FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q/A
November 09, 2006

As filed with the Securities and Exchange Commission on
November 9, 2006

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

FORM 10-Q/A
Amendment No. 1 to Form 10-Q

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

For the quarterly period ended June 30, 2006

Commission File Number 0-17440

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

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

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

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 T No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer £ Accelerated filer T Non-accelerated filer £

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

As of August 1, 2006, the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 9,205,695 shares of Class C Non-Voting Common Stock outstanding.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
FORM 10-Q/A FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the “Amendment”) to the Quarterly Report on Form 10-Q of the Federal Agricultural Mortgage Corporation (“Farmer Mac”) for the quarterly period ended June 30, 2006, initially filed with the Securities and Exchange Commission on August 9, 2006 (the “Original Filing”) is being filed to amend and restate financial and other information contained in Item 1 (Condensed Consolidated Financial Statements), Item 2 (Management’s Discussion and Analysis of Operating Results and Financial Condition), Item 3 (Quantitative and Qualitative Disclosures About Market Risk) and Item 4 (Controls and Procedures) of Part I, and Item 6 (Exhibits) of Part II of the Original Filing.

This Amendment restates the Corporation’s unaudited interim condensed consolidated financial statements as of June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and 2005. The Corporation is concurrently filing amendments to (1) its Form 10-K for the year ended December 31, 2005 to restate the Corporation’s consolidated financial statements as of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003, and other financial information as of and for the years ended December 31, 2002 and 2001 and the quarterly unaudited data for 2005 and 2004 and (2) its Form 10-Q for the quarter ended March 31, 2006 to restate the quarterly unaudited interim consolidated financial statements and other financial information contained in that report. In this regard, investors should rely on the restated financial results for the years and each of the quarters in the years 2005, 2004, 2003, 2002 and 2001 and the first and second quarters of 2006 and, as the Corporation previously reported on Form 8-K on October 6, 2006, should not rely on the Corporation’s previously issued consolidated financial statements and other financial information for these reporting periods.

The Corporation, in light of SEC staff comments, has recently concluded a reassessment of its documentation and accounting treatment of financial derivative transactions under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”), interpretations of which have evolved. Based on the reassessment, while the transactions engaged in by the Corporation were highly effective economic hedges of interest rate risk, the Corporation has determined that it was not appropriately applying hedge accounting in accordance with SFAS 133. See “Note 6 - Restatement of Condensed Consolidated Financial Statements” in Item 1 of Part I and the discussion under the caption “Restatement of Previously Issued Quarterly Financial Statements” in Item 2 of Part I for further information related to the restatement with respect to the hedge accounting that had been employed and the effects of this treatment on the restated consolidated financial statements.

This Amendment also addresses management’s re-evaluation of disclosure controls and procedures and management’s report on internal control over financial reporting resulting from management’s reassessment and identification of a material weakness in internal control over financial reporting relating to Farmer Mac’s accounting for derivatives under SFAS 133. See Item 4 (Controls and Procedures) of Part I for further discussion. New certifications of the principal executive officer and principal financial officer are included as exhibits to this Amendment.

Except as described above, no attempt has been made in this Amendment to amend or update other disclosures presented in this Form 10-Q/A. Therefore, this Amendment does not reflect events occurring after the filing of the Original Filing or amend or update those disclosures, or related exhibits, affected by subsequent events. Accordingly, this Amendment should be read in conjunction with Farmer Mac's other filings with the SEC subsequent to the filing of the Original Filing.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The following restated interim unaudited condensed consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") 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 condition and the results of operations and cash flows of Farmer Mac for the interim periods presented. Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2005 consolidated balance sheet presented in this report has been derived from the Corporation's audited 2005 restated consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial position, condensed consolidated results of operations and condensed consolidated cash flows as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited 2005 consolidated financial statements of Farmer Mac included in the Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2005. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

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

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share data)

