FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
August 09, 2012
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As filed with the Securities and Exchange Commission on August 9, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012
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	52-1578738
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1999 K Street, N.W., 4th Floor, Washington, D.C.	20006
(Address of principal executive offices)	(Zip code)

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

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of August 1, 2012, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,960,906 shares of Class C non-voting common stock.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2012	December 31, 2011
	(in thousands)	
Assets:		
Cash and cash equivalents	$752,502	$817,046
Investment securities:		
Available-for-sale, at fair value	2,495,021	2,182,694
Trading, at fair value	1,430	1,796
Total investment securities	2,496,451	2,184,490
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	4,444,467	4,289,272
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,418,638	1,279,546
Trading, at fair value	146,825	212,359
Total USDA Guaranteed Securities	1,565,463	1,491,905
Loans:		
Loans held for sale, at lower of cost or fair value	612,795	541,447
Loans held for investment, at amortized cost	1,341,250	1,241,311
Loans held for investment in consolidated trusts, at amortized cost	596,218	1,121,559
Allowance for loan losses	(9,361)	(10,161)
Total loans, net of allowance	2,540,902	2,894,156
Real estate owned, at lower of cost or fair value	2,460	3,136
Financial derivatives, at fair value	36,894	40,250
Interest receivable (includes $10,726 and $15,578, respectively, related to consolidated trusts)	96,049	110,339
Guarantee and commitment fees receivable	38,122	31,384
Prepaid expenses and other assets	77,104	21,530
Total Assets	$12,050,414	$11,883,508
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$6,482,817	$6,087,879
Due after one year	4,519,192	4,104,882
Total notes payable	11,002,009	10,192,761
Debt securities of consolidated trusts held by third parties	184,499	701,583
Financial derivatives, at fair value	162,591	160,024
Accrued interest payable (includes $3,154 and $7,659, respectively, related to consolidated trusts)	54,997	60,854
Guarantee and commitment obligation	34,051	27,440
Accounts payable and accrued expenses	18,533	178,708
Deferred tax liability, net	2,927	250

Reserve for losses	8,779	7,355
Total Liabilities	11,468,386	11,328,975
Commitments and Contingencies (Note 6)		
Equity:		
Preferred stock:		
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	57,578	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 8,952,428 shares and 8,825,794 shares outstanding, respectively	8,952	8,826
Additional paid-in capital	104,019	102,821
Accumulated other comprehensive income, net of tax, related to available-for-sale securities	89,713	79,370
Retained earnings	78,382	62,554
Total Stockholders' Equity	340,175	312,680
Non-controlling interest - preferred stock	241,853	241,853
Total Equity	582,028	554,533
Total Liabilities and Equity	$12,050,414	$11,883,508

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	$6,024	$7,033	$12,256	$14,220
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	37,523	29,358	75,269	57,133
Loans	28,031	30,461	57,184	59,571
Total interest income	71,578	66,852	144,709	130,924
Total interest expense	36,961	37,640	75,884	74,693
Net interest income	34,617	29,212	68,825	56,231
Release of/(provision for) loan losses	1,220	(160)	800	(1,441)
Net interest income after release of/(provision for) loan losses	35,837	29,052	69,625	54,790
Non-interest (loss)/income:				
Guarantee and commitment fees	6,064	6,320	11,994	12,707
Losses on financial derivatives	(31,292)	(17,806)	(24,892)	(13,801)
(Losses)/gains on trading assets	(3,086)	1,968	(1,987)	3,279
Gains on sale of available-for-sale investment securities	—	38	28	195
Gains on sale of real estate owned	262	627	262	724
Lower of cost or fair value adjustment on loans held for sale	—	(156)	—	(964)
Other income	771	1,124	1,492	5,022
Non-interest (loss)/income	(27,281)	(7,885)	(13,103)	7,162
Non-interest expense:				
Compensation and employee benefits	4,574	4,666	9,059	9,163
General and administrative	2,664	2,656	5,422	4,912
Regulatory fees	562	573	1,125	1,164
Real estate owned operating costs, net	15	231	21	599
Provision for/(release of) losses	1,394	(935)	1,424	(2,869)
Other expense	—	—	—	900
Non-interest expense	9,209	7,191	17,051	13,869
(Loss)/income before income taxes	(653)	13,976	39,471	48,083
Income tax (benefit)/expense	(2,629)	2,539	9,025	12,056
Net income	1,976	11,437	30,446	36,027
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,547)	(5,547)	(11,094)	(11,094)
Net (loss)/income attributable to Farmer Mac	(3,571)	5,890	19,352	24,933
Preferred stock dividends	(720)	(720)	(1,440)	(1,440)
Net (loss)/income attributable to common stockholders	$(4,291)	$5,170	$17,912	$23,493
(Loss)/earnings per common share and dividends:				
Basic (loss)/earnings per common share	$(0.41)	$0.50	$1.72	$2.28
Diluted (loss)/earnings per common share	$(0.41)	$0.48	$1.63	$2.20
Common stock dividends per common share	$0.10	$0.05	$0.20	$0.10

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(in thousands)			
Net income	$1,976	$11,437	$30,446	$36,027
Other comprehensive income, net of tax:				
Unrealized holding gains on securities (1)	10,827	27,466	10,863	20,911
Less: Reclassification adjustment for gains included in net income (2)	(237)	(645)	(520)	(2,750)
Other comprehensive income	10,590	26,821	10,343	18,161
Comprehensive income	12,566	38,258	40,789	54,188
Less: Comprehensive income attributable to noncontrolling interest - preferred stock dividends	(5,547)	(5,547)	(11,094)	(11,094)
Comprehensive income attributable to Farmer Mac	$7,019	$32,711	$29,695	$43,094

(1) Presented net of income tax expense of $5.8 million and $14.8 million for the three months ended June 30, 2012 and 2011, respectively, and income tax expense of $5.8 million and $11.3 million for the six months ended June 30, 2012 and 2011, respectively.

(2) Presented net of income tax benefit of $0.1 million and $0.3 million for the three months ended June 30, 2012 and 2011, respectively, and income tax benefit of $0.3 million and $1.5 million for the six months ended June 30, 2012 and 2011, respectively.

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)

	For the Six Months Ended			
	June 30, 2012		June 30, 2011	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	58	$57,578	58	$57,578
Issuance of Series C preferred stock	—	—	—	—
Balance, end of period	58	$57,578	58	$57,578
Common stock:				
Balance, beginning of period	10,357	$10,357	10,284	$10,284
Issuance of Class C common stock	43	43	58	58
Exercise of stock options and SARs	83	83	2	2
Balance, end of period	10,483	$10,483	10,344	$10,344
Additional paid-in capital:				
Balance, beginning of period		$102,821		$100,050
Stock-based compensation expense		1,800		1,490
Issuance of Class C common stock		7		15
Tax effect of stock-based awards		(609)		(458)
Balance, end of period		$104,019		$101,097
Retained earnings:				
Balance, beginning of period		$62,554		$50,837
Net income attributable to Farmer Mac		19,352		24,933
Cash dividends:				
Preferred stock, Series C ($25.00 per share)		(1,440)		(1,440)
Common stock ($0.20 per share and $0.10 per share, respectively)		(2,084)		(1,031)
Balance, end of period		$78,382		$73,299
Accumulated other comprehensive income:				
Balance, beginning of period		$79,370		$18,275
Other comprehensive income, net of tax		10,343		18,161
Balance, end of period		$89,713		$36,436
Total Stockholders' Equity		$340,175		$278,754
Non-controlling interest - preferred stock:				
Balance, beginning of period		$241,853		$241,853
Issuance of Preferred stock - Farmer Mac II LLC		—		—
Balance, end of period		$241,853		$241,853
Total Equity		$582,028		$520,607

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended	
	June 30, 2012	June 30, 2011
	(in thousands)	
Cash flows from operating activities:		
Net income	$30,446	$36,027
Adjustments to reconcile net income to net cash used in operating activities:		
Net amortization of deferred gains, premiums and discounts on loans, investments, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	6,998	5,329
Amortization of debt premiums, discounts and issuance costs	6,934	5,765
Net change in fair value of trading securities, financial derivatives and loans held for sale	7,911	(10,299)
Gains on the sale of available-for-sale investment securities	(28)	(195)
Gains on the sale of real estate owned	(262)	(724)
Total provision for/(release of) losses	624	(1,428)
Deferred income taxes	(3,657)	393
Stock-based compensation expense	1,800	1,490
Proceeds from repayment and sale of trading investment securities	527	550
Purchases of loans held for sale	(86,963)	(119,410)
Proceeds from repayment of loans purchased as held for sale	78,156	51,012
Net change in:		
Interest receivable	14,290	1,434
Guarantee and commitment fees receivable	(6,738)	2,928
Other assets	(54,632)	12,650
Accrued interest payable	(5,857)	(979)
Other liabilities	4,409	(3,976)
Net cash used in operating activities	(6,042)	(19,433)
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(1,058,206)	(990,568)
Purchases of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(667,338)	(1,016,815)
Purchases of loans held for investment	(251,583)	(329,782)
Purchases of defaulted loans	(3,857)	(18,345)
Proceeds from repayment of available-for-sale investment securities	581,672	511,562
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	437,375	647,701
Proceeds from repayment of loans purchased as held for investment	159,666	181,792
Proceeds from sale of available-for-sale investment securities	5,028	153,609
Proceeds from sale of Farmer Mac Guaranteed Securities	17,628	10,734
Proceeds from sale of real estate owned	938	1,279
Net cash used in investing activities	(778,677)	(848,833)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	34,231,830	34,663,582
Proceeds from issuance of medium-term notes	1,315,854	991,849
Payments to redeem discount notes	(34,013,370)	(34,114,562)
Payments to redeem medium-term notes	(732,000)	(540,000)
Excess tax benefits related to stock-based awards	856	144

Payments to third parties on debt securities of consolidated trusts	(69,124)	(80,783)
Proceeds from common stock issuance	27	16
Dividends paid - Non-controlling interest - preferred stock	(11,094)	(11,094)
Dividends paid on common and preferred stock	(2,804)	(2,471)
Net cash provided by financing activities	720,175	906,681
Net (decrease)/increase in cash and cash equivalents	(64,544)	38,415
Cash and cash equivalents at beginning of period	817,046	729,920
Cash and cash equivalents at end of period	$752,502	$768,335

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") and subsidiaries have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2011 consolidated balance sheet presented in this report has been derived from the Corporation's audited 2011 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2011 consolidated financial statements of Farmer Mac and subsidiaries included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Below is a summary of Farmer Mac's significant accounting policies.

Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its two subsidiaries: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities and to act as a registrant under registration statements filed with the Securities and Exchange Commission, and (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the Farmer Mac II program – primarily the acquisition of USDA-guaranteed portions. The consolidated financial statements also include the accounts of variable interest entities ("VIEs") in which Farmer Mac determined itself to be the primary beneficiary. See Note 1(f) for more information on consolidated VIEs.

A Farmer Mac guarantee of timely payment of principal and interest is an explicit element of the terms of all Farmer Mac Guaranteed Securities. When Farmer Mac retains such securities in its portfolio, that guarantee is not extinguished. For Farmer Mac Guaranteed Securities in the Corporation's portfolio, Farmer Mac has entered into guarantee arrangements with FMMSC. The guarantee fee rate established between Farmer Mac and FMMSC is an element in determining the fair value of these Farmer Mac Guaranteed Securities, and guarantee fees related to these securities are reflected in guarantee and commitment fees in the consolidated statements of operations. These guarantee fees totaled $2.5 million and $5.1 million for the three and six months ended June 30, 2012, respectively, compared to $2.0 million and $4.1 million for the same periods in 2011. The corresponding expense of FMMSC has been eliminated against interest income in consolidation. All other inter-company balances and transactions have been eliminated in consolidation.

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(a) Cash and Cash Equivalents and Statements of Cash Flows

Farmer Mac considers highly liquid investment securities with maturities at the time of purchase of three months or less to be cash equivalents. The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value. Changes in the balance of cash and cash equivalents are reported in the consolidated statements of cash flows.

The following table sets forth information regarding certain cash and non-cash transactions for the six months ended June 30, 2012 and 2011:

	For the Six Months Ended	
	June 30, 2012	June 30, 2011
	(in thousands)	
Cash paid during the period for:		
Interest	$55,131	$49,261
Income taxes	13,500	11,500
Non-cash activity:		
Real estate owned acquired through loan liquidation	—	2,639
Loans acquired and securitized as Farmer Mac Guaranteed Securities	12,301	8,729
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts and to debt securities of consolidated trusts held by third parties	12,301	8,729
Deconsolidation of loans held for investment in consolidated trusts and debt securities of consolidated trusts held by third parties - transferred to off- balance sheet Farmer Mac I Guaranteed Securities	460,261	—
Transfers of loans held for sale to loans held for investment	—	878,798

During second quarter 2012, Farmer Mac deconsolidated $460.3 million of Farmer Mac I Guaranteed Securities owned by Farm Credit West ("FCW") from loans held for investment in consolidated trusts and debt securities of consolidated trusts held by third parties to off-balance sheet Farmer Mac I Guaranteed Securities because FCW was no longer a related party as of June 30, 2012.

Effective January 1, 2011, Farmer Mac transferred $878.8 million of loans in the Farmer Mac I program from held for sale to held for investment because Farmer Mac no longer has the intent to securitize or sell these loans in the foreseeable future. Farmer Mac transferred these loans at their cost, which was lower than the estimated fair value at the time of transfer. At the time of purchase, loans are classified as either held for sale or held for investment depending upon management's intent and ability to hold the loans for the foreseeable future. Cash receipts from the repayment of loans are classified within the statements of cash flows based on management's intent upon purchase of the loan, as prescribed by accounting guidance related to the statement of cash flows.

(b) Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses incurred as of the balance sheet date on loans held ("allowance for loan losses") and loans underlying LTSPCs and Farmer Mac Guaranteed Securities ("reserve for losses") based on available information. Farmer Mac's methodology for determining the allowance for losses separately considers its portfolio segments – Farmer Mac I, Farmer Mac II, and Rural Utilities, and disaggregates its analysis, where relevant, into classes of financing receivables, which currently include loans and AgVantage securities. Further disaggregation by commodity type is performed, where appropriate, in analyzing the need for an allowance for losses.

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The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses that are charged to non-interest expense, and is reduced by charge-offs for actual losses, net of recoveries. Negative provisions, or a release of allowance for losses, generally 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 total allowance for losses consists of a general allowance for losses and a specific allowance for impaired loans.

General Allowance for Losses

Farmer Mac I

Farmer Mac's methodology for determining its allowance for losses incorporates the Corporation's automated loan classification system. That system scores loans based on criteria such as historical repayment performance, indicators of current financial condition, loan seasoning, loan size and loan-to-value ratio. For purposes of the loss allowance methodology, the loans in Farmer Mac's portfolio of loans and loans underlying 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 Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of unimpaired loans in 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.

Management believes that its use of this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans held in the Farmer Mac I portfolio and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs. There were no purchases or sales during the first half of 2012 that materially affected the credit profile of the Farmer Mac I portfolio.

Farmer Mac has not provided an allowance for losses for loans underlying Farmer Mac I AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization required for Farmer Mac I AgVantage securities. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. AgVantage® is a registered trademark of Farmer Mac.

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Farmer Mac II

No allowance for losses has been provided for USDA Guaranteed Securities or Farmer Mac II Guaranteed Securities. The USDA-guaranteed portions presented as "USDA Guaranteed Securities" on the consolidated balance sheets, as well as those that collateralize 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. Farmer Mac excludes these guaranteed portions from the credit risk metrics it discloses because of the USDA guarantee.

Rural Utilities

Farmer Mac separately evaluates the rural utilities loans it owns, as well as the lender obligations and loans underlying or securing its Farmer Mac Guaranteed Securities – Rural Utilities, including AgVantage securities, to determine if there are any probable losses inherent in those assets. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. No allowance for losses has been provided for this portfolio segment based on the credit quality of the collateral supporting rural utilities assets and Farmer Mac's counterparty risk analysis. As of June 30, 2012, there were no delinquencies and no probable losses inherent in Farmer Mac's rural utilities loans held or in any Farmer Mac Guaranteed Securities – Rural Utilities.

Specific Allowance for Impaired Loans

Farmer Mac also analyzes certain loans in its portfolio for impairment in accordance with accounting guidance on measuring individual impairment of a loan. Farmer Mac's impaired loans generally include loans 90 days or more past due, in foreclosure, restructured, in bankruptcy and certain 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 and net of any charge-offs. In the event that the collateral value does not support the total recorded investment, Farmer Mac specifically provides an allowance for the loan for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. Estimated selling costs are based on historical selling costs incurred by Farmer Mac or management's best estimate of selling costs for a particular property. 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.

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a troubled debt restructuring ("TDR"). Farmer Mac has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including interest accrued at the original contract rate. In making its determination of whether a borrower is experiencing financial difficulties, Farmer Mac considers several factors, including whether (1) the borrower has declared or is in the process of declaring bankruptcy, (2) there is substantial doubt as to whether the borrower will continue to be a going concern, and (3) the borrower can obtain funds from other sources at an effective interest rate at or near a current market interest rate for debt with similar risk

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characteristics. Farmer Mac evaluates TDRs similarly to other impaired loans for purposes of the allowance for losses. For the three and six months ended June 30, 2012, the recorded investment of loans determined to be TDRs was $0.1 million and $1.1 million, respectively, before restructuring and $0.1 million and $1.3 million, respectively, after restructuring. As of June 30, 2012, there was one TDR identified during the previous 12 months that was in default, under the modified terms, with a recorded investment of $0.1 million. The impact of TDRs on Farmer Mac's allowance for loan losses for both the three and six months ended June 30, 2012 was a partial release of $0.2 million. See Note 5 for more information related to the allowance for losses.

(c) Financial Derivatives

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. Farmer Mac enters into interest rate swap contracts principally to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans 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 often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac is required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

Financial derivatives are recorded on the consolidated balance sheets at fair value as a freestanding asset or liability. Through second quarter 2012, Farmer Mac did not designate its financial derivatives as fair value hedges or cash flow hedges; therefore, the changes in the fair values of financial derivatives were reported as gains or losses on financial derivatives in the consolidated statements of operations. Effective July 1, 2012, Farmer Mac designated $950.0 million notional amount of interest rate swaps in fair value hedge relationships. These interest rate swaps are used to hedge against the risk of changes in fair values of certain fixed rate AgVantage securities due to changes in the benchmark interest rate (i.e., LIBOR). Beginning in third quarter 2012, Farmer Mac will record in earnings offsetting fair value adjustments on the hedged items attributable to the risk being hedged. Any differences arising from fair value changes that are not offset will result in hedge ineffectiveness and affect GAAP earnings.

In accordance with applicable fair value measurement guidance, Farmer Mac made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio, consistent with how the Corporation previously has been measuring credit risk for these instruments. See Notes 4 and 8 for more information on financial derivatives.

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(d) Loss/Earnings Per Common Share

Basic loss/earnings per common share ("EPS") is based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share is based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights ("SARs") and non-vested restricted stock awards. The following schedules reconcile basic and diluted EPS for the three and six months ended June 30, 2012 and 2011:

	For the Three Months Ended					
	June 30, 2012			June 30, 2011		
	Net Loss	Weighted-average Shares	$ per Share	Net Income	Weighted-average Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net (loss)/income attributable to common stockholders	$(4,291)	10,468	$(0.41)	$5,170	10,343	$0.50
Effect of dilutive securities(1):						
Stock options, SARs and restricted stock		—	—		376	(0.02)
Diluted EPS	$(4,291)	10,468	$(0.41)	$5,170	10,719	$0.48

(1) For the three months ended June 30, 2012 and 2011, stock options and SARs of 1,270,777 and 652,234, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive. For the three months ended June 30, 2012 and 2011, contingent shares of non-vested restricted stock of 146,311 and 170,760, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions were not met.

