11,491	4,022
Non-interest expense	24,877	23,094	11,518	16,263	15,182
Income before income taxes	6,578	44,702	72,363	60,991	61,118
Income tax (benefit)/expense	(83)	12,689	23,091	19,751	19,847
Net income	6,661	32,013	49,272	41,240	41,271
Preferred stock dividends	(2,240)	(2,240)	(2,240)	(2,240)	(2,240)
Net income available to common stockholders	$ 4,421	$ 29,773	$ 47,032	$ 39,000	$ 39,031

Allowance for Losses Activity:					
(Recovery)/provision for losses	$ (142)	$ (3,408)	$ (8,777)	$ (412)	$ 7,285
Net charge-offs/(recoveries)	526	690	(329)	4,540	5,243
Ending balance	3,887	4,555	8,653	17,101	22,053
Earnings Per Common Share and Dividends:					
Basic earnings per common share	$ 0.43	$ 2.74	$ 4.14	$ 3.24	$ 3.32
Diluted earnings per common share	$ 0.42	$ 2.68	$ 4.09	$ 3.20	$ 3.24
Common stock dividends per common share	$ 0.40	$ 0.40	$ 0.40	$ 0.10	$ -

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information as of and for each of the years ended December 31, 2007, 2006 and 2005 is consolidated to include the accounts of Farmer Mac and its wholly-owned subsidiary, Farmer Mac Mortgage Securities Corporation.

This discussion and analysis of financial condition and results of operations should be read together with Farmer Mac's consolidated financial statements and the related notes to the consolidated financial statements for the fiscal years ended December 31, 2007, 2006 and 2005.

The discussion below is not necessarily indicative of future results.

Forward-Looking Statements

Some statements made in this Annual Report on Form 10-K are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 pertaining to management's current expectations as to Farmer Mac's future financial results, business prospects and business developments. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements, and typically are accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends," "should" and similar phrases. The following discussion and analysis includes forward-looking statements addressing Farmer Mac's:

- prospects for earnings;
- prospects for growth in loan purchase, guarantee, securitization and LTSPC volume;
- trends in net interest income;
- trends in portfolio credit quality and provisions for losses;
- trends in expenses;
- trends in non-program investments;
- changes in capital position; and
- other business and financial matters.

Management's expectations for Farmer Mac's future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K and uncertainties regarding:

- lender interest in Farmer Mac credit products and the Farmer Mac secondary market;
- increases in general and administrative expenses attributable to growth of the business and regulatory environment, including the hiring of additional personnel with expertise in key functional areas;
- the rate and direction of development of the secondary market for agricultural mortgage loans;
- the general rate of growth in agricultural mortgage indebtedness;
- borrower preferences for fixed-rate agricultural mortgage indebtedness;
- legislative or regulatory developments that could affect Farmer Mac;
- the willingness of investors to invest in Farmer Mac Guaranteed Securities; and

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- developments in the financial markets, including possible reaction to events involving GSEs other than Farmer Mac.

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this Annual Report on Form 10-K. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC.

Critical Accounting Policy and Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policy that is both important to the portrayal of Farmer Mac's financial condition and results of operations and requires complex, subjective judgments is the accounting policy for the allowance for losses. Farmer Mac's allowance for losses is presented in three components on its consolidated balance sheet:

- an "Allowance for loan losses" on loans held;
- a valuation allowance on real estate owned, which is included in the balance sheet under "Real estate owned"; and
- an allowance for losses on loans underlying Farmer Mac I Guaranteed Securities issued after the Farm Credit System Reform Act of 1996 (the "1996 Act") and long-term standby purchase commitments ("LTSPCs"), which is included in the balance sheet under "Reserve for losses."

Farmer Mac's provision for losses is presented in two components on the consolidated statement of operations:

- a "Provision for loan losses," which represents losses on Farmer Mac's loans held; and
- a "Provision for losses," which represents losses on loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs and real estate owned.

The purpose of the allowance for losses is to provide for estimated losses that are probable to have occurred as of the balance sheet date, and not to predict or account for future potential losses. The determination of the allowance for losses requires management to make significant estimates based on information available as of the balance sheet date, including the amounts and timing of losses and current market and economic conditions. These estimates are subject to change in future reporting periods if such conditions and information change. For example, a decline in the national or agricultural economy could result in an increase in delinquencies or foreclosures, which may require additional allowances for losses in future periods.

Farmer Mac maintains an allowance for losses to cover estimated losses on loans held, real estate owned and loans underlying LTSPCs and post-1996 Act Farmer Mac I Guaranteed Securities in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5") and Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended ("SFAS 114").

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Farmer Mac's methodology for determining its allowance for losses incorporates the Corporation's proprietary automated loan classification system. That system scores loans based on criteria such as historical repayment performance, loan seasoning, loan size and loan-to-value ratio. For the purposes of the loss allowance methodology, the loans in Farmer Mac's portfolio of loans and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs have been scored and classified for each calendar quarter since first quarter 2000. The allowance methodology captures the migration of loan scores across concurrent and overlapping three-year time horizons and calculates loss rates separately within each loan classification for (1) loans underlying LTSPCs and (2) loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of Farmer Mac's portfolio to estimate inherent losses, on the assumption that the historical credit losses and trends used to calculate loss rates will continue in the future. Management evaluates this assumption by taking into consideration factors, including:

- economic conditions;
- geographic and agricultural commodity/product concentrations in the portfolio;
- the credit profile of the portfolio;
- delinquency trends of the portfolio;
- historical charge-off and recovery activities of the portfolio; and
- other factors to capture current portfolio trends and characteristics that differ from historical experience.

Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, in accordance with SFAS 5 and SFAS 114.

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses charged to non-interest expense and reduced by charge-offs for actual losses, net of recoveries. Negative provisions for loan losses or negative provisions for losses are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period. The establishment of and periodic adjustments to the valuation allowance for real estate owned are charged against income as a portion of the provision for losses charged to non-interest expense. Gains and losses on the sale of real estate owned are recorded in income based on the difference between the recorded investment at the time of sale and liquidation proceeds.

Prior to third quarter 2007, no allowance for losses had been made for loans underlying Farmer Mac I Guaranteed Securities issued prior to the 1996 Act ("Pre-1996 Act Farmer Mac I Guaranteed Securities"), AgVantage securities or securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"). Pre-1996 Act Farmer Mac I Guaranteed Securities are supported by unguaranteed first loss subordinated interests, which had been expected to exceed the estimated credit losses on those loans. Through June 30, 2007, Farmer Mac had not experienced any credit losses on any Pre-1996 Act Farmer Mac I Guaranteed Securities. In third quarter 2007, Farmer Mac charged off $0.4 million related to one loan underlying Pre-1996 Act Farmer Mac I Guaranteed Securities. The remaining $3.2 million of Pre-1996 Act Farmer Mac I Guaranteed Securities represent interests in seasoned performing loans with low loan-to-value ratios. Farmer Mac does not expect to incur any further losses on the remaining Pre-1996 Act Farmer Mac I Guaranteed Securities in the future. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of December 31, 2007, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the high credit quality of the obligors, as well as the underlying collateral. As of December 31, 2007, Farmer Mac had not experienced any credit losses on any AgVantage Securities and does not expect to incur any such losses in the future. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of December 31, 2007, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

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Further information regarding the allowance for losses is included in "—Risk Management—Credit Risk - Loans."

Results of Operations

Overview. Net income available to common stockholders for 2007 was $4.4 million or $0.42 per diluted common share, compared to $29.8 million or $2.68 per diluted common share in 2006 and $47.0 million or $4.09 per diluted common share in 2005. The primary reasons for the decline in net income from 2006 to 2007 were losses on financial derivatives, attributable to the significant decline in interest rates during the latter half of 2007, partially offset by increases in net interest income and guarantee and commitment fees. The primary reasons for the decline in net income from 2005 to 2006 were reduced gains on financial derivatives and reduced recoveries for losses. These items are described in greater detail below.

The cumulative effects of Farmer Mac's stock repurchases of 1,086,541, 796,450, 800,202 and 299,248 shares during 2007, 2006, 2005 and 2004, respectively, on diluted earnings per share for 2007, 2006 and 2005 were increases of $0.09, $0.39 and $0.36, respectively.

