FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
November 09, 2011

As filed with the Securities and Exchange Commission on November 9, 2011

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, 2011

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, DC	20006
(Address of principal executive offices)	(Zip code)

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

1133 Twenty-First Street, N.W., Suite 600, Washington, DC 20036
(Registrant's former address)

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

Yes x No ¨

Indicate by check mark 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 ¨

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

Yes ¨ No x

As of November 1, 2011, the registrant had 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,825,794 shares of Class C non-voting common stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The following information concerning Farmer Mac's interim unaudited condensed consolidated financial statements is included in this report beginning on the pages listed below:

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

	September 30, 2011	December 31, 2010
	(in thousands)	
Assets:		
Cash and cash equivalents	$825,014	$ 729,920
Investment securities:		
Available-for-sale, at fair value	1,830,155	1,677,233
Trading, at fair value	82,722	86,096
Total investment securities	1,912,877	1,763,329
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	4,300,000	2,907,264
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,193,015	1,005,679
Trading, at fair value	233,383	311,765
Total USDA Guaranteed Securities	1,426,398	1,317,444
Loans:		
Loans held for sale, at lower of cost or fair value	479,690	1,212,065
Loans held for investment, at amortized cost	1,189,224	90,674
Loans held for investment in consolidated trusts, at amortized cost	1,138,317	1,265,663
Allowance for loan losses	(10,699)	(9,803)
Total loans, net of allowance	2,796,532	2,558,599
Real estate owned, at lower of cost or fair value	3,898	1,992
Financial derivatives, at fair value	46,254	41,492
Interest receivable (includes $10,650 and $22,845, respectively, related to consolidated trusts)	79,579	90,295
Guarantee and commitment fees receivable	30,247	34,752
Deferred tax asset, net	-	14,530
Prepaid expenses and other assets	9,708	20,297
Total Assets	$11,430,507	$ 9,479,914
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$5,831,259	$ 4,509,419
Due after one year	4,060,382	3,430,656
Total notes payable	9,891,641	7,940,075
Debt securities of consolidated trusts held by third parties	713,546	827,411
Financial derivatives, at fair value	166,633	113,687
Accrued interest payable (includes $8,248 and $14,439, respectively, related to consolidated trusts)	48,998	57,131
Guarantee and commitment obligation	26,903	30,308

Accounts payable and accrued expenses	26,863	22,113
Deferred tax liability, net	1,871	-
Reserve for losses	6,991	10,312
Total Liabilities	10,883,446	9,001,037
Commitments and Contingencies (Note 5)		
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, 8,825,594 shares outstanding as of September 30, 2011 and 8,752,711 shares outstanding as of December 31, 2010	8,826	8,753
Additional paid-in capital	101,809	100,050
Accumulated other comprehensive income	85,715	18,275
Retained earnings	49,749	50,837
Total Stockholders' Equity	305,208	237,024
Non-controlling interest - preferred stock	241,853	241,853
Total Equity	547,061	478,877
Total Liabilities and Equity	$11,430,507	$ 9,479,914

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	$6,880	$ 6,430	$ 21,100	$ 19,303
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	34,398	22,971	91,531	62,597
Loans	29,843	29,174	89,414	94,734
Total interest income	71,121	58,575	202,045	176,634
Total interest expense	39,412	33,526	114,105	106,360
Net interest income	31,709	25,049	87,940	70,274
Release of/(provision for) loan losses	349	(412)	(1,092)	(1,392)
Net interest income after release of/(provision for) loan losses	32,058	24,637	86,848	68,882
Non-interest loss:				
Guarantee and commitment fees	6,148	5,977	18,855	17,606
Losses on financial derivatives	(68,567)	(6,864)	(82,368)	(28,508)
(Losses)/gains on trading assets	(3,633)	(1,722)	(354)	6,703
Gains on sale of available-for-sale investment securities	74	24	269	264
(Losses)/gains on sale of real estate owned	(4)	-	720	-
Lower of cost or fair value adjustment on loans held for sale	9,851	(906)	8,887	(3,090)
Other income	726	140	5,748	1,180
Non-interest loss	(55,405)	(3,351)	(48,243)	(5,845)
Non-interest expense:				
Compensation and employee benefits	4,805	4,501	13,968	11,919
General and administrative	2,505	1,775	7,417	6,329
Regulatory fees	550	568	1,714	1,693
Real estate owned operating costs, net	142	1,189	741	1,497
(Release of)/provision for losses	(452)	105	(3,321)	1,680
Other expense	-	-	900	-
Non-interest expense	7,550	8,138	21,419	23,118
(Loss)/income before income taxes	(30,897)	13,148	17,186	39,919
Income tax (benefit)/expense	(14,131)	885	(2,075)	5,977
Net (loss)/income	(16,766)	12,263	19,261	33,942
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,547)	(5,546)	(16,641)	(15,160)
Net (loss)/income attributable to Farmer Mac	(22,313)	6,717	2,620	18,782
Preferred stock dividends	(719)	(720)	(2,159)	(3,410)
Loss on retirement of preferred stock	-	-	-	(5,784)

Net (loss)/income attributable to common stockholders	$(23,032)	$ 5,997	$ 461	$ 9,588
(Loss)/earnings per common share and dividends:				
Basic (loss)/earnings per common share	$(2.22)	$ 0.58	$ 0.04	$ 0.94
Diluted (loss)/earnings per common share	$(2.22)	$ 0.56	$ 0.04	$ 0.91
Common stock dividends per common share	$0.05	$ 0.05	$ 0.15	$ 0.15

See accompanying notes to condensed consolidated financial statements.

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

	For the Nine Months Ended			
	September 30, 2011		September 30, 2010	
	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	10,284	$10,284	10,142	$10,142
Issuance of Class C common stock	59	59	122	122
Exercise of stock options and SARs	14	14	13	13
Balance, end of period	10,357	$10,357	10,277	$10,277
Additional paid-in capital:				
Balance, beginning of period		$100,050		$97,090
Stock-based compensation expense		2,254		2,187
Issuance of Class C common stock		19		33
Exercise, vesting and cancellation of stock options, SARs and restricted stock		(514)		158
Balance, end of period		$101,809		$99,468
Retained earnings:				
Balance, beginning of period		$50,837		$28,127
Net income attributable to Farmer Mac		2,620		18,782
Cash dividends:				
Preferred stock, Series B ($8.33 per share)		-		(1,250)
Preferred stock, Series C ($37.50 per share)		(2,159)		(2,160)
Common stock ($0.15 per share)		(1,549)		(1,534)
Loss on retirement of preferred stock		-		(5,784)
Cumulative effect of adoption of new accounting standard, net of tax		-		2,679
Balance, end of period		$49,749		$38,860
Accumulated other comprehensive income:				
Balance, beginning of period		$18,275		$3,254
Change in unrealized gain on available-for-sale securities, net of tax and reclassification adjustments		67,440		44,000
Change in unrealized gain on financial derivatives, net of tax and reclassification adjustments		-		78
Balance, end of period		$85,715		$47,332
Total Stockholders' Equity		$305,208		$253,515
Non-controlling interest:				
Balance, beginning of period		$241,853		$-
Preferred stock - Farmer Mac II LLC		-		241,853
Balance, end of period		$241,853		$241,853
Total Equity		$547,061		$495,368

Comprehensive income:		
Net income	$19,261	$33,942
Change in accumulated other comprehensive income, net of tax	67,440	44,078
Comprehensive income	$86,701	$78,020
Less: Comprehensive income attributable to non-controlling interest	16,641	15,160
Total comprehensive income	$70,060	$62,860

See accompanying notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30, 2011	September 30, 2010 (restated)
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 19,261	$ 33,942
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Net amortization of premiums and discounts on loans, investments, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	13,923	8,421
Amortization of debt premiums, discounts and issuance costs	8,822	5,057
Net change in fair value of trading securities, financial derivatives and loans held for sale	48,538	(5,970)
Amortization of deferred gains on certain Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(4,216)	-
Gains on the sale of available-for-sale investment securities	(269)	(264)
Gains on the sale of real estate owned	(720)	-
Total (release of)/provision for losses	(2,229)	3,072
Deferred income taxes	(20,734)	809
Stock-based compensation expense	2,254	2,188
Proceeds from repayment and sale of trading investment securities	686	586
Purchases of loans held for sale	(152,117)	(404,072)
Proceeds from repayment of loans purchased as held for sale	83,361	32,506
Net change in:		
Interest receivable	10,778	(246)
Guarantee and commitment fees receivable	4,505	20,958
Other assets	2,269	642
Accrued interest payable	(8,133)	5,532
Other liabilities	2,838	(17,865)
Net cash provided by/(used in) operating activities	8,817	(314,704)
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(1,276,131)	(626,678)
Purchases of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(2,105,473)	(1,151,375)
Purchases of loans held for investment	(398,050)	(26,367)
Purchases of defaulted loans	(21,266)	(5,317)
Proceeds from repayment of available-for-sale investment securities	675,566	213,315
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	699,263	372,862
Proceeds from repayment of loans purchased as held for investment	251,471	246,906
Proceeds from sale of available-for-sale investment securities	447,864	92,767
Proceeds from sale of trading securities - fair value option	-	5,013
Proceeds from sale of Farmer Mac Guaranteed Securities	13,869	18,860
Proceeds from sale of real estate owned	1,361	-
Net cash used in investing activities	(1,711,526)	(860,014)