	For the Six Months Ended					
	June 30, 2012			June 30, 2011		
	Net Income	Weighted-average Shares	$ per Share	Net Income	Weighted-average Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	$17,912	10,417	$1.72	$23,493	10,314	$2.28
Effect of dilutive securities(1):						
Stock options, SARs and restricted stock		545	(0.09)		378	(0.08)
Diluted EPS	$17,912	10,962	$1.63	$23,493	10,692	$2.20

(1) For the six months ended June 30, 2012 and 2011, stock options and SARs of 469,577 and 705,515, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive. For the six months ended June 30, 2012 and 2011, contingent shares of non-vested restricted stock of 92,800 and 148,380, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions were not met.

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(e) Fair Value Measurement

Farmer Mac follows accounting guidance for fair value measurements that defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy that ranks the quality and reliability of the inputs to valuation techniques used to measure fair value. The hierarchy gives highest rank to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest rank to unobservable inputs (level 3 measurements).

Farmer Mac's assessment of the significance of the input to the fair value measurement requires judgment and considers factors specific to the financial instrument. Both observable and unobservable inputs may be used to determine the fair value of financial instruments that Farmer Mac has classified within the level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in projected prepayment rates) inputs. See Note 8 for more information regarding fair value measurement.

(f) Consolidation of Variable Interest Entities

Farmer Mac has interests in various entities that are considered to be VIEs. These interests include investments in securities issued by VIEs, such as Farmer Mac agricultural mortgage-backed securities created pursuant to Farmer Mac's securitization transactions and mortgage and asset-backed trusts that Farmer Mac did not create. The consolidation model uses a qualitative evaluation that requires consolidation of an entity when the reporting enterprise both (1) has the power to direct matters which significantly impact the activities and success of the entity, and (2) has exposure to benefits and/or losses that could potentially be significant to the entity. The reporting enterprise that meets both these conditions is deemed the primary beneficiary of the VIE.

The VIEs in which Farmer Mac has a variable interest are limited to securitization trusts. The major judgment in determining if Farmer Mac is the primary beneficiary is whether Farmer Mac has the power to direct the activities of the trust that potentially have the most significant impact on the economic performance of the trust. Generally, the ability to make decisions regarding default mitigation is evidence of that power. Farmer Mac determined that it is the primary beneficiary for the securitization trusts related to most Farmer Mac I and all Rural Utilities securitization transactions because of its rights as guarantor under both programs to control the default mitigation activities of the trusts. For certain securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities, Farmer Mac determined that it is not the primary beneficiary since the power to make decisions regarding default mitigation was shared among unrelated parties. For similar securitization transactions where the power to make decisions regarding default mitigation is shared with a related party, Farmer Mac determined that it is the primary beneficiary because the applicable accounting guidance does not permit parties within a related party group to conclude that the power is shared. In the event that a related party status changes, consolidation or deconsolidation of these securitization trusts could occur.

For those trusts that Farmer Mac is the primary beneficiary, the assets and liabilities are presented on the consolidated balance sheets as "Loans held for investment in consolidated trusts" and "Debt securities of consolidated trusts held by third parties," respectively. These assets can only be used to satisfy the obligations of the related trust.

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For those trusts where Farmer Mac has a variable interest but has not been determined to be the primary beneficiary, Farmer Mac's interests are presented as either "Farmer Mac Guaranteed Securities" or "Investment securities" on the consolidated balance sheets. Farmer Mac's involvement in VIEs classified as Farmer Mac Guaranteed Securities include securitization trusts under the Farmer Mac II program and trusts related to AgVantage securities. In the case of Farmer Mac II trusts, Farmer Mac is not determined to be the primary beneficiary because it does not have the decision-making power over default mitigation activities. For the AgVantage trusts, Farmer Mac currently does not have the power to direct the activities that have the most significant economic impact to the trust unless, as guarantor, there is a default by the issuer of the trust securities. Should there be a default, Farmer Mac would reassess whether it is the primary beneficiary of those trusts. For VIEs classified as investment securities, which include auction-rate certificates, asset-backed securities and government-sponsored enterprise ("GSE")-guaranteed mortgage-backed securities, Farmer Mac is determined not to be the primary beneficiary because of the lack of voting rights or other powers to direct the activities of the trust. As of June 30, 2012, the Farmer Mac Guaranteed Securities trusts and investment securities trusts have carrying amounts on the consolidated balance sheets totaling $61.2 million and $1.0 billion, respectively, and Farmer Mac's maximum exposure to loss, based on principal outstanding, was $59.3 million and $1.0 billion, respectively. As of December 31, 2011, the Farmer Mac Guaranteed Securities trusts and investment securities trusts had carrying amounts on the consolidated balance sheets totaling $66.6 million and $1.0 billion, respectively, and Farmer Mac's maximum exposure to loss was $65.4 million and $1.0 billion, respectively. In addition, Farmer Mac had a variable interest in unconsolidated VIEs, which include a guarantee of timely payment of principal and interest, totaling $2.0 billion and $1.6 billion, respectively, as of June 30, 2012 and December 31, 2011.

(g) New Accounting Standards

Offsetting Assets and Liabilities

On December 16, 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which creates new disclosure requirements designed to make financial statements prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards. The new guidance requires entities to disclose net and gross information for certain derivative instruments and financial instruments and information about the impact of collateral on offsetting arrangements and other amounts subject to a master netting agreement that are not offset on the balance sheet. ASU 2011-11 is effective in first quarter 2013. Farmer Mac does not expect the adoption of the new guidance to have a material effect on its financial position, results or operations or cash flows.

(h) Reclassifications

Certain reclassifications of prior period information were made to conform to the current period presentation.

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2. INVESTMENT SECURITIES

The following tables present the amortized cost and fair values of Farmer Mac's investment securities as of June 30, 2012 and December 31, 2011:

	June 30, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$74,100	$—	$(14,393)	$59,707
Floating rate asset-backed securities	173,101	265	(67)	173,299
Floating rate corporate debt securities	86,293	360	(26)	86,627
Fixed rate corporate debt securities	57,723	64	(30)	57,757
Floating rate Government/GSE guaranteed mortgage-backed securities	755,343	7,212	(188)	762,367
Fixed rate GSE guaranteed mortgage-backed securities	2,483	203	—	2,686
Floating rate GSE subordinated debt	70,000	—	(14,161)	55,839
Fixed rate GSE preferred stock	79,478	7,314	—	86,792
Floating rate senior agency debt	25,000	66	—	25,066
Fixed rate senior agency debt	178,853	122	—	178,975
Fixed rate U.S. Treasuries	1,005,995	33	(122)	1,005,906
Total available-for-sale	2,508,369	15,639	(28,987)	2,495,021
Trading:				
Floating rate asset-backed securities	4,611	—	(3,181)	1,430
Total investment securities	$2,512,980	$15,639	$(32,168)	$2,496,451

	December 31, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$74,100	$—	$(13,887)	$60,213
Floating rate asset-backed securities	178,443	219	(102)	178,560
Floating rate corporate debt securities	74,152	69	(388)	73,833
Fixed rate corporate debt securities	38,678	27	(6)	38,699
Floating rate Government/GSE guaranteed mortgage-backed securities	759,567	4,852	(381)	764,038
Fixed rate GSE guaranteed mortgage-backed securities	3,106	254	—	3,360
Floating rate GSE subordinated debt	70,000	—	(17,438)	52,562
Fixed rate commercial paper	9,999	1	—	10,000
Fixed rate GSE preferred stock	79,662	5,216	—	84,878
Floating rate senior agency debt	38,000	32	—	38,032
Fixed rate senior agency debt	79,255	19	(21)	79,253
Fixed rate U.S. Treasuries	798,966	304	(4)	799,266
Total available-for-sale	2,203,928	10,993	(32,227)	2,182,694
Trading:				

Floating rate asset-backed securities	5,138	—	(3,342)	1,796
Total investment securities	$2,209,066	$10,993	$(35,569)	$2,184,490

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During the three months ended June 30, 2012, Farmer Mac did not sell any securities from its available-for-sale investment portfolio, compared to the same period in 2011, when Farmer Mac received proceeds of $75.1 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $38,000. During the six months ended June 30, 2012, Farmer Mac received proceeds of $5.0 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $28,000, compared to proceeds of $153.6 million, for the same period in 2011, resulting in gross realized gains of $0.2 million.

As of June 30, 2012 and December 31, 2011, unrealized losses on available-for-sale investment securities were as follows:

	June 30, 2012 Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$59,707	$(14,393)
Floating rate asset-backed securities	24,304	(51)	5,910	(16)
Floating rate corporate debt securities	16,975	(26)	—	—
Fixed rate corporate debt securities	25,287	(30)	—	—
Floating rate Government/GSE guaranteed mortgage-backed securities	91,149	(177)	846	(11)
Floating rate GSE subordinated debt	—	—	55,839	(14,161)
Fixed rate U.S. Treasuries	721,627	(122)	—	—
Total	$879,342	$(406)	$122,302	$(28,581)

	December 31, 2011 Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$60,213	$(13,887)
Floating rate asset-backed securities	63,496	(102)	—	—
Floating rate corporate debt securities	41,061	(388)	—	—
Fixed rate corporate debt securities	18,189	(6)	—	—
Floating rate Government/GSE guaranteed mortgage-backed securities	235,454	(359)	17,409	(22)
Floating rate GSE subordinated debt	—	—	52,562	(17,438)
Fixed rate senior agency debt	44,976	(21)	—	—
Fixed rate U.S. Treasuries	50,160	(4)	—	—
Total	$453,336	$(880)	$130,184	$(31,347)

The unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to June 30, 2012 and December 31, 2011, as applicable. The resulting decreases in fair values reflect an increase in the perceived risk by the financial markets related to those securities. As of June 30, 2012, all of the investment securities in an unrealized loss position had credit ratings of at least

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"A" except one that was rated "BBB+". As of December 31, 2011, all of the investment securities in an unrealized loss position had credit ratings of at least "A" except one that was rated "A- " and one that was rated "BBB+". The unrealized losses were on 36 and 44 individual investment securities, respectively, as of June 30, 2012 and December 31, 2011.