During the latter half of 2007, interest rate and credit spread volatility in the capital markets increased, with correspondingly greater fluctuations in the market values of fixed income securities and mortgage-backed securities in particular. Throughout that period and through the date of this report, Farmer Mac had ready access to the capital markets and regularly issued discount notes and medium-term notes at favorable rates. Farmer Mac's short-term funding spreads below the corresponding London Interbank Offered Rate, or LIBOR, improved significantly. Consequently, Farmer Mac's effective net interest yield on program assets and short-term and floating rate investments was significantly higher than the effective net interest yields it earned on such assets and investments in previous quarters. It is uncertain how long those favorable funding spreads to LIBOR will continue, and at what levels; therefore, no assurance can be given as to how long Farmer Mac will continue to earn these higher effective net interest yields. The improvements in the effective net interest yield are offset by losses attributable to declines in fair value of financial derivatives. Also during third and fourth quarters of 2007, widening of credit market spreads caused declines in the fair value of many corporate securities in Farmer Mac's investment portfolio, resulting in increased unrealized losses, some of which may be realized in the future if those securities are not held to maturity or do not otherwise recover in value.

During 2007, Farmer Mac's program volume totaled $2.3 billion, compared to 2006 volume of $3.0 billion. Farmer Mac's outstanding program volume as of December 31, 2007 was $8.5 billion, compared to $7.2 billion as of December 31, 2006. For 2007, Farmer Mac's new business volume included the:

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- addition of $970.8 million of Farmer Mac I eligible loans under LTSPCs;
- purchase of $127.7 million of newly originated Farmer Mac I eligible loans;
- guarantee of $1.0 billion of AgVantage securities; and
- purchase of $210.0 million of Farmer Mac II USDA-guaranteed portions.

In addition to its program volume during 2007, Farmer Mac purchased, as mission-related non-program investments consistent with parameters approved by FCA, $405.4 million of mortgage-backed securities representing beneficial ownership interests in distribution cooperative mortgage loans made by the National Rural Utilities Cooperative Finance Corporation ("Nat Rural") to its rural electric cooperative members. These transactions improve Nat Rural's pricing to its members and advance Farmer Mac's role in financing rural America.

As part of Farmer Mac's continuing evaluation of the overall credit quality of its portfolio, the state of the U.S. agricultural economy, the continued upward trends in agricultural land values and the level of Farmer Mac's outstanding guarantees and commitments, Farmer Mac determined that the appropriate level of allowance for losses as of December 31, 2007 was $3.9 million. This resulted in the release of approximately $0.1 million from the allowance for losses during 2007, compared to the release of $3.4 million and $8.8 million from the allowance for losses in 2006 and 2005, respectively. As of December 31, 2007, the allowance for losses of $3.9 million was 8 basis points relative to the outstanding post-1996 Act Farmer Mac I portfolio (excluding AgVantage securities), compared to $4.6 million and 10 basis points as of December 31, 2006. For further discussion of the change in the allowance for losses and provision for losses, see "—Risk Management—Credit Risk - Loans."

As of December 31, 2007, Farmer Mac's 90-day delinquencies (Farmer Mac I loans purchased or placed under Farmer Mac I Guaranteed Securities or LTSPCs after enactment of the 1996 Act that were 90 days or more past due, in foreclosure, restructured after delinquency, or in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan) were $10.6 million, representing 0.21 percent of the principal balance of the outstanding post-1996 Act Farmer Mac I portfolio (excluding AgVantage securities), compared to $19.7 million (0.41 percent) as of December 31, 2006 and $25.5 million (0.58 percent) as of December 31, 2005.

The following table presents Farmer Mac's non-performing assets, which represent the aggregate of 90-day delinquencies, loans performing in bankruptcy and real estate owned.

	As of December 31,	
	2007	2006
	(in thousands)	
90-day delinquencies (including loans in foreclosure and loans restructured after delinquency)	$ 10,584	$ 19,655
Loans performing in bankruptcy	20,750	17,480
Real estate owned	590	2,097
Non-performing assets	$ 31,924	$ 39,232

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The following table presents historical information regarding Farmer Mac's non-performing assets and 90-day delinquencies:

	Outstanding Post-1996 Act Loans, Guarantees (1), LTSPCs, and REO	Non-performing Assets	Percentage	Less: REO and Performing Bankruptcies	90-day Delinquencies	Percentage
	(dollars in thousands)					
As of:						
December 31, 2007	$ 5,063,164	$ 31,924	0.63%	$ 21,340	$ 10,584	0.21%
September 30, 2007	4,891,525	37,364	0.76%	20,341	17,023	0.35%
June 30, 2007	4,904,592	37,225	0.76%	22,462	14,763	0.30%
March 31, 2007	4,905,244	50,026	1.02%	21,685	28,341	0.58%
December 31, 2006	4,784,983	39,232	0.82%	19,577	19,655	0.41%
September 30, 2006	4,621,083	44,862	0.97%	16,425	28,437	0.62%
June 30, 2006	4,633,841	40,083	0.87%	19,075	21,008	0.46%
March 31, 2006	4,224,669	49,475	1.17%	20,713	28,762	0.68%
December 31, 2005	4,399,189	48,764	1.11%	23,303	25,461	0.58%
September 30, 2005	4,273,268	64,186	1.50%	23,602	40,584	0.95%
June 30, 2005	4,360,670	60,696	1.39%	23,925	36,771	0.85%
March 31, 2005	4,433,087	70,349	1.59%	24,561	45,788	1.04%
December 31, 2004	4,642,208	50,636	1.09%	25,353	25,283	0.55%

(1) Excludes loans underlying AgVantage securities.

Farmer Mac recorded $0.5 million in net charge-offs in 2007, compared with $0.7 million in net charge-offs in 2006 and $0.3 million in net recoveries in 2005. Additionally, Farmer Mac recorded gains on the sale of real estate owned of $0.1 million, $0.8 million and $34,000 in 2007, 2006 and 2005, respectively.

As of December 31, 2007, approximately $1.4 billion (27 percent) of Farmer Mac's portfolio of post-1996 Act Farmer Mac I loans and loans underlying LTSPCs and Farmer Mac Guaranteed Securities were in their peak default years (approximately years three through five after origination), compared to $1.5 billion (31 percent) as of December 31, 2006 and $1.3 billion (29 percent) as of December 31, 2005. Notwithstanding the recent historical trends in delinquency rates and the overall agricultural economy during 2007, the level of 90-day delinquencies could increase and higher charge-offs could follow.

Outlook for 2008. USDA's most recent publications (as available on USDA's website as of March 1, 2008) forecast:

- 2008 net cash farm income to be $96.6 billion, an increase of $9 billion over 2007 estimates, and a 42 percent premium over the 10-year average $68 billion.
- 2008 net farm income to be $92.3 billion, an increase of $3.6 billion over 2007 estimates, and a sizable increase ($31 billion) over the 10-year average of $61.1 billion.

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- Total direct U.S. government payments to be $13.4 billion in 2008, up from $12 billion in 2007, but still 20 percent below the 5-year average. Direct payment rates are fixed in legislation and are not affected by the level of program crop prices.
  - Countercyclical payments to decrease to $0.93 billion in 2008 from $1.2 billion in 2007.
- Marketing loan benefits, which include loan deficiency payments, marketing loan gains, and certificate exchange gains, to drop to $8 million in 2008 from $80 million in 2007.
- The value of U.S. farm real estate to increase 14.9 percent in 2008 to $2.2 trillion from the current projection of $1.9 trillion for 2007.
- The amount of farm real estate debt to increase by 2.8 percent in 2008 to $120.8 billion, compared to the current projection of $117.5 billion in 2007.

The USDA forecasts referenced above relate to U.S. agriculture generally, but should collectively be favorable for Farmer Mac's financial condition relative to its exposure to outstanding guarantees and commitments, as they indicate strong borrower cash flows, and increased farm real estate values in most U.S. agricultural regions.

Much of Farmer Mac's recent business volume has been a product of the Corporation's ongoing efforts to diversify its marketing focus to include large program transactions that emphasize high asset quality, with greater protection against adverse credit performance and commensurately lower compensation for the assumption of credit risk and administrative costs, resulting in projected risk-adjusted marginal returns on equity approximately equal to those of other Farmer Mac program transactions. As a result of those efforts, during 2007 Farmer Mac:

- guaranteed $1.0 billion principal amount of securities supported by a 10-year general obligation of MetLife backed by eligible loans in an AgVantage transaction; and
- issued standby purchase commitments aggregating $970.8 million in LTSPC transactions with several counterparties.