Cash flows from financing activities:		
Proceeds from issuance of discount notes	52,174,214	50,774,678
Proceeds from issuance of medium-term notes	1,981,109	1,977,609
Payments to redeem discount notes	(51,185,913)	(50,262,407)
Payments to redeem medium-term notes	(1,027,000)	(1,441,590)
Excess tax benefits related to stock-based awards	243	747
Payments to third parties on debt securities of consolidated trusts	(124,521)	(147,832)
Proceeds from common stock issuance	20	180
Issuance costs on retirement of preferred stock	-	(5,784)
Proceeds from preferred stock issuance - Farmer Mac II LLC	-	241,853
Retirement of Series B preferred stock	-	(144,216)
Dividends paid - non-controlling interest - preferred stock	(16,641)	(15,097)
Dividends paid on common and preferred stock	(3,708)	(4,944)
Net cash provided by financing activities	1,797,803	973,197
Net increase/(decrease) in cash and cash equivalents	95,094	(201,521)
Cash and cash equivalents at beginning of period	729,920	654,794
Cash and cash equivalents at end of period	$ 825,014	$ 453,273

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Accounting Policies

The interim unaudited condensed 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 condensed 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 condensed or omitted as permitted by SEC rules and regulations. On June 1, 2011, Farmer Mac filed with the SEC an amendment to its Annual Report on Form 10-K for the year ended December 31, 2010 to correct prior misclassifications of proceeds from the repayments of certain loans between operating activities and investing activities on the consolidated statements of cash flows. These misclassifications had no impact on the net increase or decrease in cash and cash equivalents as previously reported and had no effect on Farmer Mac's previously issued condensed consolidated interim or annual consolidated balance sheets, statements of operations or statements of equity. See Note 1(a) for further information. The December 31, 2010 condensed consolidated balance sheet presented in this report has been derived from the Corporation's audited 2010 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial statements as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the 2010 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, 2010 filed with the SEC on March 16, 2011, as amended by Amendment No. 1 on Form 10-K/A filed on June 1, 2011. 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 condensed 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 SEC, 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 the portions of loans (the "USDA-guaranteed portions") guaranteed by the U.S. Department of Agriculture ("USDA") presented as "USDA Guaranteed Securities" on the condensed consolidated balance sheets. Farmer Mac II LLC was formed as a Delaware limited liability company on December 10, 2009. The business operations of Farmer Mac II LLC began in January 2010. The condensed 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 2(g) 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 condensed consolidated statements of operations. These guarantee fees totaled $2.4 million and $6.5 million for the three and nine months ended September 30, 2011, respectively, compared to $1.5 million and $4.7 million for the same periods in 2010, respectively. 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.

(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 fair value. Changes in the balance of cash and cash equivalents are reported in the condensed consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the nine months ended September 30, 2011 and 2010.

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
	(in thousands)	
Cash paid during the period for:		
Interest	$ 78,598	$ 57,746
Income taxes	20,568	12,500
Non-cash activity:		
Real estate owned acquired through loan liquidation	2,723	4,643
Loans acquired and securitized as loans held for investment in consolidated trusts	10,656	2,185
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts	10,656	1,402,556
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to debt securities of consolidated trusts held by third parties	10,656	1,402,556
Transfers of available-for-sale Farmer Mac I Guaranteed Securities to loans held for investment in consolidated trusts, upon the adoption of new consolidation guidance	-	5,385
Transfers of trading Farmer Mac Guaranteed Securities - Rural Utilities to loans held for investment in consolidated trusts, upon the adoption of new consolidation guidance	-	451,448
Deconsolidation of loans held for investment in consolidated trusts - transferred to off-balance sheet Farmer Mac I Guaranteed Securities	-	414,462
Deconsolidation of debt securities of consolidated trusts held by third parties - transferred to off-balance sheet Farmer Mac I Guaranteed Securities	-	414,462
Transfers of loans held for sale to loans held for investment	878,798	-

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. On two occasions, once in first quarter 2009 and again in first quarter 2011, consistent with a change in management's intent, Farmer Mac reclassified loans from one classification to the other on the balance sheet. Prior to first quarter 2011, cash receipts from the repayment of loans were classified within the statements of cash flows consistent with the then-current balance sheet classification as opposed to the original balance sheet classification assigned based on management's intent upon purchase of the loan, as prescribed by accounting guidance related to the statement of cash flows. As a result of these incorrect classifications, Farmer Mac restated its previously issued interim condensed consolidated statements of cash flows for the six and nine month periods ended June 30 and September 30, 2009 and 2010, respectively, and its consolidated statements of cash flows for the years ended December 31, 2009 and 2010 by amending its Annual Report on Form 10-K for the year ended December 31, 2010, which included the interim periods, by filing Amendment No. 1 on Form 10-K/A on June 1, 2011. The restatements impacted only the classification of items in operating activities and investing activities and had no impact on the net increase or decrease in cash and cash equivalents as previously reported and had no effect on Farmer Mac's previously issued condensed consolidated interim or annual consolidated balance sheets, statements of operations or statements of changes in equity.

(b) Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held ("allowance for loan losses") and loans underlying Long Term Standby Purchase Commitments ("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.

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 releases of allowance for losses, are generally 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 the purposes of the loss allowance methodology, the loans in the Farmer Mac I portfolio 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 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 nine months of 2011 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 collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization also 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.

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 condensed 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 probable losses inherent in those assets. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized 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 September 30, 2011, 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 assets in its portfolio for impairment in accordance with the Financial Accounting Standards Board ("FASB") standard on measuring individual impairment of a loan. Farmer Mac's impaired assets generally include:

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

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

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. Because the payment of principal at original maturity is primarily dependent on the value of the collateral, Farmer Mac considers the current value of the collateral in determining whether the principal will be paid. In making its determination of whether a borrower is experiencing financial difficulties, Farmer Mac considers several factors, including (1) whether 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) whether 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 characteristics. Farmer Mac evaluates TDRs similarly to other impaired loans for purposes of the allowance for losses. For both the three and nine month periods ended September 30, 2011, the recorded investment of loans determined to be TDRs was $0.4 million, both before and after restructuring. The provision for loan losses related to TDRs was zero and $0.1 million for the three and nine months ended September 30, 2011, respectively.

As of September 30, 2011 and 2010, Farmer Mac's specific allowances for losses were $7.5 million and $2.9 million, respectively.

Allowance for Losses

The following is a summary of the changes in the allowance for losses for the three and nine months ended September 30, 2011 and 2010:

	September 30, 2011			September 30, 2010		
	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	$ 11,053	$ 7,443	$ 18,496	$ 9,495	$ 9,470	$ 18,965
(Release of)/provision for losses	(349)	(452)	(801)	412	105	517
Charge-offs	(5)	-	(5)	(465)	-	(465)
Recoveries	-	-	-	-	-	-
Ending Balance	$ 10,699	$ 6,991	$ 17,690	$ 9,442	$ 9,575	$ 19,017
For the Nine Months Ended:						
Beginning Balance	$ 9,803	$ 10,312	$ 20,115	$ 6,292	$ 7,895	$ 14,187
Provision for/(release of) losses	1,092	(3,321)	(2,229)	1,392	1,680	3,072
Charge-offs	(196)	-	(196)	(465)	-	(465)
Recoveries	-	-	-	2,223	-	2,223
Ending Balance	$ 10,699	$ 6,991	$ 17,690	$ 9,442	$ 9,575	$ 19,017

During third quarter 2011, Farmer Mac recorded releases from its allowance for loan losses and its reserve for losses of $0.3 million and $0.5 million, respectively. The releases from the allowance for losses in third quarter 2011 were primarily due to a decline in estimated probable losses related to Farmer Mac's exposure to the dairy industry. For the nine months ended September 30, 2011, Farmer Mac recorded provisions to its allowance for loan losses of $1.1 million and releases from its reserve for losses of $3.3 million, respectively. 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 fourth quarter 2010, from the reserve for losses to the allowance for loan losses. The provision for/(release of) losses for the nine months ended September 30, 2011 reflects this reclassification as well as the decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries.

During third quarter 2010, Farmer Mac recorded provisions to its allowance for loan losses and its reserve for losses of $0.4 million and $0.1 million, respectively. Farmer Mac also recorded charge-offs of $0.5 million to its allowance for loan losses during third quarter 2010. For the nine months ended September 30, 2010, Farmer Mac recorded provisions to its allowance for loan losses and its reserve for losses of $1.4 million and $1.7 million, respectively. These amounts include the reclassification of $2.0 million from the reserve for losses to the allowance for loan losses upon adoption of new consolidation guidance in first quarter 2010. Farmer Mac also recorded charge-offs of $0.5 million and recoveries of $2.2 million on a loan secured by an ethanol plant to its allowance for loan losses during the nine months ended September 30, 2010.

Farmer Mac’s reserve for losses for off-balance sheet Farmer Mac I Guaranteed Securities and LTSPCs as of September 30, 2011 was $0.4 million and $6.6 million, respectively, compared to $0.6 million and $9.7 million, respectively, as of December 31, 2010.

The following tables present the ending balances of Farmer Mac I loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities and the related allowance for losses by impairment method and commodity type as of September 30, 2011 and December 31, 2010 and changes in the allowance for losses for the three and nine months ended September 30, 2011.