	June 30, 2006 (As Restated)*	December 31, 2005 (As Restated)*
Assets:		
Cash and cash equivalents	$ 348,951	$ 458,852
Investment securities	2,007,895	1,621,941
Farmer Mac Guaranteed Securities	1,303,921	1,330,976
Loans held for sale	54,801	41,956
Loans held for investment	732,334	762,436
Allowance for loan losses	(2,734)	(4,876)
Loans held for investment, net	729,600	757,560
Real estate owned	1,039	3,532
Financial derivatives	23,040	8,719
Interest receivable	63,652	67,509
Guarantee and commitment fees receivable	25,784	22,170
Deferred tax asset, net	2,497	3,223
Prepaid expenses and other assets	6,321	25,007
Total Assets	$ 4,567,501	$ 4,341,445
Liabilities and Stockholders' Equity:		
Liabilities:		
Notes payable:		
Due within one year	$ 3,040,620	$ 2,587,704
Due after one year	1,186,872	1,406,527
Total notes payable	4,227,492	3,994,231
Financial derivatives	21,039	29,162
Accrued interest payable	29,034	29,250
Guarantee and commitment obligation	21,685	17,625
Accounts payable and accrued expenses	13,277	21,371
Reserve for losses	3,518	3,777
Total Liabilities	4,316,045	4,095,416
Stockholders' Equity:		
Preferred stock:		
Series A, stated at redemption/liquidation value, $50 per share, 700,000 shares authorized, issued and outstanding	35,000	35,000
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares issued and outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares issued and outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 9,361,305 and 9,559,554 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	9,361	9,560

Additional paid-in capital	83,740	83,058
Accumulated other comprehensive income	(176)	15,247
Retained earnings	122,000	101,633
Total Stockholders' Equity	251,456	246,029
Total Liabilities and Stockholders' Equity	$ 4,567,501	$ 4,341,445

See accompanying notes to condensed consolidated financial statements.

* See Note 6 to the condensed consolidated financial statements

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2006 (As Restated)*	June 30, 2005 (As Restated)*	June 30, 2006 (As Restated)*	June 30, 2005 (As Restated)*
Interest income:				
Investments and cash equivalents	$ 30,298	$ 14,765	$ 56,996	$ 27,352
Farmer Mac Guaranteed Securities	18,953	18,672	36,990	36,999
Loans	11,847	11,470	23,230	23,591
Total interest income	61,098	44,907	117,216	87,942
Interest expense	51,020	31,966	96,471	61,120
Net interest income	10,078	12,941	20,745	26,822
Recovery/(provision) for loan losses	594	203	1,606	787
Net interest income after recovery/(provision) for loan losses	10,672	13,144	22,351	27,609
Guarantee and commitment fees	5,288	4,889	10,337	9,845
Gains/(losses) on financial derivatives and trading assets	9,908	(14,562)	21,608	(4,697)
Gains/(losses) on the sale of real estate owned	304	(67)	514	(80)
Representation and warranty claims income	718	-	718	79
Other income	58	367	227	687
Total revenues	26,948	3,771	55,755	33,443
Expenses:				
Compensation and employee benefits	2,673	1,899	5,577	3,675
General and administrative	2,577	2,275	5,335	4,264
Regulatory fees	588	576	1,175	1,152
Real estate owned operating costs, net	22	59	137	37
Provision/(recovery) for losses	592	(91)	(104)	(192)
Total operating expenses	6,452	4,718	12,120	8,936
Income/(loss) before income taxes	20,496	(947)	43,635	24,507
Income tax expense/(benefit)	6,559	(944)	14,046	7,565
Net income/(loss)	13,937	(3)	29,589	16,942
Preferred stock dividends	(560)	(560)	(1,120)	(1,120)
Net income/(loss) available to common stockholders	$ 13,377	$ (563)	$ 28,469	$ 15,822
Earnings per common share:				
Basic earnings (loss) per common share	$ 1.21	$ (0.05)	$ 2.57	$ 1.37
Diluted earnings (loss) per common share	$ 1.18	$ (0.05)	$ 2.50	$ 1.36
Common stock dividends per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.20

See accompanying notes to condensed consolidated financial statements.