In addition, Farmer Mac purchased $210.0 million of guaranteed portions of USDA-guaranteed loans. These transactions and other Farmer Mac I program volume brought new business volume in 2007 to $2.3 billion, and total volume outstanding in both Farmer Mac programs to $8.5 billion as of December 31, 2007, a new record.

Farmer Mac had significant new business volume during 2007, however, its future business with agricultural mortgage lenders may be constrained by:

- high levels of available capital and liquidity of agricultural lenders;
- changes in the capital, liquidity or funding needs of major business partners;
- alternative sources of funding, lending capacity and credit enhancement for agricultural lenders; and
- increased competition in the secondary market for agricultural mortgage loans.

Continued growth in volume and improvements in earnings will require significant new business pursuant to Farmer Mac's strategy of diversifying its marketing focus to include large program transactions that emphasize high asset quality, with greater protection against adverse credit performance and commensurately lower compensation for the assumption of credit risk and administrative costs, resulting in projected risk-adjusted marginal returns on equity approximately equal to those of other Farmer Mac program transactions. With particular respect to changes in the capital, liquidity or funding needs of major business partners, the off-balance sheet AgVantage transactions to date may have filled the capacity of current customers for that product and it is uncertain whether the needs of prospective new customers will sustain the recent level of business growth in that product. With particular respect to alternative sources of lending capacity and credit enhancement for agricultural lenders, significant amortization of existing LTSPC and securitization volume is expected over the next several years and it is uncertain whether that volume will be replaced in light of those alternatives, and even more uncertain whether any replacement volume will be done at the favorable profit levels of the amortizing volume.

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Looking ahead, Farmer Mac sees opportunities for increased business volume and income growth as a result of the Corporation's product development and marketing efforts. Farmer Mac's marketing initiatives, which continue to generate business opportunities for 2008 and, it believes, beyond, include:

- expanded use of AgVantage transactions, targeting highly-rated financial institutions with large agricultural mortgage portfolios;
- agribusiness and rural development loans associated with agriculture, in fulfillment of Farmer Mac's Congressional mission;
- new structures for LTSPC transactions, including risk sharing provisions; and
- an ongoing alliance with the American Bankers Association ("ABA"), renewed for a three-year term on October 29, 2007, under which Farmer Mac facilitates access and offers improved pricing to ABA member institutions and the ABA promotes member participation in Farmer Mac programs.

Some of the agribusiness and rural development initiatives will require Farmer Mac to consider credit risks that expand upon or differ from those the Corporation has accepted previously. Farmer Mac will use underwriting standards appropriate to those credit risks, and likely will draw upon outside expertise to analyze and evaluate the credit and funding aspects of loans submitted pursuant to those initiatives.

Farmer Mac believes important new business opportunities would result from expansion of its statutory guarantee authorities. In that regard:

- on July 27, 2007, the United States House of Representatives passed its version of a 2007 Farm Bill (H.R. 2419) that would expand Farmer Mac's charter to authorize the Corporation to purchase and guarantee securities backed by rural utilities (electric and telephone) loans made by cooperative lenders, particularly Nat Rural and institutions of the Farm Credit System; and
- on December 14, 2007, the United States Senate passed the "Food and Energy Security Act," which contains an expansion of authority for Farmer Mac similar to that in H.R. 2419.

A conference committee has not yet met to reconcile the differences between the two bills. At this time, no assurance can be given that either the House or Senate legislation will be enacted into law or, if enacted, that it will result in significant additional business volume for Farmer Mac.

A detailed presentation of Farmer Mac's financial results for the years ended December 31, 2007, 2006 and 2005 follows.

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Net Interest Income. Net interest income was $44.5 million for 2007, $38.3 million for 2006 and $50.6 million for 2005. The net interest yield was 85 basis points for the year ended December 31, 2007, compared to 85 basis points for the year ended December 31, 2006 and 131 basis points for the year ended December 31, 2005.

As discussed in Note 6 to the consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. Accordingly, the Corporation classifies the net interest income and expense realized on financial derivatives as gains and losses on financial derivatives and trading assets. This classification had no effect on the net interest yield for the year ended December 31, 2007 and resulted in increases in the net interest yield of 7 basis points and 43 basis points, respectively, for the years ended December 31, 2006 and 2005.

Net interest income includes guarantee fees for loans purchased after April 1, 2001 (the effective date of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 140")), but not for loans purchased prior to that date. The effect of SFAS 140 was a reclassification of approximately $3.3 million (6 basis points) of guarantee fee income as interest income for the year ended December 31, 2007, compared to $3.4 million (8 basis points) for the year ended December 31, 2006 and $3.7 million (10 basis points) for the year ended December 31, 2005.

The net interest yields for the years ended December 31, 2007, 2006 and 2005 included the benefits of yield maintenance payments of 7 basis points, 9 basis points and 12 basis points, respectively. Yield maintenance payments represent the present value of expected future interest income streams and accelerate the recognition of interest income from the related loans. Because the timing and amounts of these payments vary greatly, variations do not necessarily indicate positive or negative trends to gauge future financial results. For the years ended December 31, 2007, 2006 and 2005, the after-tax effects of yield maintenance payments on net income and diluted earnings per share were $2.5 million or $0.24 per diluted share, $2.5 million or $0.23 per diluted share and $3.1 million or $0.27 per diluted share, respectively.

The following table provides information regarding interest-earning assets and funding for the years ended December 31, 2007, 2006 and 2005. The balance of non-accruing loans is included in the average balance of interest-earning loans and Farmer Mac Guaranteed Securities presented, though the related income is accounted for on the cash basis. Therefore, as the balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. Net interest income and the yield will also fluctuate due to the uncertainty of the timing and amounts of yield maintenance payments. The average rate earned on cash and investments reflects higher short-term market interest rates in 2007 compared to 2006 and 2005, and the short-term or floating rate nature of most investments acquired and outstanding during 2007. The higher average rate on loans and Farmer Mac Guaranteed Securities reflects the reset of adjustable-rate mortgages to higher rates and the acquisition of new higher-yielding loans compared to rates on loans that have matured. The higher average rate on Farmer Mac's notes payable due within one year is consistent with general trends in average short-term rates during the periods presented. The upward trend in the average rate on notes payable due after one year reflects the retirement of older debt and the issuance of new debt at higher market rates during 2007.

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	2007			2006			2005		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	(dollars in thousands)								
Interest-earning assets:									
Cash and investments	$ 3,195,475	$ 174,196	5.45%	$ 2,474,900	$ 128,199	5.18%	$ 1,753,735	$ 70,414	4.02%
Loans and Farmer Mac Guaranteed Securities	2,020,290	123,562	6.12%	2,055,657	121,723	5.92%	2,120,508	122,158	5.76%
Total interest-earning assets	5,215,765	297,758	5.71%	4,530,557	249,922	5.52%	3,874,243	192,572	4.97%
Funding:									
Notes payable due within one year	3,493,047	176,786	5.06%	2,731,245	134,084	4.91%	1,925,348	62,137	3.23%
Notes payable due after one year (1)	1,521,738	76,519	5.03%	1,583,592	77,548	4.90%	1,745,478	79,800	4.57%
Total interest-bearing liabilities	5,014,785	253,305	5.05%	4,314,837	211,632	4.90%	3,670,826	141,937	3.87%
Net non-interest-bearing funding	200,980	-	0.00%	215,720	-	0.00%	203,417	-	0.00%
Total funding	$ 5,215,765	253,305	4.86%	$ 4,530,557	211,632	4.67%	$ 3,874,243	141,937	3.66%
Net interest income/yield		$ 44,453	0.85%		$ 38,290	0.85%		$ 50,635	1.31%

(1) Includes current portion of long-term notes.

The following table sets forth information regarding the changes in the components of Farmer Mac's net interest income for the periods indicated. For each category, information is provided on changes attributable to changes in volume (change in volume multiplied by old rate) and changes in rate (change in rate multiplied by old volume). Combined rate/volume variances, the third element of the calculation, are allocated based on their relative size. The increases in income due to changes in rate reflect the reset of variable-rate investments and adjustable-rate mortgages to higher rates and the acquisition of new higher-yielding investments, loans and Farmer Mac Guaranteed Securities, as described above. The increases in expense reflect the increased cost of short-term or floating rate funding due to the increase in short-term interest rates.