As of June 30, 2012, 9 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $28.6 million. As of December 31, 2011, 10 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $31.3 million. The unrealized losses on those securities are principally due to a general widening of credit spreads from the dates of acquisition. Securities in unrealized loss positions 12 months or more have a fair value as of June 30, 2012 that is, on average, approximately 81.1 percent of their amortized cost basis. Farmer Mac believes that all of these unrealized losses are recoverable within a reasonable period of time by way of changes in credit spreads or maturity. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities represent other-than-temporary impairment as of June 30, 2012 and December 31, 2011. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

Farmer Mac did not own any held-to-maturity investment securities as of June 30, 2012 and December 31, 2011. As of June 30, 2012, Farmer Mac owned trading investment securities with an amortized cost of $4.6 million, a fair value of $1.4 million and a weighted average yield of 4.33 percent. As of December 31, 2011, Farmer Mac owned trading investment securities with an amortized cost of $5.1 million, a fair value of $1.8 million and a weighted average yield of 4.36 percent.

The amortized cost, fair value and weighted average yield of available-for-sale investment securities by remaining contractual maturity as of June 30, 2012 are set forth below. Asset-backed and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets or mortgages.

	Investment Securities Available-for-Sale as of June 30, 2012		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$1,147,970	$1,147,937	0.75%
Due after one year through five years	224,333	224,849	0.78%
Due after five years through ten years	445,894	433,913	1.14%
Due after ten years	690,172	688,322	2.44%
Total	$2,508,369	$2,495,021	1.29%

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3. FARMER MAC GUARANTEED SECURITIES AND USDA GUARANTEED SECURITIES

The following table sets forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of June 30, 2012 and December 31, 2011:

	June 30, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Farmer Mac I	$3,140,176	$85,220	$(2,064)	$3,223,332
Farmer Mac II	28,677	1,231	(9)	29,899
Rural Utilities	1,165,100	26,136	—	1,191,236
USDA Guaranteed Securities	1,382,737	36,100	(199)	1,418,638
Total available-for-sale	5,716,690	148,687	(2,272)	5,863,105
Trading:				
USDA Guaranteed Securities	149,745	916	(3,836)	146,825
Total Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	$5,866,435	$149,603	$(6,108)	$6,009,930

	December 31, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Farmer Mac I	$2,741,192	$67,895	$(1,460)	$2,807,627
Farmer Mac II	34,692	924	(17)	35,599
Rural Utilities	1,410,800	35,246	—	1,446,046
USDA Guaranteed Securities	1,244,519	35,149	(122)	1,279,546
Total available-for-sale	5,431,203	139,214	(1,599)	5,568,818
Trading:				
USDA Guaranteed Securities	213,130	1,804	(2,575)	212,359
Total Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	$5,644,333	$141,018	$(4,174)	$5,781,177

The unrealized losses presented above are principally due to wider spreads on mortgage securities from the date of acquisition to June 30, 2012 and December 31, 2011, as applicable. As of June 30, 2012 and December 31, 2011, the unrealized losses presented above are related to Farmer Mac I, Farmer Mac II Guaranteed Securities, which are USDA-guaranteed portions of loans backed by the full faith and credit of the United States, and USDA Guaranteed Securities. None of the Farmer Mac I Guaranteed Securities has been in an unrealized loss position for greater than 12 months. Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities and USDA Guaranteed Securities represents an other-than-temporary impairment as of June 30, 2012 and December 31, 2011. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities for the three and six months ended June 30, 2012 and June 30, 2011.

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The amortized cost, fair value and weighted average yield of available-for-sale Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by remaining contractual maturity as of June 30, 2012 are set forth below. The balances presented are based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

	Farmer Mac Guaranteed Securities and USDA Guaranteed Securities Available-for-Sale as of June 30, 2012			
	Amortized Cost	Fair Value	Weighted-Average Yield	
	(dollars in thousands)			
Due within one year	$542,869	$546,154	2.11	%
Due after one year through five years	3,261,164	3,357,381	2.61	%
Due after five years through ten years	720,405	735,412	2.91	%
Due after ten years	1,192,252	1,224,158	3.64	%
Total	$5,716,690	$5,863,105	2.81	%

Farmer Mac did not own any held-to-maturity Farmer Mac Guaranteed and USDA Guaranteed Securities as of June 30, 2012 and December 31, 2011. As of June 30, 2012, Farmer Mac owned trading USDA Guaranteed Securities with an amortized cost of $149.7 million, a fair value of $146.8 million and a weighted average yield of 5.81 percent. As of December 31, 2011, Farmer Mac owned trading USDA Guaranteed Securities with an amortized cost of $213.1 million, a fair value of $212.4 million and a weighted average yield of 5.83 percent.

4. FINANCIAL DERIVATIVES

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. 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 loans 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 often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market.

Farmer Mac manages the interest rate risk related to loans it has committed to acquire, but has not yet purchased and permanently funded, through the use of forward sale contracts on the debt of other GSEs, futures contracts involving U.S. Treasury securities and interest rate swaps. 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. The notional amounts of these contracts are determined based on a duration-matched hedge ratio between the hedged item and the hedge instrument. Gains or losses generated by these hedge transactions are expected to offset changes in funding costs.

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability. Through second quarter 2012, Farmer Mac did not designate its financial derivatives as fair value hedges or cash flow hedges; therefore, the changes in the fair values of financial derivatives were reported as losses on financial derivatives in the consolidated statements of operations without any corresponding changes in the fair values of the hedged items.

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The following tables summarize information related to Farmer Mac's financial derivatives as of June 30, 2012 and December 31, 2011:

	June 30, 2012					
		Fair Value				
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Remaining Life (in years)
	(dollars in thousands)					
Interest rate swaps:						
Pay fixed non-callable	$1,789,433	$4	$(162,126)	3.47%	0.47%	4.40
Receive fixed non-callable	3,915,717	36,732	(57)	0.36%	0.90%	0.84
Basis swaps	595,119	158	(1,073)	0.60%	0.38%	1.29
Credit default swaps	10,000	—	(8)	1.00%	—	0.22
Credit valuation adjustment		—	673			
Total financial derivatives	$6,310,269	$36,894	$(162,591)			

	December 31, 2011					
		Fair Value				
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Remaining Life (in years)
	(dollars in thousands)					
Interest rate swaps:						
Pay fixed non-callable	$1,906,123	$—	$(157,520)	3.65%	0.46%	4.48
Receive fixed non-callable	4,212,713	41,006	(1,302)	0.41%	0.96%	0.97
Basis swaps	457,694	—	(2,137)	0.80%	0.38%	1.30
Credit default swaps	10,000	17	—	1.00%	—	0.72
Credit valuation adjustment		(773)	935			
Total financial derivatives	$6,586,530	$40,250	$(160,024)			

In the normal course of business, collateral requirements contained in Farmer Mac's derivative contracts are enforced by Farmer Mac and its counterparties. Upon enforcement of the collateral requirements, the amount of collateral posted is typically based on the net fair value of all derivative contracts with the counterparty, i.e., derivative assets net of derivative liabilities at the counterparty level. If Farmer Mac were to be in violation of certain provisions of the derivative contracts, the related counterparty could request payment or full collateralization on the derivative contracts. As of June 30, 2012, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level, which includes accrued interest but excludes any adjustment for nonperformance risk, was $142.6 million. As of June 30, 2012, Farmer Mac posted cash of $68.6 million as collateral for its derivatives in net liability positions. Farmer Mac records posted cash as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of prepaid expenses and other assets. If Farmer Mac had breached certain provisions of the derivative contracts as of June 30, 2012, it could have been required to settle its obligations under the agreements or post additional collateral of $74.0 million.

As of June 30, 2012, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with a total notional amount of $60.1 million and a fair value of $(1.0) million, compared to $72.7 million and $(1.3) million, respectively, as of December 31, 2011. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps hedge most of the interest rate basis risk related to loans Farmer Mac purchases that pay a Constant

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Maturity Treasury based-rate and the discount notes Farmer Mac issues to fund the loan purchases. The pricing of discount notes is closely correlated to LIBOR rates. Farmer Mac recorded unrealized gains on those outstanding basis swaps for the three and six months ended June 30, 2012 of $0.3 million and $0.4 million, respectively, compared to unrealized losses of $0.1 million and unrealized gains of $1.6 million, respectively, for the same periods in 2011.

The following tables summarize the effects of Farmer Mac's financial derivatives on the consolidated statements of operations for the three and six months ended June 30, 2012 and 2011:

	Losses on Financial Derivatives			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(in thousands)			
Interest rate swaps	$(30,187)	$(16,451)	$(23,882)	$(11,721)
Agency forwards	(809)	(1,153)	(605)	(2,001)
Treasury futures	(295)	(211)	(329)	(26)
Credit default swaps	(1)	9	(76)	(53)
Total	$(31,292)	$(17,806)	$(24,892)	$(13,801)

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5. ALLOWANCE FOR LOSSES AND CONCENTRATIONS OF CREDIT RISK

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities. As of June 30, 2012 and December 31, 2011, Farmer Mac recorded specific allowances for losses of $8.1 million and $7.3 million, respectively. No allowance for losses has been provided for the Farmer Mac II and Rural Utilities programs and Farmer Mac I AgVantage securities as of June 30, 2012 or December 31, 2011. See Note 2(b), Note 3 and Note 6 for more information about Farmer Mac Guaranteed Securities. Farmer Mac's allowance for losses is presented in two components on its consolidated balance sheets:

- an "Allowance for loan losses" on loans held; and
- a "Reserve for losses" on loans underlying LTSPCs and Farmer Mac Guaranteed Securities.

