

FEDERAL AGRICULTURAL MORTGAGE CORP

Form 10-Q

November 10, 2014

As filed with the Securities and Exchange Commission on November 10, 2014

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 September 30, 2014

Commission File Number 001-14951

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

(Exact name of registrant as specified in its charter)

Federally chartered instrumentality

52-1578738

of the United States

(State or other jurisdiction of

(I.R.S. employer identification number)

incorporation or organization)

1999 K Street, N.W., 4th Floor,

20006

Washington, D.C.

(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 No

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 No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

As of November 3, 2014, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,404,710 shares of Class C non-voting common stock.

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PART I - FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements

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

	As of September 30, 2014 (in thousands)	December 31, 2013
Assets:		
Cash and cash equivalents	\$627,670	\$749,313
Securities purchased under agreements to resell	1,630,427	—
Investment securities:		
Available-for-sale, at fair value	1,984,983	2,483,147
Trading, at fair value	777	928
Total investment securities	1,985,760	2,484,075
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	3,356,775	5,091,600
Held-to-maturity, at amortized cost	1,652,631	—
Total Farmer Mac Guaranteed Securities	5,009,406	5,091,600
USDA Securities:		
Available-for-sale, at fair value	1,687,881	1,553,669
Trading, at fair value	42,964	58,344
Total USDA Securities	1,730,845	1,612,013
Loans:		
Loans held for investment, at amortized cost	2,689,531	2,570,125
Loans held for investment in consolidated trusts, at amortized cost	670,140	629,989
Allowance for loan losses	(6,326)	(6,866)
Total loans, net of allowance	3,353,345	3,193,248
Real estate owned, at lower of cost or fair value	1,182	2,617
Financial derivatives, at fair value	5,743	19,718
Interest receivable (includes \$4,256 and \$9,276, respectively, related to consolidated trusts)	65,522	107,201
Guarantee and commitment fees receivable	42,078	43,904
Deferred tax asset, net	39,781	44,045
Prepaid expenses and other assets	33,938	14,046
Total Assets	\$14,525,697	\$13,361,780
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$6,332,887	\$7,338,781
Due after one year	5,186,393	5,001,169
Total notes payable	11,519,280	12,339,950
Securities sold, not yet purchased	1,657,901	—
Debt securities of consolidated trusts held by third parties	400,012	261,760
Financial derivatives, at fair value	69,995	75,708
Accrued interest payable (includes \$2,731 and \$2,823, respectively, related to consolidated trusts)	34,853	53,772
Guarantee and commitment obligation	38,957	39,667
Accounts payable and accrued expenses	18,019	9,986

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Reserve for losses	4,280	6,468
Total Liabilities	13,743,297	12,787,311
Commitments and Contingencies (Note 6)		
Equity:		
Preferred stock:		
Series A, par value \$25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	58,333
Series B, par value \$25 per share, 3,000,000 shares authorized, issued and outstanding	73,061	—
Series C, par value \$25 per share, 3,000,000 shares authorized, issued and outstanding	73,379	—
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, 9,404,592 shares and 9,354,804 shares outstanding, respectively	9,405	9,355
Additional paid-in capital	112,861	110,722
Accumulated other comprehensive income/(loss), net of tax	21,080	(16,202)
Retained earnings	196,897	168,877
Total Stockholders' Equity	546,547	332,616
Non-controlling interest - preferred stock	235,853	241,853
Total Equity	782,400	574,469
Total Liabilities and Equity	\$14,525,697	\$13,361,780
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 Nine Months Ended		
	September 30,	September 30,	September 30,	September 30,	
	2014	2013	2014	2013	
	(in thousands except per share amounts)				
Interest income:					
Investments and cash equivalents	\$4,507	\$5,263	\$14,845	\$16,468	
Farmer Mac Guaranteed Securities and USDA Securities	30,004	32,746	90,373	96,072	
Loans	26,371	24,966	67,157	73,678	
Total interest income	60,882	62,975	172,375	186,218	
Total interest expense	48,886	34,787	126,114	101,499	
Net interest income	11,996	28,188	46,261	84,719	
(Provision for)/release of loan losses	(511) 499	499	598	
Net interest income after (provision for)/release of loan losses	11,485	28,687	46,760	85,317	
Non-interest income:					
Guarantee and commitment fees	6,172	6,819	19,093	20,190	
Gains/(losses) on financial derivatives and hedging activities	808	3,024	(12,468) 22,501	
Gains/(losses) on trading securities	16,369	(626) 24,772	(743)
(Losses)/gains on sale of available-for-sale investment securities	(396) —	(238) 3,073	
Gains on sale of real estate owned	—	39	165	1,210	
Other income	502	565	794	2,518	
Non-interest income	23,455	9,821	32,118	48,749	
Non-interest expense:					
Compensation and employee benefits	4,693	4,523	14,038	13,792	
General and administrative	3,123	2,827	9,205	8,459	
Regulatory fees	593	593	1,781	1,781	
Real estate owned operating costs, net	1	35	62	420	
(Release of)/provision for reserve for losses	(1,315) 463	(2,188) 1,034	
Non-interest expense	7,095	8,441	22,898	25,486	
Income before income taxes	27,845	30,067	55,980	108,580	
Income tax expense	7,564	8,226	55	29,978	
Net income	20,281	21,841	55,925	78,602	
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,412) (5,547) (16,778) (16,641)
Net income attributable to Farmer Mac	14,869	16,294	39,147	61,961	
Preferred stock dividends	(3,283) (881) (6,543) (2,613)
Net income attributable to common stockholders	\$11,586	\$15,413	\$32,604	\$59,348	
Earnings per common share and dividends:					
Basic earnings per common share	\$1.06	\$1.42	\$2.99	\$5.50	
Diluted earnings per common share	\$1.02	\$1.37	\$2.87	\$5.30	
Common stock dividends per common share	\$0.14	\$0.12	\$0.42	\$0.36	
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 Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(in thousands)			
Net income	\$20,281	\$ 21,841	\$55,925	\$ 78,602
Other comprehensive (loss)/income, net of tax:				
Unrealized holding gains/(losses) on available-for-sale securities (1)	2,070	(8,675)	46,612	(35,053)
Unrealized gains/(losses) on cash flow hedges (2)	30	—	(99)	—
Less reclassification adjustments included in:				
Gains/(losses) on financial derivatives and hedging activities (3)	(3,131			