	2007 vs. 2006			2006 vs. 2005		
	Increase/(Decrease) Due to			Increase/(Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
	(in thousands)					
Income from interest-earning assets:						

Cash and investments	$ 7,014	$ 38,983	$ 45,997	$ 24,548	$ 33,237	$ 57,785
Loans and Farmer Mac Guaranteed Securities	3,957	(2,118)	1,839	3,356	(3,791)	(435)
Total	10,971	36,865	47,836	27,904	29,446	57,350
Expense from interest-bearing liabilities	6,477	35,196	41,673	42,153	27,542	69,695
Change in net interest income	$ 4,494	$ 1,669	$ 6,163	$ (14,249)	$ 1,904	$ (12,345)

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Guarantee and Commitment Fees. Guarantee and commitment fees, which compensate Farmer Mac for assuming the credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs, were $25.2 million for 2007, compared to $21.8 million for 2006 and $19.6 million for 2005. Notwithstanding reductions in average guarantee and commitment fee rates – as a result of the Corporation's previously-referenced successful marketing focus on large program transactions that emphasize high asset quality – the amounts of these fees have risen with increases in the average balance of outstanding guarantees and LTSPCs. For 2007, 2006 and 2005, the effects of SFAS 140 classified guarantee fees received of $3.3 million, $3.4 million and $3.7 million, respectively, as interest income, although management considers that amount to have been earned in consideration for the assumption of credit risk. That portion of the difference or "spread" between the cost of Farmer Mac's debt funding for loans and the yield on post-1996 Act Farmer Mac I Guaranteed Securities held on its books compensates for credit risk. When a post-1996 Act Farmer Mac I Guaranteed Security is sold to a third party, Farmer Mac continues to receive the guarantee fee component of that spread, which continues to compensate Farmer Mac for its assumption of credit risk. The portion of the spread that compensates for interest rate risk would not typically continue to be received by Farmer Mac if the asset were sold.

Gains and Losses on Financial Derivatives and Trading Assets. Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133") requires the change in the fair values of financial derivatives to be reflected in a company's net income or accumulated other comprehensive income. As discussed in Note 6 to the consolidated financial statements, the Corporation accounts for its financial derivatives as undesignated financial derivatives. The net effect of gains and losses on financial derivatives and trading assets recorded in Farmer Mac's consolidated statements of operations was a net loss of $40.3 million for 2007 and a net gain of $1.6 million and $11.5 million for 2006 and 2005, respectively.

Farmer Mac enters into financial derivatives transactions to hedge interest rate risks inherent in its business, and does not use financial derivatives transactions for trading or speculative purposes. The Corporation applies fair value accounting to its financial derivatives transactions pursuant to SFAS 133; it does not apply hedge accounting to those derivatives. Changes in the fair value of financial derivatives caused by changes in interest rates are recognized immediately in earnings, notwithstanding that they offset substantially changes in the value of the hedged items. Therefore, factors unrelated to the performance of the Corporation's business may cause the Corporation's GAAP earnings to be more volatile than – and even counter-directional to – the underlying economics of its business operations.

Gains on Sale of Available-for-Sale Investment Securities. During 2007 and 2006, Farmer Mac recognized realized gains of $0.3 million and $1.2 million, respectively, from the sale of securities from its available-for-sale portfolio. During 2005, Farmer Mac did not realize any gains from the sale of securities from its available-for-sale portfolio.

Representation and Warranty Claims Income. During 2006 and 2005, Farmer Mac recovered approximately $0.7 million and $0.1 million, respectively, from sellers (one of which was Zions First National Bank, a related party, as described in Note 3 to the consolidated financial statements) for breaches of representations and warranties associated with prior sales of agricultural mortgage loans to Farmer Mac. Farmer Mac had previously charged off these amounts as losses on the associated loans. Because these payments are received from sellers rather than borrowers, such recoveries are reported as income and are not reflected as recoveries in the net losses charged against the allowance for losses. Farmer Mac did not have any such recoveries for breaches of representations and warranties during 2007.

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Other Income. Other income was $1.4 million, $1.0 million and $1.9 million for the years ended December 31, 2007, 2006 and 2005, respectively. The increase in 2007 and 2005 compared to 2006 was the result of a higher level of late fees received in 2007 and 2005 and increased income on recovered loan valuations recorded in 2007.

Expenses. Compensation and employee benefits were $14.2 million, $11.9 million and $8.2 million for 2007, 2006 and 2005, respectively. Those amounts reflect the recordation of stock option expense of $3.7 million and $2.4 million in 2007 and 2006, respectively, resulting from the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments ("SFAS 123(R)"), effective January 1, 2006. No such expense was recorded in 2005. That upward trend also reflects a higher level of incentive compensation paid in 2007. General and administrative expenses, including legal, independent audit, and consulting fees, were $8.5 million, $9.8 million and $9.7 million for 2007, 2006 and 2005, respectively. Farmer Mac expects all of the above-mentioned expenses to continue at approximately the same levels as 2007 through 2008.

Regulatory fees were $2.2 million, $2.3 million and $2.3 million for 2007, 2006 and 2005, respectively. FCA has advised Farmer Mac that its estimated assessment for 2008 is $2.1 million. The regulatory assessments from FCA for each of the examination periods corresponding approximately with each of the years ended December 31, 2007, 2006 and 2005 include both their originally estimated assessments and revisions to those estimates that reflect actual costs incurred. These revisions have resulted in both additional assessments and refunds in the past.

Income Tax (Benefit)/Expense. Income tax (benefit)/expense totaled $(0.1) million in 2007, compared to $12.7 million in 2006 and $23.1 million in 2005. Farmer Mac's effective tax rates for 2007, 2006 and 2005 were approximately -1.3 percent, 28.4 percent and 31.9 percent, respectively. Farmer Mac's negative tax rate for 2007 was a result of a portion of Farmer Mac's dividend income on investment securities being non-taxable. During 2007, the effect of that non-taxable dividend income exceeded Farmer Mac's tax expense at its statutory tax rate. For more information about income taxes, see Note 10 to the consolidated financial statements.

Effects of SFAS 133. Farmer Mac records financial derivatives at fair value on its balance sheet with the related changes in fair value recognized in the consolidated statement of operations. Although the Corporation's use of financial derivatives achieves its economic and risk management objectives, its classification of financial derivatives as undesignated hedges under SFAS 133 allows factors unrelated to the economic performance of the Corporation's business, such as changes in interest rates, to increase the volatility – or even change the direction – of the Corporation's earnings under GAAP.

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of assets, future cash flows and debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and also to derive an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Specifically, interest rate swaps convert economically the variable cash flows related to the forecasted issuance of short-term debt into effectively fixed-rate medium-term and long-term notes that match the anticipated duration, repricing and interest rate characteristics of the corresponding assets. Since this strategy provides Farmer Mac with approximately the same cash flows as those that are inherent in the issuance of medium-term notes, Farmer Mac uses either the bond market or the swap market based upon their relative pricing efficiencies.

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Farmer Mac uses callable interest rate swaps (in conjunction with the issuance of short-term debt) as an alternative to callable medium-term notes with equivalently structured maturities and call options. The call options on the swaps are designed to match the implicit prepayment options on those mortgage assets without prepayment protection. The blended durations of the swaps are also designed to match the duration of the related mortgages over their estimated lives. If the mortgages prepay, the swaps can be called and the short-term debt repaid; if the mortgages do not prepay, the swaps remain outstanding and the short-term debt is rolled over, effectively providing fixed-rate callable funding over the lives of the related mortgages. Thus, the economics of the assets are closely matched to the economics of the interest rate swap and funding combination.

Business Volume. Loans are brought into the Farmer Mac I and Farmer Mac II programs as follows:

- Farmer Mac purchases eligible loans and guarantees timely payments of principal and interest of securities backed by those loans as part of the Farmer Mac I program. Farmer Mac may retain some or all of those securities in its portfolio or sell them to third parties in capital markets transactions.
- Farmer Mac purchases USDA-guaranteed portions and guarantees timely payments of principal and interest of securities backed by those guaranteed portions as part of the Farmer Mac II program. Farmer Mac may retain some or all of those securities in its portfolio or sell them to third parties in capital markets transactions.
- Farmer Mac enters into LTSPCs for eligible loans. Farmer Mac's commitments through LTSPCs include either newly originated or seasoned eligible loans, and are part of the Farmer Mac I program.
- Farmer Mac exchanges Farmer Mac Guaranteed Securities for eligible loans or USDA-guaranteed portions in swap transactions. Farmer Mac Guaranteed Securities exchanged for USDA-guaranteed portions are part of the Farmer Mac II program; Farmer Mac Guaranteed Securities exchanged for any other eligible loans are part of the Farmer Mac I program.
- Farmer Mac purchases and guarantees mortgage-backed bonds collateralized by eligible mortgage loans, which are referred to as AgVantage securities, a category of Farmer Mac Guaranteed Securities and part of the Farmer Mac I program.