* See Note 6 to the condensed consolidated financial statements

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in thousands)

	Six Months Ended	
	June 30, 2006 (As Restated)*	June 30, 2005 (As Restated)*
Cash flows from operating activities:		
Net income	$ 29,589	$ 16,942
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (accretion)/amortization of investment premiums and discounts	(1,237)	1,267
Net amortization of debt premiums, discounts and issuance costs	58,220	26,960
Proceeds from repayment of trading investment securities	1,001	1,525
Purchases of loans held for sale	(31,316)	(27,781)
Proceeds from repayment of loans held for sale	5,344	6,643
Net change in fair value of trading securities and financial derivatives	(22,420)	(5,472)
Amortization of SFAS 133 transition adjustment on financial derivatives	298	377
(Gains)/losses on the sale of real estate owned	(514)	80
Total (recovery)/provision for losses	(1,711)	(979)
Deferred income taxes	1,527	(1,769)
Stock-based compensation expense	955	-
Decrease in interest receivable	3,857	8,323
Decrease/(increase) in guarantee and commitment fees receivable	(3,614)	759
Decrease/(increase) in other assets	28,794	1,807
Increase in accrued interest payable	(216)	(2,747)
Decrease in other liabilities	(9,086)	(3,436)
Net cash provided by operating activities	59,471	22,499
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(1,913,573)	(1,026,241)
Purchases of Farmer Mac II Guaranteed Securities and AgVantage Farmer Mac Guaranteed Securities	(108,600)	(92,834)
Purchases of loans held for investment	(25,058)	(11,141)
Purchases of defaulted loans	(4,565)	(3,804)
Proceeds from repayment of investment securities	1,524,967	899,988
Proceeds from repayment of Farmer Mac Guaranteed Securities	117,990	127,460
Proceeds from repayment of loans	68,426	69,781
Proceeds from sale of loans and Farmer Mac Guaranteed Securities	3,033	22,012
Proceeds from sale of real estate owned	2,819	572
Net cash used in investing activities	(334,561)	(14,207)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	37,272,236	22,405,440
Proceeds from issuance of medium-term notes	117,200	204,183
Payments to redeem discount notes	(37,100,394)	(22,304,773)
Payments to redeem medium-term notes	(114,000)	(339,840)
Tax benefit from tax deductions in excess of compensation cost recognized	348	-
Proceeds from common stock issuance	2,112	650

Purchases of common stock		(8,974)		(10,965)
Dividends paid		(3,339)		(3,416)
Net cash provided by/(used in) financing activities		165,189		(48,721)
Net decrease in cash and cash equivalents		(109,901)		(40,429)
Cash and cash equivalents at beginning of period		458,852		430,504
Cash and cash equivalents at end of period	$	348,951	$	390,075

See accompanying notes to condensed consolidated financial statements.

* See Note 6 to the condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. **Accounting Policies**

(a) Cash and Cash Equivalents

Farmer Mac considers highly liquid investment securities with maturities of three months or less at the time of purchase to be cash equivalents. 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 six months ended June 30, 2006 and 2005.

	Six Months Ended June 30, 2006	June 30, 2005
	(in thousands)	
Cash Paid For		
Interest	$ 40,360	$ 33,295
Income taxes	4,500	6,700
Non-cash activity:		
Real estate owned acquired through foreclosure	-	460
Loans acquired and securitized as Farmer Mac Guaranteed Securities	3,033	22,012
Loans previously under LTSPCs exchanged for Farmer Mac Guaranteed Securities	550,114	-

(b) Allowance for Losses

As of June 30, 2006, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held for investment, real estate owned, and loans underlying long-term standby purchase commitments (“LTSPCs”) and Farmer Mac I Guaranteed Securities issued after the Farm Credit System Reform Act of 1996 (the “1996 Act”) in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* (“SFAS 5”) and Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended (“SFAS 114”).

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 operating expense and is reduced by charge-offs for actual losses, net of recoveries. Negative provisions for loan losses or negative provisions for losses are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period.