	As of September 30, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm (in thousands)	AgStorage and Processing (including ethanol facilities)	Other	Total
Ending Balance:							
Evaluated collectively for impairment	$ 1,781,013	$ 809,383	$ 1,246,359	$ 244,587	$ 187,144	$ 20,318	$ 4,288,804
Evaluated individually for impairment	29,991	32,029	11,904	11,398	6,000	1,138	92,460
	$ 1,811,004	$ 841,412	$ 1,258,263	$ 255,985	$ 193,144	$ 21,456	$ 4,381,264
Allowance for Losses:							
Evaluated collectively for impairment	$ 1,818	$ 1,178	$ 164	$ 781	$ 6,252	$ 7	$ 10,200
Evaluated individually for impairment	2,041	2,610	695	293	1,850	1	7,490
	$ 3,859	$ 3,788	$ 859	$ 1,074	$ 8,102	$ 8	$ 17,690
For the Three Months Ended:							
Beginning balance	$ 3,715	$ 3,803	$ 1,774	$ 1,095	$ 8,100	$ 9	$ 18,496
Provision for/(release of) losses	144	(15)	(915)	(16)	2	(1)	(801)
Charge-offs	-	-	-	(5)	-	-	(5)
Ending balance	$ 3,859	$ 3,788	$ 859	$ 1,074	$ 8,102	$ 8	$ 17,690
For the Nine Months Ended:							
Beginning balance	$ 3,572	$ 3,537	$ 2,749	$ 445	$ 9,797	$ 15	$ 20,115
Provision for/(release of) losses	463	258	(1,882)	634	(1,695)	(7)	(2,229)

Charge-offs	(176)	(7)	(8)	(5)	-	-	(196)
Ending balance	$ 3,859	$ 3,788	$ 859	$ 1,074	$ 8,102	$ 8	$ 17,690

	As of December 31, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Ending Balance:							
Evaluated collectively for impairment	$ 1,699,477	$ 835,254	$ 1,130,466	$ 282,400	$ 239,933	$ 22,514	$ 4,210,044
Evaluated individually for impairment	31,903	30,221	15,992	8,745	6,790	425	94,076
	$ 1,731,380	$ 865,475	$ 1,146,458	$ 291,145	$ 246,723	$ 22,939	$ 4,304,120
Allowance for Losses:							
Evaluated collectively for impairment	$ 1,499	$ 783	$ 2,236	$ 222	$ 7,947	$ 13	$ 12,700
Evaluated individually for impairment	2,073	2,754	513	223	1,850	2	7,415
	$ 3,572	$ 3,537	$ 2,749	$ 445	$ 9,797	$ 15	$ 20,115

Farmer Mac recognized interest income of approximately $0.7 million and $2.1 million on impaired loans during the three months and nine months ended September 30, 2011, respectively, compared to $0.6 million and $1.5 million, respectively, for the same periods in 2010. During the three and nine months ended September 30, 2011, Farmer Mac's average investment in impaired loans was $94.2 million and $90.9 million, respectively, compared to $125.4 million and $109.0 million, respectively, for the same periods in 2010.

The following tables present by commodity type the unpaid principal balances, recorded investment and specific allowance for losses related to impaired loans, the recorded investment in loans on nonaccrual status as of September 30, 2011 and December 31, 2010 and the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2011.

	As of September 30, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$ 13,274	$ 12,046	$ 4,460	$ 3,635	$ -	$ 970	$ 34,385
Unpaid principal balance	13,893	11,936	5,186	3,734	-	902	35,651
With a specific allowance:							
Recorded investment	17,401	19,675	7,013	7,755	6,000	239	58,083
Unpaid principal balance	16,098	20,093	6,718	7,664	6,000	236	56,809
Associated allowance	2,041	2,610	695	293	1,850	1	7,490
Total:							
Recorded investment	30,675	31,721	11,473	11,390	6,000	1,209	92,468
Unpaid principal balance	29,991	32,029	11,904	11,398	6,000	1,138	92,460
Associated allowance	2,041	2,610	695	293	1,850	1	7,490
For the Three Months Ended September 30, 2011:							
Average recorded investment in impaired loans	31,639	31,299	12,371	11,511	6,158	1,207	94,185
Income recognized on impaired loans	120	480	42	63	-	-	705
For the Nine Months Ended September 30, 2011:							
Average recorded investment in impaired loans	30,546	30,070	13,344	9,753	6,439	771	90,923
Income recognized on impaired loans	432	857	343	125	382	-	2,139
Recorded investment of loans on nonaccrual status:	8,389	25,475	4,532	7,464	-	-	45,860

	As of December 31, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
				(in thousands)			
Impaired Loans:							
With no specific allowance:							
Recorded investment	$ 16,015	$ 10,549	$ 6,873	$ 1,050	$ -	$ -	$ 34,487
Unpaid principal balance	17,274	10,895	7,087	1,072	-	-	36,328
With a specific allowance:							
Recorded investment	15,414	18,949	9,052	7,788	6,839	430	58,472
Unpaid principal balance	14,630	19,326	8,905	7,672	6,790	425	57,748
Associated allowance	2,073	2,754	513	223	1,850	2	7,415
Total:							
Recorded investment	31,429	29,498	15,925	8,838	6,839	430	92,959
Unpaid principal balance	31,904	30,221	15,992	8,744	6,790	425	94,076
Associated allowance	2,073	2,754	513	223	1,850	2	7,415
Recorded investment of loans on nonaccrual status:	13,828	8,793	3,267	4,380	8,796	-	39,064

In accordance with the terms of all applicable trust agreements, Farmer Mac generally acquires all loans that collateralize Farmer Mac Guaranteed Securities that become and remain either 90 or 120 days or more past due (depending on the provisions of the applicable agreement) on the next subsequent loan payment date. In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days delinquent (depending on the provisions of the applicable agreement) 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.

During the three and nine months ended September 30, 2011, Farmer Mac purchased 5 defaulted loans having a cumulative unpaid principal balance of $2.9 million and 18 defaulted loans having a cumulative unpaid principal balance of $21.3 million, respectively, from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. During the three and nine months ended September 30, 2010, Farmer Mac purchased 9 defaulted loans having a cumulative unpaid principal balance of $1.9 million and 22 defaulted loans having a cumulative unpaid principal balance of $5.3 million, respectively, from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. The following table presents Farmer Mac's purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Defaulted loans purchased underlying Farmer Mac I Guaranteed Securities	$2,921	$ 1,133	$ 7,292	$ 3,456
Defaulted loans purchased underlying LTSPCs	-	781	13,974	1,861
Total defaulted loan purchases	$2,921	$ 1,914	$ 21,266	$ 5,317

Credit Quality Indicators

The following tables present credit quality indicators related to Farmer Mac I loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of September 30, 2011 and December 31, 2010. Farmer Mac uses 90-day delinquency information to evaluate its credit risk exposure on these assets because historically it has been the best measure of borrower credit quality deterioration. Most of the Farmer Mac I 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.

	As of September 30, 2011						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	T
				(in thousands)			
Credit risk profile by internally assigned grade (1)							
Grade:							
Acceptable	$1,719,924	$757,635	$1,127,206	$226,887	$120,857	$19,043	$3,9
Other assets especially mentioned ("OAEM") (2)	49,594	27,808	74,443	10,143	45,229	1,054	20
Substandard (2)	41,486	55,969	56,614	18,955	27,058	1,359	20
Total	$1,811,004	$841,412	$1,258,263	$255,985	$193,144	$21,456	$4,3
Commodity analysis of past due loans (1)							
Greater than 90 days	$13,265	$19,992	$4,057	$6,883	$-	$651	$44
In bankruptcy and REO	10,057	5,224	2,432	1,576	-	-	19
Total non-performing	$23,322	$25,216	$6,489	$8,459	$-	$651	$64

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its Farmer Mac I portfolio, and recorded investment of past due loans. Amounts include real estate owned, at lower of cost or fair value less estimated selling costs, of $3.9 million.

(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, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
				(in thousands)			

Credit risk profile by internally assigned grade (1)							
Grade:							
Acceptable	$ 1,625,995	$ 792,061	$ 993,542	$ 268,111	$ 116,248	$ 20,321	$ 3,816,278
Other assets especially mentioned ("OAEM") (2)	59,768	17,112	86,500	9,652	76,947	639	250,618
Substandard (2)	45,617	56,302	66,416	13,382	53,528	1,979	237,224
Total	$ 1,731,380	$ 865,475	$ 1,146,458	$ 291,145	$ 246,723	$ 22,939	$ 4,304,120
Commodity analysis of past due loans (1)							
Greater than 90 days	$ 21,423	$ 26,312	$ 7,177	$ 3,803	$ 10,892	$ 641	$ 70,248
In bankruptcy and REO	4,886	3,712	1,395	1,537	-	-	11,530
Total non-performing	$ 26,309	$ 30,024	$ 8,572	$ 5,340	$ 10,892	$ 641	$ 81,778

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its Farmer Mac I portfolio, and recorded investment of past due loans. Amounts include real estate owned, at lower of cost or fair value less estimated selling costs, of $2.0 million.

(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.