During 2007, the volume of loans purchased or placed under Farmer Mac Guaranteed Securities and LTSPCs totaled $2.3 billion, a decrease from 2006 volume of $3.0 billion. That decrease was attributable to a decrease of $471.0 million in Farmer Mac I loan and Guaranteed Securities volume, a decrease of $168.9 million in LTSPC volume, and a decrease of $24.6 million in Farmer Mac II volume, compared to 2006 volume levels. Farmer Mac does not believe that this decrease represents a trend in the Corporation's business volume but, rather, is indicative of normal fluctuations in its business. During 2006, the volume of loans purchased or placed under Farmer Mac Guaranteed Securities and LTSPCs totaled $3.0 billion, an increase from 2005 volume of $771.7 million. That increase was attributable to an increase of $1.5 billion in Farmer Mac I loan and Guaranteed Securities volume, an increase of $0.7 million in LTSPC volume, and an increase of $34.5 million in Farmer Mac II volume, compared to 2005 volume levels. The following table sets forth information regarding the volume of loans purchased or placed under Farmer Mac Guaranteed Securities or LTSPCs for the periods indicated:

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Farmer Mac Loan Purchases, Guarantees and LTSPCs

	For the Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Farmer Mac I:			
Loans and Guaranteed Securities	$ 1,127,709	$ 1,598,673	$ 110,056
LTSPCs	970,789	1,139,699	461,441
Farmer Mac II	210,040	234,684	200,168
Total	$ 2,308,538	$ 2,973,056	$ 771,665

The purchase price of newly originated and seasoned eligible loans and portfolios, none of which are delinquent at the time of purchase, is the fair value based on current market interest rates and Farmer Mac's target net yield, which includes an amount to compensate Farmer Mac for credit risk that is similar to the guarantee or commitment fee it receives for assuming credit risk on loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs.

Based on market conditions, Farmer Mac either retains the loans it purchases or securitizes them and sells Farmer Mac I Guaranteed Securities backed by those loans. Farmer Mac's decision to retain loans it purchases is based on analysis of the underlying funding costs and resulting net interest income achievable over the lives of the loans. The weighted-average age of the Farmer Mac I newly originated and current seasoned loans purchased and retained (excluding the purchases of defaulted loans) during both 2007 and 2006 was less than one year. Of those loans, 72 percent and 71 percent, respectively, had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 17.3 and 16.9 years, respectively.

During 2007, 2006 and 2005, Farmer Mac securitized loans it purchased and sold the resulting Farmer Mac Guaranteed Securities in the amount of $1.3 million, $4.0 million and $53.3 million, respectively. Of those securitization transactions, $46.7 million were sold to Zions First National Bank in 2005 and $1.3 million, $4.0 million and $6.6 million of such securities were sold to AgStar Financial Services, ACA in 2007, 2006 and 2005, respectively. Both Zions First National Bank and AgStar Financial Services, ACA are related parties with respect to Farmer Mac. During 2007 and 2006, Farmer Mac issued $681.7 million and $1.0 billion, respectively, of Farmer Mac I Guaranteed Securities in the form of swap transactions, of which $400.2 million and $470.2 million, respectively, were issued to related parties. Those related party transactions consisted of a $400.2 million swap transaction with AgStar Financial Services, ACA during 2007 and a $341.2 million swap transaction with AgStar Financial Services, ACA and a $129.0 million swap transaction with Sacramento Valley Farm Credit, ACA during 2006. All of the swap transactions resulted from the participants' exercise of a conversion feature incorporated in all existing LTSPCs. See Note 3 to the consolidated financial statements for more information about related party transactions.

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The following table sets forth information regarding the Farmer Mac I Guaranteed Securities issued during the periods indicated:

Farmer Mac I Guaranteed Securities Activity

	For the Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Loans securitized and sold as Farmer Mac I Guaranteed Securities	$ 1,324	$ 3,994	$ 53,315
AgVantage securities	1,000,000	1,500,000	-
Swap transactions	681,732	1,034,860	-
Total Farmer Mac Guaranteed Securities Issuances	$ 1,683,056	$ 2,538,854	$ 53,315

The outstanding principal balance of loans held and loans underlying LTSPCs and on- and off-balance sheet Farmer Mac Guaranteed Securities increased 18.0 percent to $8.5 billion as of December 31, 2007 from $7.2 billion as of December 31, 2006. The following table sets forth information regarding those outstanding balances as of the dates indicated:

Outstanding Balance of Farmer Mac Loans and Loans Underlying
Farmer Mac Guaranteed Securities and LTSPCs

	As of December 31,		
	2007	2006	2005
		(in thousands)	
Farmer Mac I:			
Post-1996 Act:			
Loans and Guaranteed Securities	$ 5,645,023	$ 4,338,698	$ 2,094,410
LTSPCs	1,948,941	1,969,734	2,329,798
Pre-1996 Act	3,174	5,057	13,046
Farmer Mac II	946,617	925,799	835,732
Total	$ 8,543,755	$ 7,239,288	$ 5,272,986

As part of fulfilling its guarantee obligations for Farmer Mac I Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet. The purchase price for defaulted loans purchased out of Farmer Mac I Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for defaulted loans purchased under an LTSPC is the then-current outstanding principal balance of the loan, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received. The purchase price of a defaulted loan is not an indicator of the expected loss on that loan; many other factors affect expected loss, if any, on loans so purchased. See "—Risk Management—Credit Risk - Loans."

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The following table presents Farmer Mac's purchases of newly originated and current seasoned loans and purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

	For the Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Farmer Mac I newly originated and current seasoned loan purchases	$ 127,709	$ 98,673	$ 110,056
Defaulted loans purchased underlying off-balance sheet Farmer Mac I Guaranteed Securities	1,562	707	2,191
Defaulted loans purchased underlying LTSPCs	1,033	7,449	1,237
Defaulted loans underlying on-balance sheet Farmer Mac I Guaranteed Securities transferred to loans	1,316	1,467	7,483

The purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs are pursuant to Farmer Mac's obligations as guarantor and under its contractual commitments, respectively. Farmer Mac may, in its sole discretion, purchase the defaulted loans underlying Farmer Mac Guaranteed Securities and is obligated to purchase those underlying an LTSPC. With respect to the transfer of loans from on-balance sheet Farmer Mac I Guaranteed Securities to loans, when particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac I Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records all such defaulted loans at their fair values during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Fair values are determined by current collateral valuations or management's estimate of discounted collateral values. Farmer Mac records, at acquisition, the difference between each loan's acquisition cost and its fair value, if any, as a charge-off to the reserve for losses. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs during 2007, 2006 and 2005 was 8 years, 7 years and 6 years, respectively.

For information regarding sellers in the Farmer Mac I and Farmer Mac II programs, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer Mac Programs—Farmer Mac II—United States Department of Agriculture Guaranteed Loan Programs."

Related Party Transactions. In 2007, 2006 and 2005, Farmer Mac conducted business with entities that are related parties as a result of either a member of Farmer Mac's board of directors being affiliated with the entity in some capacity or the entity being the holder of at least 10 percent of a class of voting common stock. These transactions were conducted in the ordinary course of business, with terms and conditions comparable to those available to any other third party. For more information about related party transactions, see Note 3 to the consolidated financial statements.

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Balance Sheet Review

Assets. Total assets as of December 31, 2007 compared to December 31, 2006 were unchanged at $5.0 billion. On-balance sheet program assets (Farmer Mac Guaranteed Securities and loans) decreased $40.8 million during 2007 to a total of $2.1 billion. Farmer Mac's non-program assets increased $64.7 million to $2.9 billion as of December 31, 2007.

The following table presents Farmer Mac's on-balance sheet program assets based on the frequency that their interest rates reset.