Historically, Farmer Mac estimated probable losses using a systematic process that began with management’s evaluation of the results of a proprietary loan pool simulation and guarantee fee model. That model drew upon historical information from a data set of agricultural mortgage loans screened to include only those loans with credit characteristics similar to those eligible for Farmer Mac’s programs. The results generated by that model were then modified, as necessary, by the application of management’s judgment.

During 2005, Farmer Mac completed the planned migration of its methodology for determining its allowance for losses away from one based on its loan pool simulation and guarantee fee model to one based on its own historical portfolio loss experience and credit trends. Farmer Mac recorded the effects of that change as a change in accounting estimate of $4.8 million as of September 30, 2005.

Farmer Mac's current methodology for determining its allowance for losses incorporates the Corporation's proprietary automated loan classification system. That system scores loans based on criteria such as historical repayment performance, loan seasoning, loan size and loan-to-value ratio. For the purposes of the loss allowance methodology, the loans in Farmer Mac's portfolio of loans and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs have been scored and classified for each calendar quarter since first quarter 2000. The allowance methodology captures the migration of loan scores across concurrent and overlapping 3-year time horizons and calculates loss rates separately within each loan classification for (1) loans underlying LTSPCs and (2) loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of Farmer Mac's portfolio to estimate inherent probable losses, on the assumption that the historical credit losses and trends used to calculate loss rates will continue in the future. Management evaluates this assumption by taking into consideration several factors, including:

- economic conditions;
- geographic and agricultural commodity/product concentrations in the portfolio;
- the credit profile of the portfolio;
- delinquency trends of the portfolio; and
- historical charge-off and recovery activities of the portfolio.

If, based on that evaluation, management concludes that the assumption is not valid due to other more compelling indicators, the loss allowance calculation is modified by the addition of further assumptions to capture current portfolio trends and characteristics that differ from historical experience.

As of June 30, 2006, Farmer Mac concluded that the credit profile of its portfolio was consistent with Farmer Mac's historical credit profile and trends. Management believes that its use of this methodology produces a reliable estimate of inherent probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs in accordance with SFAS 5 and SFAS 114.

The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three and six months ended June 30, 2006 and 2005:

	June 30, 2006			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	(in thousands)			
Three Months Ended:				
Beginning balance	$ 3,883	$ -	$ 2,931	$ 6,814
Provision/(recovery) for losses	(594)	5	587	(2)
Net charge-offs	(555)	(5)	-	(560)
Ending balance	$ 2,734	$ -	$ 3,518	$ 6,252
Six Months Ended:				
Beginning balance	$ 4,876	$ -	$ 3,777	$ 8,653
Provision/(recovery) for losses	(1,606)	155	(259)	(1,710)
Net charge-offs	(536)	(155)	-	(691)
Ending balance	$ 2,734	$ -	$ 3,518	$ 6,252

	June 30, 2005			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	(in thousands)			
Three Months Ended:				
Beginning balance	$ 3,846	$ -	$ 12,485	$ 16,331
Provision for losses	(203)	-	(91)	(294)
Net recoveries	27	-	-	27
Ending balance	$ 3,670	$ -	$ 12,394	$ 16,064
Six Months Ended:				
Beginning balance	$ 4,395	$ -	$ 12,706	$ 17,101
Provision/(recovery) for losses	(787)	120	(312)	(979)
Net (charge-offs)/recoveries	62	(120)	-	(58)
Ending balance	$ 3,670	$ -	$ 12,394	$ 16,064

The table below summarizes the components of Farmer Mac's allowance for losses as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
	(in thousands)	
Allowance for loan losses	$ 2,734	$ 4,876
Real estate owned valuation allowance	-	-
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	1,505	2,068
Off-balance sheet Farmer Mac I Guaranteed Securities	1,324	1,078
LTSPCs	689	631
Total	$ 6,252	$ 8,653

No allowance for losses has been made for loans underlying Farmer Mac I Guaranteed Securities issued prior to the 1996 Act, AgVantage securities or securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"). Farmer Mac I Guaranteed Securities issued prior to the 1996 Act are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of June 30, 2006, there were no probable losses inherent in Farmer Mac's AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the United States Department of Agriculture ("USDA"). Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of June 30, 2006, Farmer Mac had not experienced any credit losses on any Farmer Mac I Guaranteed Securities issued prior to the 1996 Act, AgVantage securities or Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