Concentrations of Credit Risk

The following table sets forth the commodity/collateral and geographic diversification, as well as the range of original loan-to-value ratios, for all Farmer Mac I loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
	(in thousands)	
By commodity/collateral type:		
Crops	$ 1,811,004	$ 1,731,380
Permanent plantings	841,412	865,475
Livestock	1,258,263	1,146,458
Part-time farm	255,985	291,145
AgStorage and processing (including ethanol facilities)	193,144	246,723
Other	21,456	22,939
Total	$ 4,381,264	$ 4,304,120
By geographic region (1):		
Northwest	$ 772,640	$ 660,845
Southwest	1,581,303	1,626,398
Mid-North	865,731	934,879
Mid-South	488,703	521,294
Northeast	293,047	317,715
Southeast	379,840	242,989
Total	$ 4,381,264	$ 4,304,120
By original loan-to-value ratio:		
0.00% to 40.00%	$ 1,151,801	$ 1,030,580
40.01% to 50.00%	775,705	770,744
50.01% to 60.00%	1,229,912	1,246,675
60.01% to 70.00%	1,033,696	1,056,132
70.01% to 80.00%	137,745	155,363
80.01% to 90.00%	52,405	44,626
Total	$ 4,381,264	$ 4,304,120

(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.

(c) Financial Derivatives

Farmer Mac enters into transactions involving financial derivatives 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, and 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 also recognizes certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

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 government-sponsored enterprises ("GSEs"), futures contracts involving U.S. Treasury securities and interest rate swap contracts. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both U.S. 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 should offset changes in funding costs.

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

The following tables summarize information related to Farmer Mac's financial derivatives as of September 30, 2011 and December 31, 2010:

	September 30, 2011						
	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Interest rate swaps:							
Pay fixed non-callable	$ 2,028,155	$ -	$ (165,072)	3.73 %	0.28 %		4.45
Receive fixed non-callable	3,945,926	47,346	(707)	0.34 %	1.04 %		1.10
Basis swaps	462,694	-	(2,458)	0.66 %	0.35 %		1.47
Credit default swaps	10,000	91	-	1.00 %	0.00 %		0.97
Agency forwards	49,828	-	(271)			114.74	
Treasury futures	3,200	-	(10)			129.77	
Credit valuation adjustment	-	(1,183)	1,885				
Total financial derivatives	$ 6,499,803	$ 46,254	$ (166,633)				

	December 31, 2010						
	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Interest rate swaps:							
Pay fixed callable	$ 13,144	$ -	$ (69)	5.11 %	0.29 %		7.12
Pay fixed non-callable	1,275,108	2,814	(108,503)	4.69 %	0.30 %		3.93
Receive fixed non-callable	2,874,534	39,551	(1,828)	0.44 %	1.40 %		1.70
Basis swaps	254,991	52	(3,411)	1.34 %	0.38 %		1.71
Credit default swaps	30,000	-	(216)	1.00 %	0.00 %		1.05
Agency forwards	37,336	-	(174)			101.03	
Treasury futures	1,300	-	(6)			119.95	
Credit valuation adjustment	-	(925)	520				
Total financial derivatives	$ 4,486,413	$ 41,492	$ (113,687)				

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 September 30, 2011, 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 $129.7 million. As of September 30, 2011, Farmer Mac posted cash of $1.7 million and investment securities that the counterparty is contractually prohibited from selling or repledging with a fair value of $39.8 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. The investment securities posted as collateral are included in the investment securities balances on the condensed consolidated balance sheets. If Farmer Mac had breached certain provisions of the derivative contracts as of September 30, 2011, it could have been required to settle its obligations under the agreements or post additional collateral of $88.2 million.

The following table summarizes the effects of Farmer Mac's financial derivatives on the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010:

	Losses on Financial Derivatives			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Interest rate swaps	$(65,136)	$(5,243)	$(76,857)	$(24,634)
Agency forwards	(3,052)	(1,089)	(5,053)	(3,026)
Treasury futures	(512)	(96)	(538)	(737)
Credit default swaps	133	(396)	80	9
	(68,567)	(6,824)	(82,368)	(28,388)
Amortization of derivatives transition adjustment	-	(40)	-	(120)
Total	$(68,567)	$(6,864)	$(82,368)	$(28,508)

As of September 30, 2011, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with a total notional amount of $72.7 million and a fair value of $(2.0) million, compared to $85.0 million and $(3.4) million, respectively, as of December 31, 2010. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps economically hedge most of the interest rate basis risk related to loans Farmer Mac purchases that pay a Constant 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 losses of $0.2 million and unrealized gains of $1.4 million on those outstanding basis swaps for the three and nine months ended September 30, 2011, respectively, compared to unrealized gains of $0.1 million and $32,000, respectively, for the same periods in 2010.

(d) (Loss)/Earnings Per Common Share

Basic (loss)/earnings per common share is based on the weighted-average number of shares of common stock outstanding. Diluted (loss)/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 schedule reconciles basic and diluted (loss)/earnings per common share ("EPS") for the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended					
	September 30, 2011			September 30, 2010		
	Net Loss	Shares	$ per Share	Net Income	Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net (loss)/income attributable to common stockholders	$ (23,032)	10,354	$ (2.22)	$ 5,997	10,277	$ 0.58
Effect of dilutive securities(1):						
Stock options, SARs and restricted stock		-	-		388	(0.02)
Diluted EPS	$ (23,032)	10,354	$ (2.22)	$ 5,997	10,665	$ 0.56

(1) For the three months ended September 30, 2011 and 2010, stock options and SARs of 1,294,066 and 1,354,800, 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 September 30, 2011 and 2010, contingent shares of non-vested restricted stock of 196,076 and 126,000, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive or the performance conditions were not met.

	For the Nine Months Ended					
	September 30, 2011			September 30, 2010		
	Net Income	Shares	$ per Share	Net Income	Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	$ 461	10,328	$ 0.04	$ 9,588	10,211	$ 0.94
Effect of dilutive securities(1):						
Stock options, SARs and restricted stock		387	-		365	(0.03)
Diluted EPS	$ 461	10,715	$ 0.04	$ 9,588	10,576	$ 0.91

(1) For the nine months ended September 30, 2011 and 2010, stock options and SARs of 685,921 and 1,528,938, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive. For the nine months ended September 30, 2011 and 2010, contingent shares of non-vested restricted stock of 150,353 and 111,500, respectively, were outstanding but not included in the computation of diluted earnings per share because the performance conditions were not met.

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(e) Stock-Based Compensation

Farmer Mac's 2008 Omnibus Incentive Compensation Plan authorizes the grants of restricted stock, stock options and SARs, among other alternative forms of equity-based compensation, to directors, officers and other employees. SARs awarded to officers and employees vest annually in thirds. If not exercised or terminated earlier due to the termination of employment, SARs granted to officers or employees expire after ten years. For all SARs granted, the exercise price is equal to the closing price of Farmer Mac's Class C non-voting common stock on the date of grant. There were no stock-based awards granted during third quarter 2011. SARs granted to officers in 2011 have an exercise price of $18.77 per share. As of September 30, 2011, there were no outstanding SARs awarded to directors. Restricted stock awarded to directors during 2011 vests fully on March 31, 2012, approximately one year after grant. Restricted stock awarded to officers during 2011 vests after approximately three years and only vests if certain performance conditions are met. Restricted stock awards granted to both directors and officers are not issued until full vesting occurs.

For the three and nine months ended September 30, 2011, Farmer Mac recognized $0.8 million and $2.3 million, respectively, of compensation expense related to stock options, SARs and restricted stock, compared to $0.7 million and $2.2 million, respectively, for the same periods in 2010.

The following tables summarize activity related to stock options, SARs and non-vested restricted stock awards for the three and nine months ended September 30, 2011 and 2010:

	September 30, 2011		September 30, 2010	
	Stock Options and SARs	Weighted-Average Exercise Price	Stock Options and SARs	Weighted-Average Exercise Price
For the Three Months Ended:				
Outstanding, beginning of period	1,328,900	$ 18.57	1,923,050	$ 21.53
Granted	-	-	-	-
Exercised	(26,334)	6.88	-	-
Canceled	(8,500)	28.81	(48,250)	25.43
Outstanding, end of period	1,294,066	$ 18.74	1,874,800	$ 21.43
For the Nine Months Ended:				
Outstanding, beginning of period	1,924,133	$ 21.16	1,799,465	$ 22.68
Granted	113,000	18.77	247,000	12.20
Exercised	(32,001)	6.99	(21,331)	13.15
Canceled	(711,066)	25.83	(150,334)	22.34
Outstanding, end of period	1,294,066	$ 18.74	1,874,800	$ 21.43
Options and SARs exercisable at end of period	914,743	$ 21.12	1,440,211	$ 24.53

	September 30, 2011		September 30, 2010	
	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value
For the Three Months Ended:				
Outstanding, beginning of period	199,060	$ 12.25	181,986	$ 9.66
Granted	-	-	-	-
Canceled	(2,003)	18.77	-	-
Vested and issued	(981)	18.77	-	-
Outstanding, end of period	196,076	$ 12.15	181,986	$ 9.66
For the Nine Months Ended:				
Outstanding, beginning of period	182,609	$ 9.63	200,548	$ 5.93
Granted	73,060	18.77	111,085	12.28
Canceled	(2,003)	18.77	(11,599)	8.15
Vested and issued	(57,590)	12.33	(118,048)	5.93
Outstanding, end of period	196,076	$ 12.15	181,986	$ 9.66

The cancellations of stock options, SARs and non-vested restricted stock during the first nine months of 2011 were due to non-vested restricted stock and unvested SARs terminating in accordance with the provisions of the applicable plans upon director and employee departures from Farmer Mac and vested stock options terminating unexercised on their expiration dates.