The following is a summary of the changes in the allowance for losses for the three and six months ended June 30, 2012 and 2011:

	June 30, 2012			June 30, 2011		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
For the Three Months Ended:						
Beginning Balance	$10,581	$7,385	$17,966	$11,084	$8,378	$19,462
(Release of)/provision for losses	(1,220)	1,394	174	160	(935)	(775)
Charge-offs	—	—	—	(191)	—	(191)
Ending Balance	$9,361	$8,779	$18,140	$11,053	$7,443	$18,496
For the Six Months Ended:						
Beginning Balance	$10,161	$7,355	$17,516	$9,803	$10,312	$20,115
(Release of)/provision for losses	(800)	1,424	624	1,441	(2,869)	(1,428)
Charge-offs	—	—	—	(191)	—	(191)
Ending Balance	$9,361	$8,779	$18,140	$11,053	$7,443	$18,496

During second quarter 2012, Farmer Mac recorded releases to its allowance for loan losses of $1.2 million and provisions to its reserve for losses of $1.4 million. The releases recorded during second quarter 2012 were driven primarily by reductions in specific allowances totaling $0.9 million for certain loans due to principal payments received and updated appraisal information obtained during the quarter in addition to the reclassification of approximately $0.3 million from the allowance for loan losses to the reserve for losses due to the deconsolidation of certain VIEs resulting from a change in related party status. The provision for losses recorded during second quarter 2012 primarily resulted from an increase in a specific allowance of $1.2 million related to an ethanol loan underlying an LTSPC and the reclassification adjustment described above.

During second quarter 2011, Farmer Mac recorded provisions to its allowance for loan losses of $0.2 million and a release from its reserve for losses of $0.9 million. Farmer Mac also charged off $0.2 million of losses upon acquisition of real estate owned ("REO") during second quarter 2011, with no

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comparable charge-offs in second quarter 2012. In first quarter 2011, Farmer Mac purchased two defaulted loans pursuant to the terms of an LTSPC agreement. This resulted in the reclassification of $1.8 million of specific allowance, which had been recorded in 2010, from the reserve for losses to allowance for loan losses. The (release of)/provision for losses for the first six months of 2011 reflects this reclassification as well as a decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries. Farmer Mac recorded no recoveries to its allowance for losses during the first half of 2012 and 2011.

The following tables present the changes in the allowance for losses for the three and six months ended June 30, 2012 and 2011 by commodity type:

	June 30, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	$4,266	$3,482	$636	$1,475	$ 8,100	$7	$17,966
Provision for/(release of) losses	15	(794)	(173)	(76)	1,202	—	174
Charge-offs	—	—	—	—	—	—	—
Ending Balance	$4,281	$2,688	$463	$1,399	$ 9,302	$7	$18,140
For the Six Months Ended:							
Beginning Balance	$4,133	$3,365	$685	$1,223	$ 8,106	$4	$17,516
Provision for/(release of) losses	148	(677)	(222)	176	1,196	3	624
Charge-offs	—	—	—	—	—	—	—
Ending Balance	$4,281	$2,688	$463	$1,399	$ 9,302	$7	$18,140

	June 30, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	$3,922	$3,802	$1,850	$1,053	$ 8,823	$12	$19,462
(Release of)/provision for losses	(31)	8	(68)	42	(723)	(3)	(775)
Charge-offs	(176)	(7)	(8)	—	—	—	(191)
Ending Balance	$3,715	$3,803	$1,774	$1,095	$ 8,100	$9	$18,496
For the Six Months Ended:							
Beginning Balance	$3,572	$3,537	$2,749	$445	$ 9,797	$15	$20,115
Provision for/(release of) losses	319	273	(967)	650	(1,697)	(6)	(1,428)
Charge-offs	(176)	(7)	(8)	—	—	—	(191)
Ending Balance	$3,715	$3,803	$1,774	$1,095	$ 8,100	$9	$18,496

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The following tables present the ending balances of loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities and the related allowance for losses by impairment method and commodity type as of June 30, 2012 and December 31, 2011:

	As of June 30, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Ending Balance							
Evaluated collectively for impairment	$1,912,073	$792,842	$1,201,256	$208,088	$ 177,018	$13,180	$4,304,457
Evaluated individually for impairment	29,002	30,557	17,465	16,377	4,337	1,017	98,755
	$1,941,075	$823,399	$1,218,721	$224,465	$ 181,355	$14,197	$4,403,212
Allowance for Losses							
Evaluated collectively for impairment	$1,662	$1,221	$122	$761	$ 6,252	$6	$10,024
Evaluated individually for impairment	2,619	1,467	341	638	3,050	1	8,116
	$4,281	$2,688	$463	$1,399	$ 9,302	$7	$18,140

	As of December 31, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Ending Balance							
Evaluated collectively for impairment	$1,835,439	$796,100	$1,213,227	$232,607	$ 167,850	$15,914	$4,261,137
Evaluated individually for impairment	29,520	28,245	10,884	12,513	5,842	1,022	88,026
	$1,864,959	$824,345	$1,224,111	$245,120	$ 173,692	$16,936	$4,349,163
Allowance for Losses							
Evaluated collectively for impairment	$1,723	$1,290	$172	$775	$ 6,256	$4	$10,220
Evaluated individually for	2,410	2,075	513	448	1,850	—	7,296

impairment	$4,133	$3,365	$685	$1,223	$ 8,106	$4	$17,516

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The following tables present by commodity type the unpaid principal balances, recorded investment and specific allowance for losses related to impaired loans and the recorded investment in loans on nonaccrual status as of June 30, 2012 and December 31, 2011:

	As of June 30, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$3,142	$9,073	$5,853	$2,895	$—	$925	$21,888
Unpaid principal balance	3,110	9,041	5,756	2,894	—	901	21,702
With a specific allowance:							
Recorded investment	27,070	21,696	11,897	13,623	4,399	117	78,802
Unpaid principal balance	25,892	21,516	11,709	13,483	4,337	116	77,053
Associated allowance	2,619	1,467	341	638	3,050	1	8,116
Total:							
Recorded investment	30,212	30,769	17,750	16,518	4,399	1,042	100,690
Unpaid principal balance	29,002	30,557	17,465	16,377	4,337	1,017	98,755
Associated allowance	2,619	1,467	341	638	3,050	1	8,116
Recorded investment of loans on nonaccrual status:	$8,824	$23,566	$4,397	$8,064	$—	$—	$44,851

	As of December 31, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$6,809	$10,083	$3,248	$3,241	$—	$914	$24,295
Unpaid principal balance	7,446	9,957	4,088	3,298	—	902	25,691
With a specific allowance:							
Recorded investment	23,009	18,668	7,036	9,392	5,842	121	64,068
Unpaid principal balance	22,074	18,288	6,796	9,215	5,842	120	62,335
Associated allowance	2,410	2,075	513	448	1,850	—	7,296
Total:							
Recorded investment	29,818	28,751	10,284	12,633	5,842	1,035	88,363
Unpaid principal balance	29,520	28,245	10,884	12,513	5,842	1,022	88,026
Associated allowance	2,410	2,075	513	448	1,850	—	7,296

Recorded investment of loans on nonaccrual status:	$9,214	$25,710	$3,483	$6,931	$—	$—	$45,338

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The following table presents by commodity type the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2012 and 2011:

	June 30, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	$27,873	$35,012	$16,036	$17,671	$4,400	$1,041	$102,033
Income recognized on impaired loans	64	376	63	83	—	—	586
For the Six Months Ended:							
Average recorded investment in impaired loans	28,521	32,925	14,118	15,992	4,880	1,039	97,475
Income recognized on impaired loans	141	676	116	174	—	—	1,107

	June 30, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	$30,040	$29,531	$12,990	$9,391	$6,458	$723	$89,133
Income recognized on impaired loans	59	186	29	19	—	—	293
For the Six Months Ended:							
Average recorded investment in impaired loans	32,016	30,188	14,597	10,235	6,578	817	94,431
Income recognized on impaired loans	215	213	246	60	382	—	1,116

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as "removal-of-account" provisions). In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days (depending on the provisions of the applicable agreement) delinquent upon the request of the counterparty. Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Subsequent to the purchase, such defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment.

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During the three and six months ended June 30, 2012, Farmer Mac purchased 4 defaulted loans having an unpaid principal balance of $3.1 million and 5 defaulted loans having an unpaid principal balance of $3.9 million, respectively, from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. During the three and six months ended June 30, 2011, Farmer Mac purchased 5 defaulted loans having an unpaid principal balance of $1.4 million and 13 defaulted loans having an unpaid principal balance of $18.3 million, respectively, from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. The following tables present information related to Farmer Mac's acquisition of defaulted loans for the three and six months ended June 30, 2012 and 2011 and the outstanding balances and carrying amounts of all such loans as of June 30, 2012 and December 31, 2011:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(in thousands)			
Unpaid principal balance at acquisition date:				
Loans underlying LTSPCs	$2,530	$1,420	$2,530	$16,976
Loans underlying Farmer Mac Guaranteed Securities	598	—	1,327	1,369
Total unpaid principal balance at acquisition date	3,128	1,420	3,857	18,345
Contractually required payments receivable	3,125	1,420	3,857	18,392
Impairment recognized subsequent to acquisition	—	—	15	3,770
Recovery/release of allowance for defaulted loans	893	4	933	14

	June 30, 2012	December 31, 2011
	(in thousands)	
Outstanding balance	$38,876	$35,773
Carrying amount	30,051	29,461

Net credit losses and 90-day delinquencies as of and for the periods indicated for loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs are presented in the table below. Information is not presented for loans underlying AgVantage securities, USDA Guaranteed Securities, Farmer Mac II Guaranteed Securities, or rural utilities loans or underlying Farmer Mac Guaranteed Securities – Rural Utilities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As of June 30, 2012, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. To date, Farmer Mac has not experienced any credit losses on any Farmer Mac I AgVantage securities. The USDA-guaranteed portions presented as USDA Guaranteed Securities, as well as those that collateralize 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 June 30, 2012, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any USDA Guaranteed Securities or Farmer Mac II Guaranteed Securities. As of June 30, 2012, there were no delinquencies and no probable losses inherent in the Farmer Mac's rural utilities loans held or in any Farmer Mac Guaranteed Securities – Rural Utilities. As of June 30, 2012, Farmer Mac has not experienced any credit losses on any of those loans or securities.