Outstanding Balance of Loans Held and Loans Underlying
On-Balance Sheet Farmer Mac Guaranteed Securities

	As of December 31,	
	2007	2006
	(in thousands)	
Fixed rate (10-yr. wtd. avg. term)	$ 962,320	$ 891,429
5- to 10-year ARMs and resets	750,472	761,754
1-Month to 3-Year ARMs	352,250	452,656
Total held in portfolio	$ 2,065,042	$ 2,105,839

Liabilities. Total liabilities increased to $4.8 billion as of December 31, 2007 from $4.7 billion as of December 31, 2006. The increase in liabilities was due primarily to (1) an overall increase in financial derivatives liability due to the decline in fair value resulting from changes in interest rates and (2) an increase in Farmer Mac's guarantee and commitment obligation resulting from an increase in the level of outstanding Farmer Mac Guaranteed Securities and LTSPCs. For more information about Farmer Mac's funding and interest rate risk practices and how financial derivatives are used, see "—Risk Management—Interest Rate Risk." For more information about Farmer Mac's reserve for losses, see "—Risk Management—Credit Risk - Loans."

Capital. As of December 31, 2007, stockholders' equity totaled $223.6 million, compared to $248.5 million as of December 31, 2006. The decrease was primarily due to $8.1 million of after-tax unrealized losses on investment securities and Farmer Mac Guaranteed Securities classified as available-for-sale, the $29.0 million repurchase of Class C non-voting common stock, and the payment of preferred and common stock dividends in the amounts of $2.2 million and $4.1 million, respectively. These reductions to capital were partially offset by $6.7 million of net income earned during 2007 and $7.8 million in capital additions resulting from the exercise of stock options. Farmer Mac's return on average common equity was 2.2 percent for 2007, compared to 14.0 percent for 2006 and 22.9 percent for 2005.

Farmer Mac is required to hold capital at the higher of its statutory minimum capital requirement or the amount required by its risk-based capital stress test. As of December 31, 2007, Farmer Mac's core capital totaled $226.4 million and exceeded its statutory minimum capital requirement of $186.0 million by $40.4 million. As of December 31, 2006, Farmer Mac's core capital totaled $243.5 million and exceeded its statutory minimum capital requirement of $174.5 million by $69.0 million. As of December 31, 2007, Farmer Mac's risk-based capital stress test generated a risk-based capital requirement of $42.8 million. Farmer Mac's regulatory capital of $230.3 million exceeded that amount by approximately $187.5 million. Accumulated other comprehensive (loss)/income is not a component of Farmer Mac's core capital or regulatory capital. For further information, see "—Liquidity and Capital Resources—Capital Requirements."

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Off-Balance Sheet Farmer Mac Guaranteed Securities and LTSPCs. Farmer Mac offers approved agricultural and rural residential mortgage lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through either the Farmer Mac I program or the Farmer Mac II program, and (2) LTSPCs, which are available only through the Farmer Mac I program. Both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business.

As of December 31, 2007 and 2006, outstanding off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs totaled $6.5 billion and $5.2 billion, respectively. The following table presents the balance of outstanding LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities as of December 31, 2007 and 2006:

Outstanding Balance of LTSPCs and
Off-Balance Sheet Farmer Mac Guaranteed Securities

	As of December 31, 2007	As of December 31, 2006
	(in thousands)	
Farmer Mac I Post-1996 Act obligations:		
Farmer Mac I Guaranteed Securities	$ 4,518,300	$ 3,149,895
LTSPCs	1,948,941	1,969,734
Total Farmer Mac I Post-1996 Act obligations	6,467,241	5,119,629
Farmer Mac II Guaranteed Securities	24,815	33,132
Total off-balance sheet Farmer Mac I and II	$ 6,492,056	$ 5,152,761

For more information about off-balance sheet Farmer Mac Guaranteed Securities, see "—Risk Management—Credit Risk - Loans" and Note 12 to the consolidated financial statements.

Risk Management

Interest Rate Risk. Farmer Mac is subject to interest rate risk on all assets held for investment because of possible timing differences in the cash flows of the assets and related liabilities. This risk is primarily related to loans held and on-balance sheet Farmer Mac Guaranteed Securities because of the ability of borrowers to prepay their mortgages before the scheduled maturities, thereby increasing the risk of asset and liability cash flow mismatches. Cash flow mismatches in a changing interest rate environment can reduce the earnings of the Corporation if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments when Farmer Mac's funding costs cannot be correspondingly reduced, or if assets repay more slowly than expected and the associated debt must be replaced by higher-cost debt.

Yield maintenance provisions and other prepayment penalties contained in many agricultural mortgage loans reduce, but do not eliminate, prepayment risk, particularly in the case of a defaulted loan where yield maintenance may not be collected. Those provisions require borrowers to make an additional payment when they prepay their loans so that, when reinvested with the prepaid principal, yield maintenance payments generate substantially the same cash flows that would have been generated had the loan not prepaid. Those provisions create a disincentive to prepayment and compensate the Corporation for some of its interest rate risks. As of December 31, 2007, 43 percent of the total outstanding balance of retained Farmer Mac I loans and Guaranteed Securities had yield maintenance provisions and 6 percent had other forms of prepayment protection (together covering 78 percent of all loans with fixed interest rates). Of the Farmer Mac I new and current loans purchased in 2007, 10 percent had yield maintenance or another form of prepayment protection (including 15 percent of all loans with fixed interest rates). As of December 31, 2007, none of the USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities had yield maintenance provisions; however, 27 percent contained prepayment penalties. Of the USDA-guaranteed portions purchased in 2007, 4 percent contained various forms of prepayment penalties.

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Taking into consideration the prepayment provisions and the default probabilities associated with its mortgage assets, Farmer Mac uses prepayment models to project and value cash flows associated with these assets. Because borrowers' behavior in various interest rate environments may change over time, Farmer Mac periodically evaluates the effectiveness of these models compared to actual prepayment experience and adjusts and refines the models as necessary to improve the precision of subsequent prepayment forecasts.

The goal of interest rate risk management at Farmer Mac is to create and maintain a portfolio that generates stable earnings and value across a variety of interest rate environments. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar durations and cash flows so that they will perform similarly as interest rates change. To achieve this match, Farmer Mac issues discount notes and both callable and non-callable medium-term notes across a spectrum of maturities. Farmer Mac issues callable debt to offset the prepayment risk associated with some mortgage assets. By using a blend of liabilities that includes callable debt, the interest rate sensitivities of the liabilities tend to increase or decrease as interest rates change in a manner similar to changes in the interest rate sensitivities of the assets. Farmer Mac also uses financial derivatives to alter the duration of its assets and liabilities to better match their durations, thereby reducing overall interest rate sensitivity.

Farmer Mac's $101.4 million of cash and cash equivalents as of December 31, 2007 matures within three months and is match-funded with discount notes having similar maturities. As of December 31, 2007, $1.5 billion of the $2.6 billion of investment securities (57.7 percent) were floating rate securities with rates that adjust within one year or fixed rate securities with original maturities between three months and one year. See Note 4 to the consolidated financial statements for more information on investment securities. These investments are funded using:

- a series of discount note issuances in which each successive discount note is issued and matures on or about the corresponding interest rate reset date of the related investment;
- floating-rate notes having similar interest rate reset provisions as the related investment; or
- fixed-rate notes swapped to floating rates having similar interest rate reset provisions as the related investment.

Farmer Mac is also subject to interest rate risk on loans, including loans that Farmer Mac has committed to acquire (other than through LTSPCs) but has not yet purchased. When Farmer Mac commits to purchase such loans, it is exposed to interest rate risk between the time it commits to purchase the loans and the time it either:

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- sells Farmer Mac Guaranteed Securities backed by the loans; or
- issues debt to retain the loans in its portfolio (although issuing debt to fund the loans as investments does not fully eliminate interest rate risk due to the possible timing differences in the cash flows of the assets and related liabilities, as discussed above).

Farmer Mac manages the interest rate risk related to such loans, and any related Farmer Mac Guaranteed Securities or debt issuance, through the use of forward sale contracts on the debt and mortgage-backed securities of other GSEs and futures contracts involving U.S. Treasury securities. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both Treasury rates and spreads on Farmer Mac debt and Farmer Mac I Guaranteed Securities.

Recognizing that interest rate sensitivity may change with the passage of time and as interest rates change, Farmer Mac assesses this exposure on a regular basis and, if necessary, readjusts its portfolio of assets and liabilities by:

- purchasing mortgage assets in the ordinary course of business;
- refunding existing liabilities; or
- using financial derivatives to alter the characteristics of existing assets or liabilities.