For the three and nine months ended September 30, 2011 the adjustment to additional paid-in capital from exercises or expiration of stock options and SARs and the vesting or expiration of restricted stock was $(0.1) million and

$(0.5) million, respectively, compared to $(0.1) million and $0.2 million for the three and nine months ended September 30, 2010. The reduction of income taxes to be paid as a result of the deduction for exercises of stock options and SARs was $0.5 million for the nine months ended September 30, 2011. The reduction of income taxes to be paid as a result of the deduction for exercises of stock options and SARs and the vesting or accelerated tax elections of restricted stock was $0.9 million for nine months ended September 30, 2010.

The following tables summarize information regarding stock options, SARs and non-vested restricted stock outstanding as of September 30, 2011:

	Outstanding		Exercisable		Vested or Expected to Vest	
Range of Exercise Prices	Stock Options and SARs	Weighted-Average Remaining Contractual Life	Stock Options and SARs	Weighted-Average Remaining Contractual Life	Stock Options and SARs	Weighted-Average Remaining Contractual Life
$ 5.00 - $ 9.99	236,999	7.5 years	172,004	7.5 years	227,500	7.5 years
10.00 - 14.99	300,333	8.6 years	99,005	8.6 years	272,863	8.6 years
15.00 - 19.99	163,786	7.5 years	50,786	2.9 years	155,876	7.4 years
20.00 - 24.99	168,789	3.5 years	168,789	3.5 years	168,789	3.5 years
25.00 - 29.99	400,159	4.0 years	400,159	4.0 years	400,159	4.0 years
30.00 - 34.99	24,000	6.0 years	24,000	6.0 years	24,000	6.0 years
	1,294,066		914,743		1,249,187	

	Outstanding		Expected to Vest	
Weighted-Average Grant-Date Fair Value	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life
$ 5.00 - $ 9.99	75,000	0.5 years	67,500	0.5 years
10.00 - 14.99	51,000	1.5 years	45,900	1.5 years
15.00 - 19.99	70,076	1.3 years	60,577	1.4 years
	196,076		173,977	

The weighted-average grant date fair value of SARs granted during the first nine months of 2011 and 2010 was $13.75 and $8.31 per share, respectively. The fair values for SARs were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2011	2010
Risk-free interest rate	2.6 %	3.3 %
Expected years until exercise	6 years	7 years
Expected stock volatility	97.8 %	88.3 %
Dividend yield	1.0 %	1.8 %

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(f) 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 positions 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 mortgage prepayment rates) inputs.

See Note 7 for more information regarding fair value measurement.

(g) 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. Effective January 1, 2010, Farmer Mac adopted two new accounting standards that eliminated the concept of qualifying special purpose entities ("QSPEs") and amended the accounting for transfers of financial assets and the consolidation model for VIEs. All formerly designated QSPEs were evaluated for consolidation in accordance with the new consolidation model, which changed the method of analyzing which party to a VIE should consolidate the VIE. 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 consolidation standard requires the incremental assets and liabilities consolidated upon adoption to initially be reported at their carrying amounts. Carrying amount refers to the amount at which the assets and liabilities would have been carried in the consolidated financial statements if the new guidance had been effective when Farmer Mac first met the conditions to be the primary beneficiary of the VIE. If determining the carrying amounts is not practicable, the assets and liabilities of the VIE shall be measured at fair value at the date the new standards first apply. For the outstanding trusts consolidated effective January 1, 2010, Farmer Mac initially recorded the assets and liabilities on the consolidated balance sheet at their carrying amounts, adjusted, where applicable, for fair value option elections that had been made previously. Accrued interest and allowance for losses have also been recognized as appropriate.

Although these new accounting standards did not change the economic risk to Farmer Mac's business, specifically Farmer Mac's liquidity, credit and interest rate risks, the adoption of these new accounting standards had a significant impact on the presentation of Farmer Mac's consolidated financial statements. On the consolidated balance sheet, there was an increase in loans held for investment, interest receivable, debt and accrued interest payable, and a decrease in available-for-sale and trading Farmer Mac Guaranteed Securities, the reclassification of a portion of the reserve for losses to allowance for loan losses, and the elimination of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. On the income statement, there was an increase in interest income and interest expense attributable to the assets and liabilities of the consolidated trusts and a reclassification of a portion of guarantee fee income to interest income.

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 was whether Farmer Mac had the power to direct the activities of the trust that potentially had the most significant impact on the economic performance of the trust. Generally, the ability to make decisions regarding default mitigation was evidence of that power. Farmer Mac determined that it was 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 was 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 was shared with a related party, Farmer Mac determined that it was the primary beneficiary because the applicable accounting guidance does not permit parties within a related party group to conclude that the power is shared.

For those trusts for which Farmer Mac is the primary beneficiary, the assets and liabilities are presented on the condensed consolidated balance sheet 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.

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 condensed consolidated balance sheets. Farmer Mac's involvement in on-balance sheet 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 was 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 GSE-guaranteed mortgage-backed securities, Farmer Mac was 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 September 30, 2011, these Farmer Mac Guaranteed Securities trusts and investment securities trusts have carrying amounts on the condensed consolidated balance sheet totaling $67.6 million and $857.5 million, respectively, which is Farmer Mac's maximum exposure to loss. In addition, Farmer Mac has a variable interest in off-balance sheet VIEs, which include a guarantee of timely payment of principal and interest, totaling $1.7 billion as of September 30, 2011.

(h) New Accounting Standards

Troubled Debt Restructurings

In January 2011, the FASB issued Accounting Standards Update ("ASU") 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (discussed below). The effective date of the new disclosures about troubled debt restructurings was delayed to coordinate the disclosures with the FASB project on determining what constitutes a troubled debt restructuring. In April 2011, the FASB completed that project and issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. ASU 2011-02 states that a troubled debt restructuring exists when a creditor concludes that both the restructuring constitutes a concession and the debtor is experiencing financial difficulties and clarifies the guidance on evaluating these criteria. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption (i.e., for Farmer Mac, it was effective for third quarter 2011 reporting). The troubled debt restructuring disclosures in ASU 2010-20 also were effective in third quarter 2011. Adoption of these standards did not have a significant impact on the Corporation's financial position, results of operations or cash flows.

Fair Value Measurement and Disclosure

On May 12, 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provides converged guidance on how to measure fair value and on what disclosures to provide about fair value measurements. The new guidance is largely consistent with existing fair value measurement principles, but expands existing disclosure requirements for fair value measurement. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. Farmer Mac does not expect the adoption of the new accounting guidance to have a material effect on Farmer Mac's financial position, results of operations, cash flows or its fair value disclosures.

Comprehensive Income

On June 16, 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which revised the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. Farmer Mac does not expect the adoption of the new accounting guidance to have a material effect on Farmer Mac's financial position, results of operations or cash flows.

(i) Reclassifications

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

Note 2. Investment Securities

The following tables present the amortized cost and estimated fair values of Farmer Mac's investments as of September 30, 2011 and December 31, 2010.

	September 30, 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	$-	$(11,857)	$62,243
Floating rate asset-backed securities	174,881	312	(66)	175,127
Floating rate corporate debt securities	52,127	89	(218)	51,998
Fixed rate corporate debt securities	33,927	6	(13)	33,920
Floating rate Government/GSE guaranteed mortgage-backed securities	609,543	5,183	(180)	614,546
Fixed rate GSE guaranteed mortgage-backed securities	3,567	300	-	3,867
Floating rate GSE subordinated debt	70,000	-	(7,251)	62,749
Fixed rate GSE preferred stock	79,751	3,558	-	83,309
Fixed rate senior agency debt	162,959	15	(2)	162,972
Fixed rate U.S. Treasuries	578,997	433	(6)	579,424
Total available-for-sale	1,839,852	9,896	(19,593)	1,830,155
Trading:				
Floating rate asset-backed securities	5,275	-	(3,512)	1,763
Fixed rate GSE preferred stock	83,179	-	(2,220)	80,959
Total trading	88,454	-	(5,732)	82,722
Total investment securities	$1,928,306	$9,896	$(25,325)	$1,912,877

	December 31, 2010			
	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	$-	$(9,765)	$64,335
Floating rate asset-backed securities	29,437	24	(3)	29,458
Floating rate corporate debt securities	162,891	422	(125)	163,188
Floating rate Government/GSE guaranteed mortgage-backed securities	573,288	4,173	(681)	576,780
Fixed rate GSE guaranteed mortgage-backed securities	4,525	296	-	4,821
Floating rate GSE subordinated debt	70,000	-	(14,671)	55,329
Fixed rate GSE preferred stock	80,001	4,827	-	84,828
Fixed rate senior agency debt	5,500	-	-	5,500
Fixed rate U.S. Treasuries	692,808	232	(46)	692,994
Total available-for-sale	1,692,550	9,974	(25,291)	1,677,233
Trading:				
Floating rate asset-backed securities	5,961	-	(4,561)	1,400
Fixed rate GSE preferred stock	83,813	883	-	84,696
Total trading	89,774	883	(4,561)	86,096
Total investment securities	$1,782,324	$10,857	$(29,852)	$1,763,329

During the three and nine months ended September 30, 2011 and 2010, Farmer Mac did not recognize in earnings any other-than-temporary impairment charges.