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	90-Day Delinquencies (1)			Net Credit (Recoveries)/Losses	
	As of			For the Six Months Ended	
	June 30, 2012	December 31, 2011	June 30, 2011	June 30, 2012	June 30, 2011
	(in thousands)				
On-balance sheet assets:					
Farmer Mac I:					
Loans	$31,092	$33,243	$32,862	$(262)	$164
Total on-balance sheet	$31,092	$33,243	$32,862	$(262)	$164
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$15,934	$7,379	$21,771	$—	$—
Total off-balance sheet	$15,934	$7,379	$21,771	$—	$—
Total	$47,026	$40,622	$54,633	$(262)	$164

(1) Includes loans and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, restructured after delinquency, and in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

Of the $31.1 million, $33.2 million and $32.9 million of on-balance sheet loans reported as 90 days delinquent as of June 30, 2012, December 31, 2011 and June 30, 2011, respectively, $7.7 million, $5.6 million and $8.8 million, respectively, are loans subject to "removal-of-account" provisions.

Credit Quality Indicators

Farmer Mac uses 90-day delinquency information to evaluate its credit risk exposure on these program assets because historically it has been the best measure of borrower credit quality deterioration. Most of the loans held and underlying LTSPCs and Farmer Mac I Guaranteed Securities have annual (January 1) or semi-annual (January 1 and July 1) payment dates and are supported by less frequent and less predictable revenue sources, such as the cash flows generated from the maturation of crops, sales of livestock and government farm support programs. Taking into account the reduced frequency of payment due dates and revenue sources, Farmer Mac considers the 90-day delinquency point to be the most significant observation point when evaluating its credit risk exposure.

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The following tables present credit quality indicators related to loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of June 30, 2012 and December 31, 2011.

	As of June 30, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade (1)							
Grade:							
Acceptable	$1,860,579	$744,379	$1,104,200	$198,092	$111,317	$12,437	$4,031,004
Other assets especially mentioned ("OAEM") (2)	40,386	27,071	65,297	6,590	47,393	633	187,370
Substandard (2)	40,110	51,949	49,224	19,783	22,645	1,127	184,838
Total	$1,941,075	$823,399	$1,218,721	$224,465	$181,355	$14,197	$4,403,212
Commodity analysis of past due loans (1)							
90 days or more past due	$14,274	$15,223	$10,251	$7,278	$—	$—	$47,026

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans.

(2) Assets in the OAEM category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured. Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

	As of December 31, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade (1)							
Grade:							
Acceptable	$1,769,768	$748,558	$1,097,184	$215,525	$96,532	$15,158	$3,942,725
Other assets especially mentioned ("OAEM") (2)	60,076	20,442	74,959	7,103	45,673	641	208,894
Substandard (2)	35,115	55,345	51,968	22,492	31,487	1,137	197,544
Total	$1,864,959	$824,345	$1,224,111	$245,120	$173,692	$16,936	$4,349,163

Commodity analysis of past due loans (1)							
90 days or more past due	$11,605	$19,228	$2,475	$7,315	$—	$—	$40,623

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans.

(2) Assets in the OAEM category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured. Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

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Concentrations of Credit Risk

The following table sets forth the geographic and commodity/collateral diversification, as well as the range of original loan-to-value ratios, for all loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(in thousands)	
By commodity/collateral type:		
Crops	$1,941,075	$1,864,959
Permanent plantings	823,399	824,345
Livestock	1,218,721	1,224,111
Part-time farm	224,465	245,120
Ag. Storage and processing (including ethanol facilities)	181,355	173,692
Other	14,197	16,936
Total	$4,403,212	$4,349,163
By geographic region (1):		
Northwest	$764,422	$761,078
Southwest	1,581,489	1,597,369
Mid-North	869,722	857,659
Mid-South	516,815	484,176
Northeast	282,025	294,854
Southeast	388,739	354,027
Total	$4,403,212	$4,349,163
By original loan-to-value ratio:		
0.00% to 40.00%	$1,122,067	$1,104,617
40.01% to 50.00%	792,882	769,618
50.01% to 60.00%	1,219,133	1,225,939
60.01% to 70.00%	1,097,884	1,062,061
70.01% to 80.00%	130,902	135,985
80.01% to 90.00%	40,344	50,943
Total	$4,403,212	$4,349,163

(1) Geographic regions: Northwest (AK, ID, MT, ND, NE, OR, SD, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, MO, WI); Mid-South (KS, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NC, NH, NJ, NY, OH, PA, RI, TN, VA, VT, WV); Southeast (AL, AR, FL, GA, LA, MS, SC).

The original loan-to-value ratio is calculated by dividing the loan principal balance at the time of guarantee, purchase or commitment by the appraised value at the date of loan origination or, when available, the updated appraised value at the time of guarantee, purchase or commitment. Current loan-to-value ratios may be higher or lower than the original loan-to-value ratios.

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6. OFF-BALANCE SHEET GUARANTEES AND LONG TERM STANDBY PURCHASE COMMITMENTS

Farmer Mac offers approved 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 the Farmer Mac I program, the Farmer Mac II program or the Rural Utilities program, and (2) LTSPCs, which are available through the Farmer Mac I program or the Rural Utilities program. For securitization trusts where Farmer Mac is the primary beneficiary, as described in Note 1(f), the trust assets and liabilities are included on Farmer Mac's consolidated balance sheet. Upon consolidation, Farmer Mac eliminates the portion of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. For the remainder of these transactions, or in the event of deconsolidation, both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac. Farmer Mac accounts for these transactions and other financial guarantees in accordance with accounting guidance on accounting for guarantees. Farmer Mac records, at the inception of a guarantee, a liability for the fair value of its obligation to stand ready to perform under the terms of each guarantee and an asset that is equal to the fair value of the fees that will be received over the life of each guarantee. The fair values of the guarantee obligation and asset at inception are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are derived using a Monte Carlo simulation model. The guarantee obligation and corresponding asset are subsequently amortized into guarantee and commitment fee income in relation to the decline in the unpaid principal balance on the underlying agricultural real estate mortgage and rural utilities loans.

Off-Balance Sheet Farmer Mac Guaranteed Securities

Eligible loans and other eligible assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. The following table summarizes the significant cash flows received from and paid to trusts used for Farmer Mac securitizations:

	For the Six Months Ended	
	June 30, 2012	June 30, 2011
	(in thousands)	
Proceeds from new securitizations	$17,628	$10,734
Guarantee fees received	2,244	4,286
Purchases of assets from the trusts	(1,327)	(1,369)

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The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of June 30, 2012 and December 31, 2011, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans:

Outstanding Balance of Off-Balance Sheet Farmer Mac Guaranteed Securities

	June 30, 2012	December 31, 2011
	(in thousands)	
Farmer Mac I:		
Farmer Mac Guaranteed Securities - AgVantage	$970,000	$970,000
Farmer Mac Guaranteed Securities	1,010,507	621,871
Farmer Mac II:		
Farmer Mac Guaranteed Securities	36,762	42,088
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	16,270	16,271
Total off-balance sheet Farmer Mac Guaranteed Securities	$2,033,539	$1,650,230

Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated $17.3 million as of June 30, 2012 and $12.3 million as of December 31, 2011. During second quarter 2012, Farmer Mac deconsolidated $460.3 million of certain securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities because Farmer Mac was no longer determined to be the primary beneficiary when the counterparty to the transaction ceased being a related party as a result of changes to the membership of Farmer Mac's board of directors. This deconsolidation resulted in an increase to the guarantee and commitment obligation of $5.9 million as of June 30, 2012. As of June 30, 2012, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.7 years. As of June 30, 2012, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 4.8 years.

Long-Term Standby Purchase Commitments

An LTSPC is a commitment by Farmer Mac to purchase eligible loans from an identified pool of loans under enumerated circumstances, either for cash or in exchange for Farmer Mac I Guaranteed Securities, on one or more undetermined future dates. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives a commitment fee payable monthly in arrears in an amount approximating what would have been the guarantee fee if the transaction were structured as a swap for Farmer Mac Guaranteed Securities.

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was $1.9 billion as of June 30, 2012 and $1.8 billion as of December 31, 2011.

As of June 30, 2012, the weighted-average remaining maturity of all loans underlying LTSPCs was 13.2 years. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the consolidated balance sheet. This liability approximated $16.8 million as of June 30, 2012 and $15.1 million as of December 31, 2011.

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7. EQUITY

Common Stock

Farmer Mac has three classes of common stock outstanding:

- Class A voting common stock, which may be held only by banks, insurance companies and other financial institutions or similar entities that are not institutions of the FCS. By federal statute, 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;
- Class B voting common stock, which may be held only by institutions of the FCS. There are no restrictions on the maximum holdings of Class B voting common stock; and
- Class C non-voting common stock, which has no ownership restrictions.

During first and second quarters 2012, Farmer Mac paid a quarterly dividend of $0.10 per share on the Corporation's common stock. During 2011, Farmer Mac paid quarterly dividends of $0.05 per share, in each quarter, on all classes of the Corporation's common stock. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Preferred Stock

As of June 30, 2012 and December 31, 2011, Farmer Mac had 57,578 shares of Series C Preferred Stock outstanding. The Series C preferred stock is a component of Stockholder's Equity on the consolidated balance sheets. All of the Series C preferred stock outstanding as of June 30, 2012 and December 31, 2011 were held by National Rural Utilities Cooperative Finance Corporation ("CFC"), a related party.