An important "stress test" of Farmer Mac's exposure to long-term interest rate risk is the measurement of the sensitivity of its Market Value of Equity ("MVE") to yield curve shocks. MVE represents the present value of all future cash flows from on- and off-balance sheet assets, liabilities and financial derivatives, discounted at current interest rates and spreads. The following schedule summarizes the results of Farmer Mac's MVE sensitivity analysis as of December 31, 2007 and December 31, 2006 to an immediate and instantaneous uniform or "parallel" shift in the yield curve.

Interest Rate Scenario	Percentage Change in MVE from Base Case As of December 31, 2007	2006
+ 300 bp	-10.6%	-7.9%
+ 200 bp	-6.3%	-4.7%
+ 100 bp	-2.5%	-1.9%
- 100 bp	-0.1%	0.0%
- 200 bp	-1.4%	-1.1%
- 300 bp	-3.4%	-2.1%

As measured by this MVE analysis, Farmer Mac's long-term interest rate sensitivity remained at relatively low levels despite the significant change in the yield curve that occurred during the year. As of December 31, 2007, Farmer Mac's effective duration gap, another standard measure of interest rate risk that measures the difference between the sensitivities of assets compared to that of liabilities, was plus 0.7 months, compared to plus 0.7 months as of December 31, 2006. Duration matching helps to maintain the correlation of cash flows and stable portfolio earnings even when interest rates are not stable.

As of December 31, 2007, a uniform or parallel increase of 100 basis points would have increased Farmer Mac's net interest income ("NII"), a shorter-term measure of interest rate risk, by 1.0 percent, while a parallel decrease of 100 basis points would have decreased NII by 2.2 percent. Farmer Mac also measures the sensitivity of both MVE and NII to a variety of non-parallel interest rate shocks, including flattening and steepening yield curve scenarios. As of December 31, 2007, both MVE and NII showed less sensitivity to non-parallel shocks than to the parallel shocks. Farmer Mac believes that the relative insensitivity of its MVE and NII to both parallel and non-parallel interest rate shocks, and its duration gap, indicate that Farmer Mac's approach to managing its interest rate risk exposures is effective.

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The economic effects of financial derivatives, including interest rate swaps, are included in the MVE, NII and duration gap analyses. Farmer Mac generally enters into various interest rate swaps to reduce interest rate risk as follows:

- "floating-to-fixed interest rate swaps" in which it pays fixed rates of interest to, and receives floating rates of interest from, counterparties; these swaps adjust the characteristics of short-term debt to match more closely the cash flow and duration characteristics of longer-term reset and fixed-rate mortgages and other assets and may provide an overall lower effective cost of borrowing than would otherwise be available in the conventional debt market;
- "fixed-to-floating interest rate swaps" in which it receives fixed rates of interest from, and pays floating rates of interest to, counterparties; these swaps adjust the characteristics of long-term debt to match more closely the cash flow and duration characteristics of short-term or floating-rate assets; and
- "basis swaps" in which it pays variable rates of interest based on one index to, and receives variable rates of interest based on another index from, counterparties; these swaps alter interest rate indices of liabilities to match those of assets, and vice versa.

As of December 31, 2007, Farmer Mac had $2.7 billion combined notional amount of interest rate swaps, with terms ranging from one to fifteen years, of which $1.4 billion were floating-to-fixed interest rate swaps, $0.2 billion were basis swaps and $1.1 billion were fixed-to-floating interest rate swaps.

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows or debt issuance, not for trading or speculative purposes. As discussed in Note 6 to the consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. All of Farmer Mac's financial derivative transactions are conducted under standard collateralized agreements that limit Farmer Mac's potential credit exposure to any counterparty. As of December 31, 2007, Farmer Mac had uncollateralized net exposures of $3.3 million to one counterparty.

Credit Risk – Loans. Farmer Mac's primary exposure to credit risk is the risk of loss resulting from the inability of borrowers to repay their mortgages in conjunction with a deficiency in the value of the collateral relative to the amount outstanding on the mortgage and the costs of liquidation. Farmer Mac is exposed to credit risk on:

- loans it holds;
- loans underlying Farmer Mac Guaranteed Securities; and
- loans underlying LTSPCs.

Loans held or loans underlying Farmer Mac Guaranteed Securities or LTSPCs can be divided into four groups:

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- loans held;
- loans underlying pre-1996 Act Farmer Mac I Guaranteed Securities;
- loans underlying post-1996 Act Farmer Mac I Guaranteed Securities or LTSPCs; and
- USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities.

For loans underlying pre-1996 Act Farmer Mac I Guaranteed Securities, ten percent first-loss subordinated interests mitigate Farmer Mac's credit risk exposure. Before Farmer Mac incurs a credit loss, full recourse must first be taken against the subordinated interest. The 1996 Act eliminated the subordinated interest requirement. As a result, Farmer Mac generally assumes 100 percent of the credit risk on loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs. Farmer Mac's credit exposure on USDA-guaranteed portions is covered by the full faith and credit of the United States. Farmer Mac believes it has little or no credit risk exposure to loans underlying pre-1996 Act Farmer Mac I Guaranteed Securities because of the subordinated interests, or to USDA-guaranteed portions because of the USDA guarantee. The outstanding principal balances of loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities are summarized in the following table.

Outstanding Balance of Farmer Mac Loans and Loans Underlying
Farmer Mac Guaranteed Securities and LTSPCs

	As of December 31,		
	2007	2006	2005
		(in thousands)	
Farmer Mac I:			
Post-1996 Act:			
Loans and Guaranteed Securities	$ 5,645,023	$ 4,338,698	$ 2,094,410
LTSPCs	1,948,941	1,969,734	2,329,798
Pre-1996 Act	3,174	5,057	13,046
Farmer Mac II	946,617	925,799	835,732
Total	$ 8,543,755	$ 7,239,288	$ 5,272,986

Farmer Mac conducts guarantee fee adequacy analyses, using stress-test models developed internally and with the assistance of outside experts. These analyses have taken into account the diverse and dissimilar characteristics of the various asset categories for which Farmer Mac manages its risk exposures, and have evolved as the mix and character of assets under management has shifted with growth in the business and the addition of new asset categories. Based on current information, Farmer Mac believes that the guarantee fees charged for various products provide adequate compensation for the credit risk that it assumes.

Farmer Mac has established underwriting, collateral valuation and documentation standards (including interest rate shock tests for adjustable rate mortgages with initial reset periods of five years or less) for agricultural mortgage loans to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting and appraisals to all participating sellers and potential sellers in its programs. These standards were developed on the basis of industry norms for agricultural mortgage loans and are designed to assess the creditworthiness of the borrower, as well as the value of the collateral securing the loan. Farmer Mac requires sellers to make representations and warranties regarding the conformity of eligible mortgage loans to these standards, the accuracy of loan data provided to Farmer Mac and other requirements related to the loans. Sellers are responsible to Farmer Mac for breaches of those representations and warranties that result in economic losses to the Corporation. Pursuant to contracts with Farmer Mac and in consideration for servicing fees, Farmer Mac-approved central servicers service loans in accordance with Farmer Mac requirements. Central servicers are responsible to Farmer Mac for serious errors in the servicing of those mortgage loans. Detailed information regarding Farmer Mac's underwriting and collateral valuation standards and seller eligibility requirements are presented in “Business—Farmer Mac Programs—Farmer Mac I—Underwriting and Collateral Valuation (Appraisal) Standards” and “Business—Farmer Mac Programs—Farmer Mac I—Sellers.”

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Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, in accordance with SFAS 5 and SFAS 114. For accepting the credit risk on loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, Farmer Mac receives guarantee fees and commitment fees, respectively. For loans held, Farmer Mac receives interest income that includes a component that correlates to its guarantee fee, which Farmer Mac views as compensation for assuming credit risk.

Prior to third quarter 2007, no allowance for losses had been made for loans underlying Pre-1996 Act Farmer Mac I Guaranteed Securities, AgVantage securities or Farmer Mac II Guaranteed Securities. Pre-1996 Act Farmer Mac I Guaranteed Securities are supported by unguaranteed first loss subordinated interests, which had been expected to exceed the estimated credit losses on those loans. Through June 30, 2007, Farmer Mac had not experienced any credit losses on any Pre-1996 Act Farmer Mac I Guaranteed Securities. In third quarter 2007, Farmer Mac charged off $0.4 million related to one loan underlying Pre-1996 Act Farmer Mac I Guaranteed Securities. The remaining $3.2 million of Pre-1996 Act Farmer Mac I Guaranteed Securities represent interests in seasoned performing loans with low loan-to-value ratios. Farmer Mac does not expect to incur any further losses on the remaining Pre-1996 Act Farmer Mac I Guaranteed Securities in the future. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of December 31, 2007, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the high credit quality of the obligors, as well as the underlying collateral. As of December 31, 2007, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of December 31, 2007, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

Farmer Mac's allowance for losses is presented in three components on its consolidated balance sheet:

- an "Allowance for loan losses" on loans held;
- a valuation allowance on real estate owned, which is included in the balance sheet under "Real estate owned,"; and
- an allowance for losses on loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, which is included in the balance sheet under "Reserve for losses."