During the three months ended September 30, 2011, Farmer Mac received proceeds of $294.7 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $84,000 and gross realized losses of $10,000. During the nine months ended September 30, 2011, Farmer Mac received proceeds of $447.9 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $279,000 and gross realized losses of $10,000. During the three months ended September 30, 2010, Farmer Mac received $23.6 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $26,000 and gross realized losses of $2,000. During the nine months ended September 30, 2010, Farmer Mac received proceeds of $92.8 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.5 million and gross realized losses of $0.2 million.

As of September 30, 2011 and December 31, 2010, unrealized losses on available-for-sale investment securities were as follows:

	September 30, 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 corporate debt securities	$24,013	$(218)	$ -	$ -
Fixed rate corporate debt securities	18,616	(13)	-	-
Floating rate asset-backed securities	57,100	(66)	-	-
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	62,243	(11,857)
Floating rate Government/GSE guaranteed mortgage-backed securities	88,524	(137)	15,734	(43)
Floating rate GSE subordinated debt	-	-	62,749	(7,251)
Fixed rate senior agency debt	12,998	(2)	-	-
Fixed rate U.S. Treasuries	50,192	(6)	-	-
Total	$251,443	$(442)	$ 140,726	$ (19,151)

	December 31, 2010 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 corporate debt securities	$-	$-	$ 99,874	$ (125)
Floating rate asset-backed securities	-	-	2,779	(3)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	64,335	(9,765)
Floating rate Government/GSE guaranteed mortgage-backed securities	159,294	(587)	4,138	(94)
Floating rate GSE subordinated debt	-	-	55,329	(14,671)
Fixed rate U.S. Treasuries	163,026	(46)	-	-
Total	$322,320	$(633)	$ 226,455	$ (24,658)

The temporary unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010, all of the investment securities in an unrealized loss position were rated at least "A-" by a nationally recognized statistical rating organization. The unrealized losses were on 39 and 47 individual investment securities as of September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011, 11 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $19.2 million. As of December 31, 2010, 29 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $24.7 million. Securities in unrealized loss positions 12 months or more have a fair value as of September 30, 2011 that is, on average, approximately 88 percent of their amortized cost basis. Farmer Mac believes that all these unrealized losses are recoverable within a reasonable period of time through changes in credit spreads or maturity and expects to recover the amortized cost basis of these securities. 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 September 30, 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 investments as of September 30, 2011 and December 31, 2010. As of September 30, 2011, Farmer Mac owned trading investments with an amortized cost of $88.5 million, a fair value of $82.7 million, and a weighted-average yield of 8.15 percent. As of December 31, 2010, Farmer Mac owned trading investments with an amortized cost of $89.8 million, a fair value of $86.1 million and a weighted-average yield of 8.12 percent.

The amortized cost, fair value and weighted-average yield of investments by remaining contractual maturity for available-for-sale investment securities as of September 30, 2011 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 September 30, 2011		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$ 785,729	$ 786,226	0.99 %
Due after one year through five years	47,236	47,046	0.81 %
Due after five years through ten years	413,848	416,191	1.15 %
Due after ten years	593,039	580,692	2.66 %
Total	$ 1,839,852	$ 1,830,155	1.56 %

Note 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 September 30, 2011 and December 31, 2010.

	September 30, 2011		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 2,815,467	$ -	$ 2,815,467
Farmer Mac II	36,599	-	36,599
Rural Utilities	1,447,934	-	1,447,934
Farmer Mac Guaranteed Securities	4,300,000	-	4,300,000
USDA Guaranteed Securities	1,193,015	233,383	1,426,398
Total	$ 5,493,015	$ 233,383	$ 5,726,398
Amortized cost	$ 5,357,804	$ 235,572	$ 5,593,376
Unrealized gains	135,418	1,483	136,901
Unrealized losses	(207)	(3,672)	(3,879)
Fair value	$ 5,493,015	$ 233,383	$ 5,726,398

	December 31, 2010		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 942,809	$ -	$ 942,809
Farmer Mac II	37,637	-	37,637
Rural Utilities	1,926,818	-	1,926,818
Farmer Mac Guaranteed Securities	2,907,264	-	2,907,264
USDA Guaranteed Securities	1,005,679	311,765	1,317,444
Total	$ 3,912,943	$ 311,765	$ 4,224,708
Amortized cost	$ 3,880,418	$ 315,655	$ 4,196,073
Unrealized gains	50,583	106	50,689
Unrealized losses	(18,058)	(3,996)	(22,054)
Fair value	$ 3,912,943	$ 311,765	$ 4,224,708

The temporary unrealized losses presented above are principally due to wider spreads on mortgage securities and changes in interest rates from the date of acquisition to September 30, 2011 and December 31, 2010, as applicable. As of September 30, 2011, the unrealized losses presented above are related to Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities. As of December 31, 2010, the unrealized losses presented above are related to Farmer Mac I, Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities. USDA Guaranteed Securities and the USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities are backed by the full faith and credit of the United States. Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities and USDA Guaranteed Securities represent other-than-temporary impairment as of September 30, 2011 and December 31, 2010. 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.

On January 25, 2010, Farmer Mac contributed substantially all of the assets comprising the Farmer Mac II program, in excess of $1.1 billion, to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA-guaranteed portions that had not been securitized by Farmer Mac (i.e., not transferred to a trust from which Farmer Mac II Guaranteed Securities were issued) but also included $35.0 million of Farmer Mac II Guaranteed Securities. Other than the guarantee already in place on the transferred Farmer Mac II Guaranteed Securities, Farmer Mac did not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA-guaranteed portions. The contributed USDA-guaranteed portions had previously been presented as Farmer Mac II Guaranteed Securities on the condensed consolidated financial statements of Farmer Mac and are now presented as "USDA Guaranteed Securities" on the condensed consolidated balance sheets. The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied.

Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities for the three and nine months ended September 30, 2011 and 2010.

The table below presents a sensitivity analysis for the Corporation's on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of September 30, 2011 and December 31, 2010.

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	$ 5,726,398	$ 4,224,708
Weighted-average remaining life (in years)	3.7	3.5
Weighted-average prepayment speed (annual rate)	3.2 %	3.5 %
Effect on fair value of a 10% adverse change	$ (1,112)	$ (18)
Effect on fair value of a 20% adverse change	$ (2,135)	$ (17)
Weighted-average discount rate	2.3 %	2.3 %
Effect on fair value of a 10% adverse change	$ (36,114)	$ (20,257)
Effect on fair value of a 20% adverse change	$ (72,098)	$ (40,315)

These sensitivities are hypothetical. Changes in fair value based on 10 percent or 20 percent variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair values is calculated without changing any other assumption. In fact, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might amplify or counteract the sensitivities.

Farmer Mac securitizes three types of assets: agricultural real estate mortgage loans, USDA-guaranteed portions, and rural utilities loans. Farmer Mac manages the credit risk of its securitized loans, both on- and off-balance sheet, together with its on-balance sheet loans and the loans underlying its off-balance sheet LTSPCs.

As part of fulfilling its guarantee obligations for Farmer Mac Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet.

The table below presents the outstanding principal balances for Farmer Mac loans, LTSPCs, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of September 30, 2011 and December 31, 2010.

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

	September 30, 2011	December 31, 2010
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$ 1,192,486	$ 972,206
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	236	3,697
Beneficial interests owned by third party investors	712,690	821,411
Farmer Mac Guaranteed Securities - AgVantage	2,741,000	941,500
Farmer Mac II:		
USDA Guaranteed Securities	1,380,836	1,297,439
Farmer Mac Guaranteed Securities	36,316	39,856
Rural Utilities:		
Loans	474,220	339,963
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	386,800	400,228
Farmer Mac Guaranteed Securities - AgVantage	1,410,800	1,887,200
Total on-balance sheet	$ 8,335,384	$ 6,703,500
Off-balance sheet:		
Farmer Mac I:		
Farmer Mac Guaranteed Securities - AgVantage	$ 970,000	$ 2,945,000
LTSPCs	1,811,280	1,754,597
Farmer Mac Guaranteed Securities	660,673	750,217
Farmer Mac II:		
Farmer Mac Guaranteed Securities	45,977	48,103
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	18,079	15,292
Total off-balance sheet	$ 3,506,009	$ 5,513,209
Total	$ 11,841,393	$ 12,216,709

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). 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 gains 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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The following table presents information related to Farmer Mac's acquisition of defaulted loans for the three and nine months ended September 30, 2011 and 2010 and the outstanding balances and carrying amounts of all such loans as of September 30, 2011 and December 31, 2010, respectively.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Unpaid principal balance at acquisition date	$2,921	$ 1,914	$ 21,266	$ 5,317
Contractually required payments receivable	2,922	1,965	21,314	5,435
Impairment recognized subsequent to acquisition	42	376	3,812	2,116
Recovery/release of allowance for defaulted loans	5	10	19	2,934

	September 30, 2011	December 31, 2010
	(in thousands)	
Outstanding balance	$38,641	$ 34,473
Carrying amount	30,816	30,365

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 held 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 September 30, 2011, 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. As of September 30, 2011, Farmer Mac had not experienced any credit losses on any 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 September 30, 2011, 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 September 30, 2011, 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. As of September 30, 2011 and 2010, Farmer Mac had not experienced any credit losses on any of those loans or securities.