Farmer Mac's ability to declare and pay dividends on outstanding preferred stock could be restricted if it failed to comply with regulatory capital requirements. Farmer Mac's preferred stock is included as a component of core capital for regulatory and statutory capital compliance measurements.

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of $250.0 million of securities issued by a newly formed Delaware statutory trust. The trust securities represent undivided beneficial ownership interests in 250,000 shares of non-cumulative perpetual preferred stock (the "Farmer Mac II LLC Preferred Stock") of Farmer Mac's subsidiary, Farmer Mac II LLC, a Delaware limited liability company. The Farmer Mac II LLC Preferred Stock has a liquidation preference of $1,000 per share.

Dividends on the Farmer Mac II LLC Preferred Stock will be payable if, when and as declared by Farmer Mac II LLC's board of directors, quarterly, on a non-cumulative basis, on March 30, June 30, September 30, and December 30 of each year. For each quarterly period from the date of issuance to but excluding the payment date occurring on March 30, 2015, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 8.875 percent per annum. For each quarterly period from March 30, 2015 to but excluding the payment date occurring on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 10.875 percent per annum. For each quarterly period beginning on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be an annual rate equal to three-month LIBOR plus 8.211 percent. Dividends on the Farmer Mac II LLC Preferred Stock are non-

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cumulative, so dividends that are not declared for a payment date will not accrue. The Farmer Mac II LLC Preferred Stock is permanent equity of Farmer Mac II LLC and is presented as "Non-controlling interest – preferred stock" within permanent equity on the consolidated balance sheets of Farmer Mac. Farmer Mac II LLC incurred $8.1 million of direct costs related to the issuance of the Farmer Mac II LLC Preferred Stock, which reduced the amount of non-controlling interest – preferred stock. The accrual of declared dividends is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the consolidated statements of operations on a pre-tax basis. The consolidated tax benefit is included in income tax expense.

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to three statutory and regulatory capital requirements:

- Statutory minimum capital requirement – Farmer Mac's statutory minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income plus non-controlling interest - preferred stock) 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 the aggregate off-balance sheet obligations of Farmer Mac, specifically including:
  - the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
  - instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
  - other off-balance sheet obligations of Farmer Mac.
- Statutory critical capital requirement – 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 requirement – Farmer Mac's charter directs the Farm Credit Administration ("FCA") to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters.

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

As of June 30, 2012, Farmer Mac's minimum and critical capital requirements were $356.4 million and $178.2 million, respectively, and its actual core capital level was $492.3 million, which was $135.9 million above the minimum capital requirement and $314.1 million above the critical capital requirement as of that date. As of December 31, 2011, Farmer Mac's minimum and critical capital requirements were $348.7 million and $174.3 million, respectively, and its actual core capital level was $475.2 million, which was $126.5 million above the minimum capital requirement and $300.9 million above the critical capital requirement as of that date.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of June 30, 2012 was $42.5 million, and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $510.5 million exceeded that amount by approximately $468.0 million. As of December 31, 2011, Farmer Mac's risk-based capital requirement was $52.9 million, and Farmer Mac's regulatory capital of $492.7 million exceeded that amount by approximately $439.8 million.

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8. FAIR VALUE DISCLOSURES

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). In determining fair value, Farmer Mac uses various valuation approaches, including market and income approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. When available, the fair value of Farmer Mac's financial instruments is based on quoted market prices, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information obtained from third parties is internally validated for reasonableness prior to use in the consolidated financial statements.

When observable market prices are not readily available, Farmer Mac estimates fair value using techniques that rely on alternate market data or internally-developed models using significant inputs that are generally less readily observable. Market data includes prices of financial instruments with similar maturities and characteristics, interest rate yield curves, measures of volatility and prepayment rates. If market data needed to estimate fair value is not available, Farmer Mac estimates fair value using internally-developed models that employ a discounted cash flow approach. Even when market assumptions are not readily available, Farmer Mac's assumptions reflect those that market participants would likely use in pricing the asset or liability at the measurement date.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard describes the following three levels used to classify fair value measurements:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require unobservable inputs that are significant to the fair value measurement.

Farmer Mac performs a detailed analysis of the assets and liabilities carried at fair value to determine the appropriate level based on the transparency of the inputs used in the valuation techniques. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Farmer Mac's assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument. While Farmer Mac believes its valuation methods are appropriate and consistent with those of other market participants, using different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value for some financial instruments.

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The following is a description of the fair value techniques used for instruments measured at fair value as well as the general classification of such instruments pursuant to the valuation hierarchy described above. Fair value measurements related to financial instruments that are reported at fair value in the consolidated financial statements each period are referred to as recurring fair value measurements. Fair value measurements related to financial instruments that are not reported at fair value each period but are subject to fair value adjustments in certain circumstances are referred to as nonrecurring fair value measurements.

Recurring Fair Value Measurements and Classification

Available-for-Sale and Trading Investment Securities

The fair value of investments in U.S. Treasuries is based on unadjusted quoted prices in active markets. Farmer Mac classifies these fair value measurements as level 1.

For a significant portion of Farmer Mac's investment portfolio, including most asset-backed securities, corporate debt securities, senior agency debt securities, Government/GSE guaranteed mortgage-backed securities, commercial paper and preferred stock issued by GSEs, fair value is primarily determined using a reputable and nationally recognized third party pricing service. The prices obtained are non-binding and generally representative of recent market trades. The fair value of certain asset-backed and Government guaranteed mortgage-backed securities are estimated based on quotations from brokers or dealers. Farmer Mac corroborates its primary valuation source by obtaining a secondary price from another independent third party pricing service. Farmer Mac classifies these fair value measurements as level 2.

For certain investment securities that are thinly traded or not quoted, Farmer Mac estimates fair value using internally-developed models that employ a discounted cash flow approach. Farmer Mac maximizes the use of observable market data, including prices of financial instruments with similar maturities and characteristics, interest rate yield curves, measures of volatility and prepayment rates. Farmer Mac generally considers a market to be thinly traded or not quoted if the following conditions exist: (1) there are few transactions for the financial instruments; (2) the prices in the market are not current; (3) the price quotes vary significantly either over time or among independent pricing services or dealers; or (4) there is limited availability of public market information. Farmer Mac classifies these fair value measurements as level 3.

Farmer Mac's investment securities include callable, highly rated auction-rate certificates ("ARCs"), the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates as set forth in the related transaction documents in the event of a failed auction. These formula-based floating rates, which may at times reset to zero, are intended to preserve the underlying principal balance of the securities and avoid overall cash shortfalls. Accordingly, payments of accrued interest may also be delayed and are ultimately subject to cash availability. Beginning in mid-February 2008, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac continues to believe that the credit quality of these securities is high, based on the underlying collateralization and the securities' ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so.

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Farmer Mac classifies its estimates of fair value for ARCs as level 3 measurements. During 2012 and 2011, Farmer Mac used unadjusted quotes from a broker specializing in these types of securities to determine the estimated fair value of these investments as of each quarter end. Through discussions with the broker, Farmer Mac gained an understanding of the assumptions underlying the broker quotes and independently benchmarked those quotes against other dealer price indications. Farmer Mac believes the broker quotes are the best indication of fair value as of the measurement date although there is uncertainty regarding the ability to transact at such levels. Considering there is no active secondary market for these securities, although limited observable transactions do occasionally occur, price quotes vary significantly among dealers or independent pricing services, if provided at all, and there is little transparency in the price determination, Farmer Mac believes these measurements are appropriately classified as level 3.

Net transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets and liabilities as of the beginning of the reporting period. There were no transfers within the fair value hierarchy for fair value measurements of Farmer Mac's investment securities during the first six months of 2012 and 2011.

Available-for-Sale and Trading Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

Farmer Mac estimates the fair value of its Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Farmer Mac classifies these fair value measurements as level 3 because there is limited market activity and therefore little or no price transparency. On a sample basis, Farmer Mac corroborates the fair value of its Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by obtaining a secondary valuation from an independent third party service.

Farmer Mac made no transfers within the fair value hierarchy for fair value measurements of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities during the first six months of 2012 and 2011.

Financial Derivatives

The fair value of exchange-traded U.S. Treasury futures is based on unadjusted quoted prices for identical financial instruments. Farmer Mac classifies these fair value measurements as level 1.

Farmer Mac's derivative portfolio consists primarily of interest rate swaps, credit default swaps and forward sales contracts on the debt of other GSEs. Farmer Mac estimates the fair value of these financial instruments primarily based upon the counterparty valuations. Farmer Mac internally values its derivative portfolio using a discounted cash flow valuation technique and obtains a secondary valuation for certain interest rate swaps to corroborate the counterparty valuations. Farmer Mac also regularly reviews the counterparty valuations as part of the collateral exchange process. Farmer Mac classifies these fair value measurements as level 2.

Certain basis swaps are nonstandard interest rate swap structures and are therefore internally modeled using significant assumptions and unobservable inputs, resulting in level 3 classification. Farmer Mac uses a discounted cash flow valuation technique, using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved.

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As of June 30, 2012, the consideration of credit risk, Farmer Mac's and the counterparties, resulted in an adjustment of $0.7 million to the valuations of Farmer Mac's derivative portfolio. As of December 31, 2011, the consideration of credit risk, Farmer Mac's and the counterparties, resulted in an adjustment of $0.2 million to the valuations of Farmer Mac's derivative portfolio. See Note 1(c) and Note 4 for further information regarding Farmer Mac's derivative portfolio.