As of June 30, 2006, Farmer Mac individually analyzed $30.8 million of its $68.8 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $38.0 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Of the $30.8 million of assets analyzed individually, $29.4 million were adequately collateralized. For the $1.4 million of assets that were not adequately collateralized, individual collateral shortfalls totaled $15,000. Accordingly, Farmer Mac recorded specific allowances of $15,000 for those under-collateralized assets as of June 30, 2006. In addition to the specific allowances provided, Farmer Mac's non-specific or general allowances were $6.2 million as of June 30, 2006.

The balance of impaired assets, both on- and off-balance sheet, and the related allowance specifically allocated to those impaired assets as of June 30, 2006 and December 31, 2005 are summarized in the following table:

	June 30, 2006			December 31, 2005		
	Balance	Specific Allowance	Net Balance	Balance	Specific Allowance	Net Balance
			(in thousands)			
Impaired assets:						
Specific allowance for losses	$ 1,360	$ (15)	$ 1,345	$ 2,445	$ (161)	$ 2,284
No specific allowance for losses	67,412	-	67,412	71,177	-	71,177
Total	$ 68,772	$ (15)	$ 68,757	$ 73,622	$ (161)	$ 73,461

(c) Financial Derivatives

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets and future cash flows or debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts principally to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk. These transactions also may provide an overall lower effective cost of borrowing than would otherwise be available in the conventional debt market.

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"). As discussed in Note 6, 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 and trading assets in the consolidated statements of operations.

The following table summarizes information related to Farmer Mac's financial derivatives as of June 30, 2006 and December 31, 2005:

	As of June 30, 2006		As of December 31, 2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps:				
Pay-fixed	$ 774,669	$ 6,337	$ 710,678	$ (17,228)
Receive-fixed	279,000	(12,802)	205,000	(5,752)
Basis	372,899	8,525	389,496	2,801
Treasury futures	11	(4)	-	-
Agency forwards	110,026	(55)	91,178	(264)
Total	$ 1,536,605	$ 2,001	$ 1,396,352	$ (20,443)

As of June 30, 2006, Farmer Mac had approximately $1.1 million of net after-tax unrealized losses included in accumulated other comprehensive income related to the SFAS 133 transition adjustment. These amounts will be reclassified into earnings in the same period or periods during which the hedged forecasted transactions (either the payment of interest or the issuance of discount notes) affect earnings or immediately when it becomes probable that the original hedged forecasted transaction will not occur within two months of the originally specified date. Over the next twelve months, Farmer Mac estimates that $0.5 million of the amount currently reported in accumulated other comprehensive income will be reclassified into earnings.

As of June 30, 2006, Farmer Mac had outstanding basis swaps with a related party with a notional amount of $210.0 million and a fair value of $9.1 million. See Note 3 "Related Party Transactions" in the Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2005, as filed with the SEC on November 9, 2006 for additional information on these related party transactions. As of December 31, 2005, these swaps had an outstanding notional amount of $225.6 million and a fair value of $3.7 million.

(d) Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share are based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options. The following schedule reconciles basic and diluted earnings per common share ("EPS") for the three and six months ended June 30, 2006 and 2005:

	June 30, 2006			June 30, 2005		
	Basic EPS	Dilutive stock options	Diluted EPS	Basic EPS	Dilutive stock options (1)	Diluted EPS
	(in thousands, except per share amounts)					
Three Months Ended:						
Net income/(loss) available to common stockholders	$ 13,377		$ 13,377	$ (563)		$ (563)
Weighted-average shares	11,083	256	11,339	11,409	-	11,409
Earnings/(loss) per common share	$ 1.21		$ 1.18	$ (0.05)		$ (0.05)
Six Months Ended:						
Net income available to common stockholders	$ 28,469		$ 28,469	$ 15,822		$ 15,822
Weighted average shares	11,095	287	11,382	11,548	56	11,604
Earnings per common share	$ 2.57		$ 2.50	$ 1.37		$ 1.36

(1) For the three months ended June 30, 2005, approximately 42,000 stock options were not included in the loss per share computation because they would have been anti-dilutive.