	90-Day Delinquencies (1)			Net Credit Losses/(Recoveries) For the Nine Months Ended	
	As of September 30, 2011	As of December 31, 2010	As of September 30, 2010	September 30, 2011	September 30, 2010
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$35,860	$ 37,665	$ 40,846	$ 334	$ (275)
Total on-balance sheet	$35,860	$ 37,665	$ 40,846	$ 334	$ (275)
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$8,988	$ 32,583	$ 23,954	$ -	$ -
Total off-balance sheet	$8,988	$ 32,583	$ 23,954	$ -	$ -
Total	$44,848	$ 70,248	$ 64,800	$ 334	$ (275)

(1) Includes Farmer Mac I loans held 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.

Note 4. Comprehensive Income

Comprehensive income represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised primarily of net income and unrealized gains and losses on securities available-for-sale, net of related taxes.

The following table sets forth Farmer Mac's comprehensive income for the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Net (loss)/income	$(16,766)	$ 12,263	$ 19,261	$ 33,942
Available-for-sale securities, net of tax:				
Net unrealized holding gains	49,661	15,852	70,573	44,206
Reclassification adjustment for realized gains (1)	(383)	(15)	(3,133)	(206)
Net change from available-for-sale securities (2)	49,278	15,837	67,440	44,000
Financial derivatives, net of tax:				
Reclassification for amortization of financial derivatives transition adjustment (3)	-	26	-	78
Other comprehensive income, net of tax	49,278	15,863	67,440	44,078
Comprehensive income	32,512	28,126	86,701	78,020
Less: Comprehensive income attributable to non-controlling interest	5,547	5,546	16,641	15,160
Total comprehensive income	$26,965	$ 22,580	$ 70,060	$ 62,860

(1) Includes the reclassification of deferred gains recognized on certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities of $0.3 million and $3.0 million, after tax, for the three and nine months ended September 30, 2011, respectively.

(2) Unrealized gains on available for sale securities are shown net of income tax expense of $26.5 million and $8.5 million for the three months ended September 30, 2011 and 2010, respectively, and $36.3 million and $23.7 million for the nine months ended September 30, 2011 and 2010, respectively.

(3) Amortization of the financial derivatives transition adjustment is shown net of income tax expense of $14,000 and $42,000 for the three and nine months ended September 30, 2010, respectively.

During the three and nine months ended September 30, 2011, Farmer Mac reclassified $0.3 million and $3.0 million (of a total $7.0 million), respectively, of after-tax unrealized gains into earnings related to fair value changes of Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities designated as available-for-sale that were transferred to Farmer Mac II LLC in January 2010. Included in these reclassifications are amortization amounts of $1.8 million that relate to prior periods, beginning with first quarter 2010. These gains are presented as "Other income" on the condensed consolidated statements of operations. Farmer Mac will recognize in earnings the remainder of these deferred gains over the estimated remaining lives of the underlying USDA-guaranteed portions. There will, however, be no net effect on income on a consolidated basis because these gains will be offset by the amortization of premium expense on the assets held by Farmer Mac II LLC.

The following table presents Farmer Mac's accumulated other comprehensive income as of September 30, 2011 and December 31, 2010 and changes in the components of accumulated other comprehensive income for the nine months ended September 30, 2011 and the year ended December 31, 2010.

	September 30, 2011	December 31, 2010
	(in thousands)	
Available-for-sale securities:		
Beginning balance	$18,275	$ 3,300
Net unrealized gains, net of tax	67,440	14,975
Ending balance	$85,715	$ 18,275
Financial derivatives:		
Beginning balance	$-	$ (46)
Amortization of financial derivatives transition adjustment, net of tax	-	46
Ending balance	$-	$ -
Accumulated other comprehensive income, net of tax	$85,715	$ 18,275

Note 5. 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(g), the trust assets and liabilities are included on Farmer Mac's condensed 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. Proceeds from new securitizations during the nine months ended September 30, 2011 and 2010 were $13.9 million and $18.9 million, respectively. The following table summarizes cash flows received from and paid to trusts used for Farmer Mac securitizations:

	For the Nine Months Ended September 30, 2011	September 30, 2010
	(in thousands)	
Proceeds from new securitizations	$ 13,869	$ 18,860
Guarantee fees received	6,042	5,610
Purchases of assets from the trusts	(7,292)	(3,456)
Servicing advances	(28)	(14)
Repayments of servicing advances	24	22

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 September 30, 2011 and December 31, 2010, 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

	September 30, 2011	December 31, 2010
	(in thousands)	
Farmer Mac I:		
Farmer Mac Guaranteed Securities - AgVantage	$ 970,000	$ 2,945,000
Farmer Mac Guaranteed Securities	660,673	750,217
Farmer Mac II:		
Farmer Mac Guaranteed Securities	45,977	48,103
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	18,079	15,292
Total off-balance sheet Farmer Mac Guaranteed Securities	$ 1,694,729	$ 3,758,612

For those securities issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated $12.8 million as of September 30, 2011 and $17.7 million as of December 31, 2010. Upon adoption of the accounting guidance on consolidation on January 1, 2010, Farmer Mac eliminated $15.5 million of the guarantee and commitment obligation related to the consolidated trusts. During second quarter 2010, Farmer Mac deconsolidated $414.5 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 $2.7 million as of June 30, 2010. See Note 1(g) for more information. As of September 30, 2011, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.5 years. As of September 30, 2011, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 5.7 years. For information on Farmer Mac's methodology for determining the reserve for losses on off-balance sheet Farmer Mac Guaranteed Securities, see Note 1(b).

LTSPCs

An LTSPC is a commitment by Farmer Mac to purchase eligible loans from a segregated pool of loans under enumerated circumstances, either for cash or in exchange for Farmer Mac 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 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 $1.8 billion as of September 30, 2011 and December 31, 2010.

As of September 30, 2011, the weighted-average remaining maturity of all loans underlying LTSPCs was 13.4 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 condensed consolidated balance sheet. This liability approximated $14.1 million as of September 30, 2011 and $12.6 million as of December 31, 2010.

Note 6. 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 Farm Credit System. 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 that class of stock;
- Class B voting common stock, which may be held only by institutions of the Farm Credit System. 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.

From first quarter 2009 through third quarter 2011, Farmer Mac paid a quarterly dividend of $0.05 per share 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 September 30, 2011 and December 31, 2010, Farmer Mac had 57,578 shares of Series C preferred stock outstanding. The Series C preferred stock is a component of Stockholders’ Equity on the condensed consolidated balance sheets. The 57,578 shares of Series C preferred stock outstanding as of September 30, 2011 and December 31, 2010, were all held by National Rural Utilities Cooperative Finance Corporation (“CFC”), a related party.

Farmer Mac’s ability to declare and pay dividends on its outstanding preferred stock could be restricted if it failed to comply with regulatory capital requirements. All series of Farmer Mac’s preferred stock are included as components 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 will be non-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 condensed 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 condensed consolidated statements of operations on a pre-tax basis. The consolidated tax benefit is included in income tax expense.

Farmer Mac used part of the proceeds from the sale of $250.0 million of the Farmer Mac II LLC Preferred Stock to repurchase and retire all $150.0 million of the outstanding Series B Preferred Stock, which was newly issued during 2008 and reported as Mezzanine Equity on the condensed consolidated balance sheets.

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to, and as of September 30, 2011 was in compliance with, its three statutory and regulatory capital requirements:

- Minimum capital – Farmer Mac's minimum capital level is 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, including Farmer Mac Guaranteed Securities and LTSPCs;
- Critical capital – Farmer Mac's critical capital level is equal to 50 percent of the minimum capital requirement at that time; and
- Risk-based capital – the Farm Credit Administration ("FCA") has established a risk-based capital stress test for Farmer Mac.

As of September 30, 2011, Farmer Mac's minimum and critical capital requirements were $336.6 million and $168.3 million, respectively, and Farmer Mac's core capital level (common and preferred stock outstanding plus non-controlling interest – preferred stock, additional paid-in-capital and retained earnings) was $461.3 million, $124.7 million above the minimum capital requirement and $293.0 million above the critical capital requirement. As of December 31, 2010, Farmer Mac's minimum and critical capital requirements were $301.0 million and $150.5 million, respectively, and its actual core capital level was $460.6 million, $159.6 million above the minimum capital requirement and $310.1 million above the critical capital requirement.

Based on the new risk-based capital stress test that became effective in second quarter 2011, Farmer Mac's risk-based capital requirement as of September 30, 2011 was $110.9 million and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $479.0 million exceeded that requirement by approximately $368.1 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters" for more information about changes to the risk-based capital stress test applicable to Farmer Mac.

Note 7. Fair Value Disclosure

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, income and/or cost 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 condensed 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 the fair value of some financial instruments.

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 non-recurring 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 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 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 a limited availability of public market information. Farmer Mac classifies these fair value measurements as level 3.