Nonrecurring Fair Value Measurements and Classification

Loans Held-for-Sale

Loans held for sale are reported at the lower of cost or fair value in the consolidated balance sheets. Farmer Mac internally models the fair value of loans by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. The fair values of these instruments are classified as level 3 measurements. As of June 30, 2012 and December 31, 2011, the fair values of loans held for sale exceeded their cost amounts. Accordingly, Farmer Mac recorded no adjustment to report these loans at the lower of cost or fair value.

Loans Held for Investment

Certain loans in Farmer Mac's held for investment loan portfolio are measured at fair value when they are determined to be impaired. Impaired loans are reported at net realizable value (fair value less estimated cost to sell). The fair value of the loan generally is based on the fair value of the underlying property, which is determined by third-party appraisals when available. When third-party appraisals are not available, fair value is estimated based on factors such as prices for comparable properties in similar geographical areas and/or assessment through observation of such properties. Farmer Mac classifies these fair values as level 3 measurements. Farmer Mac uses net realizable value as a reasonable estimate of fair value in the tables below.

Real Estate Owned

Farmer Mac initially records REO properties at net realizable value and subsequently records them at the lower of carrying value or net realizable value. The fair value of REO is determined by third-party appraisals when available. When third-party appraisals are not available, fair value is estimated based on factors such as prices for comparable properties in similar geographical areas and/or assessment through observation of such properties. Farmer Mac classifies the REO fair values as level 3 measurements. Farmer Mac uses net realizable value as a reasonable estimate of fair value in the tables below.

Fair Value Classification and Transfers

As of June 30, 2012, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.1 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 51 percent of total assets and 70 percent of financial instruments measured at fair value as of June 30, 2012. As of December 31, 2011, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $5.9 billion whose fair values were estimated by management in the absence of readily determinable fair values. These financial instruments measured as level 3

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represented 49 percent of total assets and 72 percent of financial instruments measured at fair value as of December 31, 2011.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2012 and December 31, 2011, respectively, and indicate the fair value hierarchy of the valuation techniques used by Farmer Mac to determine such fair value:

Assets and Liabilities Measured at Fair Value as of June 30, 2012

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$59,707	$59,707
Floating rate asset-backed securities	—	173,299	—	173,299
Floating rate corporate debt securities	—	86,627	—	86,627
Fixed rate corporate debt	—	57,757	—	57,757
Floating rate Government/GSE guaranteed mortgage-backed securities	—	762,367	—	762,367
Fixed rate GSE guaranteed mortgage-backed securities	—	2,686	—	2,686
Floating rate GSE subordinated debt	—	55,839	—	55,839
Fixed rate GSE preferred stock	—	86,792	—	86,792
Floating rate senior agency debt	—	25,066	—	25,066
Fixed rate senior agency debt	—	178,975	—	178,975
Fixed rate U.S. Treasuries	1,005,906	—	—	1,005,906
Total available-for-sale	1,005,906	1,429,408	59,707	2,495,021
Trading:				
Floating rate asset-backed securities	—	—	1,430	1,430
Total trading	—	—	1,430	1,430
Total Investment Securities	1,005,906	1,429,408	61,137	2,496,451
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	—	—	3,223,332	3,223,332
Farmer Mac II	—	—	29,899	29,899
Rural Utilities	—	—	1,191,236	1,191,236
Total Farmer Mac Guaranteed Securities	—	—	4,444,467	4,444,467
USDA Guaranteed Securities:				
Available-for-sale	—	—	1,418,638	1,418,638
Trading	—	—	146,825	146,825
Total USDA Guaranteed Securities	—	—	1,565,463	1,565,463
Financial derivatives	—	36,894	—	36,894
Total Assets at fair value	$1,005,906	$1,466,302	$6,071,067	$8,543,275
Liabilities:				
Financial derivatives	$—	$161,624	$967	$162,591
Total Liabilities at fair value	$—	$161,624	$967	$162,591
Nonrecurring:				
Assets:				

Loans held for investment	$—	$—	$12,541	$12,541
REO	—	—	1,296	1,296
Total Nonrecurring Assets at fair value	$—	$—	$13,837	$13,837

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Assets and Liabilities Measured at Fair Value as of December 31, 2011

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$60,213	$60,213
Floating rate asset-backed securities	—	178,560	—	178,560
Floating rate corporate debt securities	—	73,833	—	73,833
Floating rate Government/GSE guaranteed mortgage-backed securities	—	764,038	—	764,038
Fixed rate GSE guaranteed mortgage-backed securities	—	3,360	—	3,360
Floating rate GSE subordinated debt	—	52,562	—	52,562
Fixed rate GSE preferred stock	—	84,878	—	84,878
Fixed rate corporate debt	—	38,699	—	38,699
Fixed rate commercial paper	—	10,000	—	10,000
Fixed rate U.S. Treasuries	799,266	—	—	799,266
Senior agency debt	—	117,285	—	117,285
Total available-for-sale	799,266	1,323,215	60,213	2,182,694
Trading:				
Floating rate asset-backed securities	—	—	1,796	1,796
Total trading	—	—	1,796	1,796
Total Investment Securities	799,266	1,323,215	62,009	2,184,490
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	—	—	2,807,627	2,807,627
Farmer Mac II	—	—	35,599	35,599
Rural Utilities	—	—	1,446,046	1,446,046
Total Farmer Mac Guaranteed Securities	—	—	4,289,272	4,289,272
USDA Guaranteed Securities:				
Available-for-sale	—	—	1,279,546	1,279,546
Trading	—	—	212,359	212,359
Total USDA Guaranteed Securities	—	—	1,491,905	1,491,905
Financial derivatives	—	40,250	—	40,250
Total Assets at fair value	$799,266	$1,363,465	$5,843,186	$8,005,917
Liabilities:				
Financial derivatives	$—	$158,689	$1,335	$160,024
Total Liabilities at fair value	$—	$158,689	$1,335	$160,024
Nonrecurring:				
Assets:				
Loans held for investment	$—	$—	$10,118	$10,118
REO	—	—	1,296	1,296
Total Nonrecurring Assets at fair value	$—	$—	$11,414	$11,414

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The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which Farmer Mac has used significant unobservable inputs to determine fair value. Net transfers in and/or out of level 3 are based on the fair values of the assets and liabilities as of the beginning of the reporting period.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2012

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$58,868	$—	$—	$—	$—	$ 839	$59,707
Total available-for-sale	58,868	—	—	—	—	839	59,707
Trading:							
Floating rate asset-backed securities(1)	1,646	—	—	(239)	23	—	1,430
Total trading	1,646	—	—	(239)	23	—	1,430
Total Investment Securities	60,514	—	—	(239)	23	839	61,137
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
Farmer Mac I	3,008,223	200,000	—	(1,007)	—	16,116	3,223,332
Farmer Mac II	36,129	5,327	(5,327)	(5,787)	—	(443)	29,899
Rural Utilities	1,345,509	—	—	(150,000)	—	(4,273)	1,191,236
Total Farmer Mac Guaranteed Securities	4,389,861	205,327	(5,327)	(156,794)	—	11,400	4,444,467
USDA Guaranteed Securities:							
Available-for-sale	1,328,702	160,286	—	(69,775)	—	(575)	1,418,638
Trading(2)	184,397	—	—	(34,463)	(3,109)	—	146,825
Total USDA Guaranteed Securities	1,513,099	160,286	—	(104,238)	(3,109)	(575)	1,565,463
Total Assets at fair value	$5,963,474	$365,613	$(5,327)	$(261,271)	$(3,086)	$ 11,664	$6,071,067
Liabilities:							
Financial derivatives(3)	$(1,225)	$—	$—	$—	$258	$ —	$(967)
Total Liabilities at fair value	$(1,225)	$—	$—	$—	$258	$ —	$(967)

(1) Unrealized gains are attributable to assets still held as of June 30, 2012 and are recorded in (Losses)/gains on trading assets.

(2) Includes unrealized losses of $2.4 million attributable to assets still held as of June 30, 2012 that are recorded in (Losses)/gains on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of June 30, 2012 and are recorded in Losses on financial derivatives.

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Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2011

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/ (Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$64,539	$—	$—	$—	$—	$ 143	$64,682
Total available-for-sale	64,539	—	—	—	—	143	64,682
Trading:							
Floating rate asset-backed securities(1)	1,690	—	—	(168)	687	—	2,209
Total trading	1,690	—	—	(168)	687	—	2,209
Total Investment Securities	66,229	—	—	(168)	687	143	66,891
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
Farmer Mac I	1,429,318	300,000	—	(6)	—	29,893	1,759,205
Farmer Mac II	37,803	981	(1,041)	(1,134)	—	(79)	36,530
Rural Utilities	1,442,793	—	—	—	—	5,437	1,448,230
Total Farmer Mac Guaranteed Securities	2,909,914	300,981	(1,041)	(1,140)	—	35,251	3,243,965
USDA Guaranteed Securities:							
Available-for-sale	1,063,540	98,464	—	(48,951)	—	7,344	1,120,397
Trading(2)	274,561	—	—	(26,985)	1,498	—	249,074
Total USDA Guaranteed Securities	1,338,101	98,464	—	(75,936)	1,498	7,344	1,369,471
Total Assets at fair value	$4,314,244	$399,445	$(1,041)	$(77,244)	$2,185	$ 42,738	$4,680,327
Liabilities:							
Financial derivatives(3)	$(1,671)	$—	$—	$—	$(84)	$ —	$(1,755)
Total Liabilities at fair value	$(1,671)	$—	$—	$—	$(84)	$ —	$(1,755)

(1) Unrealized gains are attributable to assets still held as of June 30, 2011 and are recorded in (Losses)/gains on trading assets.

(2) Includes unrealized gains of $0.3 million attributable to assets still held as of June 30, 2011 that are recorded in (Losses)/gains on trading assets.

(3) Unrealized losses are attributable to liabilities still held as of June 30, 2011 and are recorded in Losses on financial derivatives.

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Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2012

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/ (Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$60,213	$—	$—	$ —	$—	$ (506)	$59,707
Total available-for-sale	60,213	—	—	—	—	(506)	59,707
Trading:							