During the three and six months ended June 30, 2006, Farmer Mac repurchased 282,500 shares and 321,450 shares, respectively, of its Class C Non-Voting Common Stock at an average price of $26.55 per share and $26.70 per share, respectivley, pursuant to the Corporation's previously announced stock repurchase program. These repurchases reduced the Corporation's capital by approximately $7.5 million and $8.6 million, respectively.

(e) Stock-Based Compensation

In 1997, Farmer Mac adopted a stock option plan for directors, officers and other employees to acquire shares of Class C Non-Voting Common Stock. Under the plan, stock option awards vest annually in thirds, with the first third vesting one year after the date of grant. If not exercised, any options granted under the 1997 plan expire ten years from the date of grant, except options issued to directors since June 1, 1998, if not exercised, expire five years from the date of grant. Of the 3,750,000 shares authorized to be issued under the plan, 490,923 remain available for future issuance as of June 30, 2006. For all stock options granted, the exercise price is equal to the closing price of the Class C Non-Voting Common Stock on or immediately preceding the date of grant.

Effective January 1, 2006, Farmer Mac adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payments* ("SFAS 123(R)") using the modified prospective method of transition, which requires (1) the recordation of compensation expense for the non-vested portion of previously issued awards that remain outstanding as of the initial date of adoption and (2) the recordation of compensation expense for any awards issued or modified after December 31, 2005. Accordingly, prior period amounts have not been retrospectively adjusted for this change. The adoption resulted in the recognition of $0.4 million and $0.9 million of compensation expense during the three-month and six-month periods ended June 30, 2006, respectively, related to the non-vested portion of previously issued stock option awards that were outstanding as of the initial date of adoption. Additionally, Farmer Mac recognized $0.1 million of compensation expense related to stock options awarded during second quarter 2006. The effect of the recognition of compensation expense resulting from stock options on diluted EPS for the three-month and six-month periods ended June 30, 2006 was a reduction of $0.03 and $0.05, respectively, per diluted share. Prior to the adoption of SFAS 123(R), Farmer Mac accounted for its stock-based employee compensation plans under the intrinsic value method of accounting for employee stock options pursuant to Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and had adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, as amended ("SFAS 123"). Accordingly, no compensation expense was recognized in 2005 for employee stock option plans. Had Farmer Mac elected to use the fair value method of accounting for employee stock options, net income available to common stockholders and earnings per share for the three and six months ended June 30, 2005 would have been reduced to the pro forma amounts indicated in the following table:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(in thousands, except per share amounts)	
Net income/(loss) available to common stockholders, as reported	$ (563)	$ 15,822
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	(1,838)	(1,838)
Pro forma net income/(loss) available to common stockholders	$ (2,401)	$ 13,984
Earnings per common share:		
Basic - as reported	$ (0.05)	$ 1.37
Basic - pro forma	$ (0.21)	$ 1.21
Diluted - as reported	$ (0.05)	$ 1.36
Diluted - pro forma	$ (0.21)	$ 1.21

As of June 30, 2006, there was $5.9 million of total unrecognized compensation cost related to stock options outstanding and unvested as of June 30, 2006. Of that amount, $2.8 million was related to stock options outstanding and unvested as of December 31, 2005. Of that cost, $0.9 million and $1.4 million is expected to be recognized in the remainder of 2006 and 2007, respectively.