Farmer Mac classifies its estimates of fair value for auction-rate certificates ("ARCs") as level 3 measurements. Farmer Mac uses 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. Farmer Mac believes these 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 (1) there is no active secondary market for these securities, although limited observable transactions do occasionally occur, (2) price quotes vary significantly among dealers or independent pricing services, if provided at all, and (3) 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 as of the beginning of the quarterly reporting period. Farmer Mac made no transfers within the fair value hierarchy for the fair value measurements of its investment securities during the three months ended September 30, 2011 and 2010 and during the first nine months of 2011. During the first nine months of 2010, Farmer Mac transferred its investments in the subordinated debt and preferred stock of CoBank, ACB and its investment in the preferred stock of AgFirst Farm Credit Bank, with par values of $70.0 million, $88.5 million and $88.0 million, respectively, as of December 31, 2009, from level 3 measurements to level 2 measurements. Taking into consideration its own recently executed trades during first quarter 2010, along with an increase in observable trading activity for these securities, Farmer Mac determined that the best estimates of fair value for these securities as of March 31, 2010 and continuing through September 30, 2011, were the fair values provided by an independent third party pricing service. Farmer Mac transferred these securities out of level 3 based on their fair values as of the beginning of the first quarter 2010.

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 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 the fair value measurements of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities for the three months ended September 30, 2011 and 2010 and during the first nine months of 2011. Transfers out of level 3 for the first nine months of 2010 resulted from the consolidation of certain trusts whereby the underlying assets were no longer reported at fair value on a recurring basis. Transfers out of level 3 were based on the fair values of the assets as of the beginning of the quarterly reporting period and are described in more detail below.

Upon the adoption of the accounting guidance on consolidation on January 1, 2010, Farmer Mac was deemed to be the primary beneficiary of certain VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of agricultural real estate mortgage loans or rural utilities loans. Prior to 2010, Farmer Mac presented these beneficial interests as "Farmer Mac Guaranteed Securities" on the condensed consolidated balance sheet and reported them at their fair value. Upon consolidation, Farmer Mac transferred these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts." These loans are reported at their amortized cost and are no longer included in recurring fair value measurements. Farmer Mac transferred these securities out of level 3 based on their fair values as of the beginning of the first quarter 2010.

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 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 discounted rates commensurate with the risks involved.

As of September 30, 2011 and December 31, 2010, the consideration of credit risk related to both Farmer Mac and the counterparties resulted in an adjustment to the valuations of Farmer Mac's derivative portfolio of $0.7 million and $(0.4) million, respectively. See Note 1(c) 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 condensed 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 September 30, 2011, Farmer Mac had recorded no adjustment to report loans held for sale at the lower of cost or fair value. As of December 31, 2010, Farmer Mac recorded an adjustment of $8.7 million to report loans held for sale 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 fair value less estimated cost to sell. The fair value of the loan is generally 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.

Real Estate Owned (REO)

Farmer Mac initially records REO properties at fair value less costs to sell and subsequently records them at the lower of carrying value or fair value less costs to sell. 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 estimation of fair value in the tables below.

Fair Value Classification and Transfers

As of September 30, 2011, Farmer Mac's assets and liabilities recorded at fair value include financial instruments valued at $5.8 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 the total assets and 74 percent of financial instruments measured at fair value as of September 30, 2011. As of December 31, 2010, Farmer Mac's asset and liabilities recorded at fair value included financial instruments valued at $4.6 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 49 percent of the total assets and 71 percent of financial instruments measured at fair value as of December 31, 2010.

The following tables present information about Farmer Mac's asset and liabilities measured at fair value on a recurring and nonrecurring basis as of September 30, 2011 and December 31, 2010, 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 September 30, 2011

	Level 1 (in thousands)	Level 2	Level 3	Total
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$-	$-	$62,243	$62,243
Floating rate asset-backed securities	-	175,127	-	175,127
Floating rate corporate debt securities	-	51,998	-	51,998
Floating rate Government/GSE guaranteed mortgage-backed securities	-	614,546	-	614,546
Fixed rate GSE guaranteed mortgage-backed securities	-	3,867	-	3,867
Floating rate GSE subordinated debt	-	62,749	-	62,749
Fixed rate GSE preferred stock	-	83,309	-	83,309
Fixed rate corporate debt	-	33,920	-	33,920
Fixed rate U.S. Treasuries	579,424	-	-	579,424
Fixed rate Senior agency debt	-	162,972	-	162,972
Total available-for-sale	579,424	1,188,488	62,243	1,830,155
Trading:				
Floating rate asset-backed securities	-	-	1,763	1,763
Fixed rate GSE preferred stock	-	80,959	-	80,959
Total trading	-	80,959	1,763	82,722
Total Investment Securities	579,424	1,269,447	64,006	1,912,877
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	2,815,467	2,815,467
Farmer Mac II	-	-	36,599	36,599
Rural Utilities	-	-	1,447,934	1,447,934
Total Farmer Mac Guaranteed Securities	-	-	4,300,000	4,300,000
USDA Guaranteed Securities:				
Available-for-sale	-	-	1,193,015	1,193,015
Trading	-	-	233,383	233,383
Total USDA Guaranteed Securities	-	-	1,426,398	1,426,398
Financial derivatives	-	46,254	-	46,254
Total Assets at fair value	$579,424	$1,315,701	$5,790,404	$7,685,529
Liabilities:				
Financial derivatives	$10	$164,636	$1,987	$166,633
Total Liabilities at fair value	$10	$164,636	$1,987	$166,633
Nonrecurring:				
Assets:				
Loans held for sale	$-	$-	$-	$-
Loans held for investment	-	-	11,190	11,190

REO	-	-	1,540	1,540
Total Nonrecurring Assets at fair value	$-	$-	$12,730	$12,730

Assets and Liabilities Measured at Fair Value as of December 31, 2010

	Level 1 (in thousands)	Level 2	Level 3	Total
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$-	$-	$64,335	$64,335
Floating rate asset-backed securities	-	29,458	-	29,458
Floating rate corporate debt securities	-	163,188	-	163,188
Floating rate Government/GSE guaranteed mortgage-backed securities	-	576,780	-	576,780
Fixed rate GSE guaranteed mortgage-backed securities	-	4,821	-	4,821
Floating rate GSE subordinated debt	-	55,329	-	55,329
Fixed rate GSE preferred stock	-	84,828	-	84,828
Fixed rate U.S. Treasuries	692,994	-	-	692,994
Fixed rate Senior agency debt	-	5,500	-	5,500
Total available-for-sale	692,994	919,904	64,335	1,677,233
Trading:				
Floating rate asset-backed securities	-	-	1,400	1,400
Fixed rate GSE preferred stock	-	84,696	-	84,696
Total trading	-	84,696	1,400	86,096
Total Investment Securities	692,994	1,004,600	65,735	1,763,329
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	942,809	942,809
Farmer Mac II	-	-	37,637	37,637
Rural Utilities	-	-	1,926,818	1,926,818
Total available-for-sale	-	-	2,907,264	2,907,264
Total Farmer Mac Guaranteed Securities	-	-	2,907,264	2,907,264
USDA Guaranteed Securities:				
Available-for-sale	-	-	1,005,679	1,005,679
Trading	-	-	311,765	311,765
Total USDA Guaranteed Securities	-	-	1,317,444	1,317,444
Financial derivatives	-	41,492	-	41,492
Total Assets at fair value	$692,994	$1,046,092	$4,290,443	$6,029,529
Liabilities:				
Financial derivatives	$6	$110,291	$3,390	$113,687
Total Liabilities at fair value	$6	$110,291	$3,390	$113,687
Nonrecurring:				
Assets:				
Loans held for sale	$-	$-	$331,076	$331,076
Loans held for investment	-	-	11,971	11,971
REO	-	-	1,925	1,925
Total Nonrecurring Assets at fair value	$-	$-	$344,972	$344,972

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The following tables present additional information about assets and liabilities measured at fair value on a recurring and nonrecurring basis classified as level 3 measurements. 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 quarterly reporting period.

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

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Transfers In	Transfers Out	Ending Balance
	(in thousands)								
Recurring:									
Assets:									
Investment Securities:									
Available-for-sale:									
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 64,682	$ -	$ -	$ -	$ -	$ (2,439)	$ -	$ -	$ 62,243
Trading:									
Floating rate asset-backed securities(1)	2,209	-	-	(136)	(310)	-	-	-	1,763
Total Investment Securities	66,891	-	-	(136)	(310)	(2,439)	-	-	64,006
Farmer Mac Guaranteed Securities:									
Available-for-sale:									
Farmer Mac I	1,759,205	1,001,500	-	(2,009)	-	56,771	-	-	2,815,467
Farmer Mac II	36,530	1,264	(1,208)	(990)	-	1,003	-	-	36,599
Rural Utilities	1,448,230	-	-	-	-	(296)	-	-	1,447,934
Total Farmer Mac Guaranteed Securities	3,243,965	1,002,764	(1,208)	(2,999)	-	57,478	-	-	4,300,000
USDA Guaranteed Securities:									
Available-for-sale	1,120,397	85,894	-	(33,179)	-	19,903	-	-	1,193,015
Trading(2)	249,074	-	-	(17,124)	1,433	-	-	-	233,383
Total USDA Guaranteed Securities	1,369,471	85,894	-	(50,303)	1,433	19,903	-	-	1,426,398

Total Assets at fair value	$ 4,680,327	$ 1,088,658	$ (1,208)	$ (53,438)	$ 1,123	$ 74,942	$ -	$ -	$ 5,790,404
Liabilities:									
Financial derivatives(3)	$ (1,755)	$ -	$ -	$ -	$ (232)	$ -	$ -	$ -	$ (1,987