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Farmer Mac's provision for losses is presented in two components on the consolidated statement of operations:

- a "Provision for loan losses," which represents losses on Farmer Mac's loans held; and
- a "Provision for losses," which represents losses on loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs and real estate owned.

Farmer Mac's methodology for determining its allowance for losses incorporates the Corporation's proprietary automated loan classification system. That system scores loans based on criteria such as historical repayment performance, loan seasoning, loan size and LTV ratio. For the purposes of the loss allowance methodology, the loans in Farmer Mac's portfolio of loans and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs have been scored and classified for each calendar quarter since first quarter 2000. The allowance methodology captures the migration of loan scores across concurrent and overlapping three-year time horizons and calculates loss rates separately within each loan classification for (1) loans underlying LTSPCs and (2) loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of Farmer Mac's portfolio to estimate inherent losses, on the assumption that the historical credit losses and trends used to calculate loss rates will continue in the future. Management evaluates this assumption by taking into consideration several factors, including:

- economic conditions;
- geographic and agricultural commodity/product concentrations in the portfolio;
- the credit profile of the portfolio;
- delinquency trends of the portfolio;
- historical charge-off and recovery activities of the portfolio; and
- other factors to capture current portfolio trends and characteristics that differ from historical experience.

Farmer Mac also analyzes impaired assets in its portfolio for impairment under SFAS 114. Farmer Mac's impaired assets include:

- non-performing assets (loans 90 days or more past due, in foreclosure, restructured, in bankruptcy – including loans performing under either their original loan terms or a court-approved bankruptcy plan – and real estate owned);
- loans for which Farmer Mac had adjusted the timing of borrowers' payment schedules, but still expects to collect all amounts due and has not made economic concessions; and
- additional performing loans that have previously been delinquent or are secured by real estate that produces agricultural commodities or products currently under stress.

For loans with an updated appraised value, other updated collateral valuation or management's estimate of discounted collateral value, this analysis includes the measurement of the fair value of the underlying collateral for individual loans relative to the total recorded investment, including principal, interest and advances. In the event that the collateral value does not support the total recorded investment, Farmer Mac specifically allocates an allowance for the loan for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. For the remaining impaired assets without updated valuations, this analysis is performed in the aggregate in consideration of the similar risk characteristics of the assets and historical statistics.

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Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, in accordance with SFAS 5 and SFAS 114.

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses charged to non-interest expense and reduced by charge-offs for actual losses, net of recoveries. Negative provisions for loan losses or negative provisions for losses are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period. The establishment of and periodic adjustments to the valuation allowance for real estate owned are charged against income as a portion of the provision for losses charged to non-interest expense. Gains and losses on the sale of real estate owned are recorded in income based on the difference between the recorded investment at the time of sale and liquidation proceeds.

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The following table summarizes the changes in the components of Farmer Mac's allowance for losses for each year in the five-year period ended December 31, 2007:

	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	(in thousands)			
Balance as of January 1, 2003	$ 2,662	$ 592	$ 16,757	$ 20,011
Provision/(recovery) for losses	6,524	1,230	(469)	7,285
Charge-offs	(3,220)	(1,814)	(440)	(5,474)
Recoveries	1	230	-	231
Balance as of December 31, 2003	$ 5,967	$ 238	$ 15,848	$ 22,053
Provision/(recovery) for losses	1,589	1,137	(3,138)	(412)
Charge-offs	(3,326)	(1,375)	(4)	(4,705)
Recoveries	165	-	-	165
Balance as of December 31, 2004	$ 4,395	$ -	$ 12,706	$ 17,101
Provision/(recovery) for losses	(3,335)	206	(859)	(3,988)
Charge-offs	(105)	(206)	-	(311)
Recoveries	640	-	-	640
Change in accounting estimate	3,281	-	(8,070)	(4,789)
Balance as of December 31, 2005	$ 4,876	$ -	$ 3,777	$ 8,653
Provision/(recovery) for losses	(2,396)	155	(1,167)	(3,408)
Charge-offs	(900)	(155)	-	(1,055)
Recoveries	365	-	-	365
Balance as of December 31, 2006	$ 1,945	$ -	$ 2,610	$ 4,555
Provision/(recovery) for losses	(215)	100	(27)	(142)
Charge-offs	(60)	(100)	(386)	(546)
Recoveries	20	-	-	20
Balance as of December 31, 2007	$ 1,690	$ -	$ 2,197	$ 3,887

Farmer Mac released $0.1 million from the allowance for losses during 2007, compared to a release of $3.4 million in 2006. During 2007, Farmer Mac charged off $0.5 million in losses against the allowance for losses and had $20,000 in recoveries. During 2006, Farmer Mac charged off $1.0 million in losses against the allowance for losses and had $0.4 million in recoveries. The charge-offs for 2007 and 2006 did not include any amounts related to previously accrued or advanced interest on loans or Farmer Mac I Guaranteed Securities.

As of December 31, 2007, Farmer Mac's allowance for losses totaled $3.9 million, or 8 basis points of the outstanding principal balance of loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs, compared to $4.6 million (10 basis points) as of December 31, 2006. The year-to-year decrease in this ratio is a result of the overall improved credit quality of the Farmer Mac portfolio and the strong U.S. agricultural economy.

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The credit issues that have arisen in the housing and consumer sectors of the economy have not, to date, affected the agricultural economy in general or Farmer Mac's guarantee portfolio in particular, as demonstrated by the continued historically low levels of 90-day delinquencies and non-performing assets. As of December 31, 2007, Farmer Mac's 90-day delinquencies totaled $10.6 million and represented 0.21 percent of the principal balance of all loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs, compared to $19.7 million (0.41 percent) as of December 31, 2006. From quarter to quarter, Farmer Mac anticipates that 90-day delinquencies and non-performing assets will fluctuate, both in dollars and as a percentage of the outstanding portfolio, with higher levels likely at the end of the first and third quarters of each year corresponding to the semi-annual (January 1st and July 1st) payment characteristics of most Farmer Mac I loans. As of December 31, 2007, loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs that were 90 days or more past due, in foreclosure, restructured after delinquency, in bankruptcy (including loans performing under either their original loan terms or a court-approved bankruptcy plan) and real estate owned ("post-1996 Act non-performing assets") totaled $31.9 million and represented 0.63 percent of the principal balance of all loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, compared to $39.2 million (0.82 percent) as of December 31, 2006. Loans that have been restructured after delinquency were insignificant and are included within the reported 90-day delinquency and non-performing asset disclosures.

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The following table presents historical information regarding Farmer Mac's non-performing assets and 90-day delinquencies:

	Outstanding Post-1996 Act Loans, Guarantees (1), LTSPCs, and REO	Non-performing Assets	Percentage	Less: REO and Performing Bankruptcies	90-day Delinquencies	Percentage
	(dollars in thousands)					
As of:						
December 31, 2007	$ 5,063,164	$ 31,924	0.63%	$ 21,340	$ 10,584	0.21%
September 30, 2007	4,891,525	37,364	0.76%	20,341	17,023	0.35%
June 30, 2007	4,904,592	37,225	0.76%	22,462	14,763	0.30%
March 31, 2007	4,905,244	50,026	1.02%	21,685	28,341	0.58%
December 31, 2006	4,784,983	39,232	0.82%	19,577	19,655	0.41%
September 30, 2006	4,621,083	44,862	0.97%	16,425	28,437	0.62%
June 30, 2006	4,633,841	40,083	0.87%	19,075	21,008	0.46%
March 31, 2006	4,224,669	49,475	1.17%	20,713	28,762	0.68%
December 31, 2005	4,399,189	48,764	1.11%	23,303	25,461	0.58%
September 30, 2005	4,273,268	64,186	1.50%	23,602	40,584	0.95%
June 30, 2005	4,360,670	60,696	1.39%	23,925	36,771	0.85%
March 31, 2005	4,433,087	70,349	1.59%	24,561	45,788	1.04%
December 31,						