The following table summarizes stock option activity for the three and six months ended June 30, 2006 and 2005:

	June 30, 2006		June 30, 2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Three Months Ended:				
Outstanding, beginning of period	2,091,208	$ 22.68	1,803,484	$ 22.72
Granted	358,928	26.35	432,561	20.59
Exercised	(75,111)	17.26	(38,066)	14.01
Canceled	(75,091)	28.82	(56,679)	26.59
Outstanding, end of period	2,299,934	23.23	2,141,300	22.30
Options exercisable at end of period	1,431,465		1,397,755	
Six Months Ended:				
Outstanding, beginning of period	2,153,008	$ 22.41	1,812,222	$ 22.67
Granted	358,928	26.35	432,561	20.59
Exercised	(136,911)	15.40	(39,803)	14.11
Canceled	(75,091)	28.82	(63,680)	26.34
Outstanding, end of period	2,299,934	23.23	2,141,300	22.30
Options exercisable at end of period	1,431,465		1,397,755	

Stock options cancellations during the six months ended June 30, 2006 and June 30, 2005 were due either to unvested options terminating in accordance with the provisions of the applicable stock option plans upon directors' or employees' departures from Farmer Mac or vested options terminating unexercised on their expiration date. For the three-month and the six-month periods ended June 30, 2006, the additional paid-in capital received from stock option exercises was $1.2 million and $2.0 million, respectively, compared to $0.5 million and $0.5 million for the comparable periods in the prior year. For the three-month and the six-month periods ended June 30, 2006, the reduction of income taxes to be paid as a result of the deduction for stock option exercises was $0.3 million and $0.7 million, respectively, compared to $0.1 million and $0.1 million for the comparable periods in the prior year.

The following table summarizes information regarding options outstanding as of June 30, 2006:

	Options Outstanding		Options Exercisable
Range of Exercise Prices	Number of Shares	Weighted-Average RemainingContractual Life	Number of Shares
$10.00 - $19.99	401,609	6.2 years	254,270
20.00 - 24.99	1,100,058	5.9 years	743,856
25.00 - 29.99	607,349	7.3 years	242,421
30.00 - 34.99	190,418	4.9 years	190,418
35.00 - 39.99	-	-	-
40.00 - 44.99	-	-	-
45.00 - 50.00	500	5.8 years	500
	2,299,934		1,431,465

The weighted-average grant date fair values of options granted in 2006, 2005 and 2004 were $10.05, $6.69 and $7.34 per share, respectively. The fair values were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2006	2005	2004
Risk-free interest rate	5.0%	3.9%	4.3%
Expected years until exercise	6 years	7 years	5 years
Expected stock volatility	36.9%	46.3%	47.8%
Dividend yield	1.6%	1.9%	0.0%

(f) Reclassifications

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

(g) New Accounting Standards

In March 2004, the Emerging Issues Task Force ("EITF") amended EITF 03-1, *The Meaning of Other-Than-Temporary Impairment*. This amendment, which was originally effective for financial periods beginning after June 15, 2004, introduced qualitative and quantitative guidance for determining whether securities are other-than-temporarily impaired. In November 2005, the Financial Accounting Standards Board ("FASB") issued Staff Position No. 115-1 and No. 124-1 ("FSP"), which supersedes the guidance in paragraphs 10-18 of EITF 03-1 and references existing other-than-temporary impairment guidance. The FSP clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell the security has not been made, and also provides guidance on the subsequent accounting for impaired debt securities. The FSP is effective for reporting periods beginning after December 15, 2005. Farmer Mac's adoption of the FSP effective January 1, 2006 did not have a material effect on Farmer Mac's results of operations or financial position.

In May 2005, FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"), which replaced Accounting Principles Board Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principles, unless determination of either the period specific effects or the cumulative effect of the change is impracticable or otherwise promulgated. SFAS 154 is effective for fiscal years beginning after December 15, 2005. Farmer Mac's adoption of SFAS 154 effective January 1, 2006 did not have a material effect on Farmer Mac's results of operations or financial position.

In February 2006, FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements No. 133 and 140* ("SFAS 155"), which resolves issues addressed in Statement 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. SFAS 155, among other things, permits the fair value re-measurement of any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS 155 is effective for all financial instruments acquired or issued in a fiscal year beginning after September 15, 2006. SFAS 155 is not expected to have a material effect on Farmer Mac's results of operations and financial position.

In March 2006, FASB issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets* ("SFAS 156"), which requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable and permits the entities to elect either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, for subsequent measurement. SFAS 156 is effective on January 1, 2007. The adoption of SFAS 156 is not expected to have a material effect on Farmer Mac's results of operations or financial position.

In July 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires the recognition in financial statements of the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 31, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. Farmer Mac is currently evaluating the impact, if any, that FIN 48 will have on its financial statements.

Note 2. Farmer Mac Guaranteed Securities

The following table sets forth information about Farmer Mac Guaranteed Securities retained by Farmer Mac as of June 30, 2006 and December 31, 2005.

	June 30, 2006			December 31, 2005		
	Available-for-Sale	Held-to-Maturity	Total	Available-for-Sale	Held-to-Maturity	Total
			(in thousands)			
Farmer Mac I	$ 433,493	$ 40,351	$ 473,844	$ 492,158	$ 41,573	$ 533,731
Farmer Mac II	-	830,077	830,077	-	797,245	797,245
Total	$ 433,493	$ 870,428	$ 1,303,921	$ 492,158	$ 838,818	$ 1,330,976
Amortized cost	$ 428,325	$ 870,428	$ 1,298,753	$ 477,561	$ 838,818	$ 1,316,379
Unrealized gains	8,921	268	9,189	18,395	448	18,843
Unrealized losses	(3,753)	(13,594)	(17,347)	(3,798)	(8,339)	(12,137)
Fair value	$ 433,493	$ 857,102	$ 1,290,595	$ 492,158	$ 830,927	$ 1,323,085

The table below presents a sensitivity analysis for Farmer Mac's retained Farmer Mac Guaranteed Securities as of June 30, 2006.

	June 30, 2006 *(dollars in thousands)*
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities	$ 1,290,595
Weighted-average remaining life (in years)	4.8
Weighted-average prepayment speed (annual rate)	10.1%
Effect on fair value of a 10% adverse change	$ (53)
Effect on fair value of a 20% adverse change	$ (80)
Weighted-average discount rate	5.7%
Effect on fair value of a 10% adverse change	$ (17,912)
Effect on fair value of a 20% adverse change	$ (35,802)

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, in this table the effect of a variation in a particular assumption on the fair value of the retained interest 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.

The table below presents the outstanding principal balances as of the periods indicated for Farmer Mac Guaranteed Securities, loans, and LTSPCs.

	June 30, 2006	December 31, 2005
	(in thousands)	
On-balance sheet assets		
Farmer Mac I:		
Loans	$ 778,304	$ 784,422
Guaranteed Securities	467,944	518,250
Farmer Mac II:		
Guaranteed Securities	828,939	796,224
Total on-balance sheet	$ 2,075,187	$ 2,098,896
Off-balance sheet assets		
Farmer Mac I:		
LTSPCs	$ 2,149,677	$ 2,329,798
Guaranteed Securities	1,778,288	804,785
Farmer Mac II:		
Guaranteed Securities	34,839	39,508
Total off-balance sheet	$ 3,962,804	$ 3,174,091
Total	$ 6,037,991	$ 5,272,987

Net credit losses and 90-day delinquencies as of and for the periods indicated for Farmer Mac Guaranteed Securities, loans and LTSPCs are presented in the table below. Information is not presented for loans underlying Farmer Mac I Guaranteed Securities issued prior to the 1996 Act or Farmer Mac II Guaranteed Securities. Farmer Mac I Guaranteed Securities issued prior to the 1996 Act are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of June 30, 2006, Farmer Mac had not experienced any credit losses on any Farmer Mac I Guaranteed Securities issued prior to the 1996 Act or on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

	90-Day Delinquencies (1)				Net Credit Losses/(Recoveries)			
	As of June 30, 2006		As of December 31, 2005		For the Six Months Ended June 30, 2006		2005	
	(in thousands)							
On-balance sheet assets:								
Farmer Mac I:								
Loans	$	18,599	$	23,308	$	536	$	(62)
Guaranteed Securities		-		-		-		-
Total on-balance sheet	$	18,599	$	23,308	$			