FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
May 10, 2010

As filed with the Securities and Exchange Commission on May 10, 2010

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 March 31, 2010

Commission File Number 001-14951

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

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

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

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 ¨ 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 ¨
Non-accelerated filer x	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 May 3, 2010 the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,614,980 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)

	March 31, 2010	December 31, 2009
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 418,211	$ 654,794
Investment securities:		
Available-for-sale, at fair value	1,198,374	1,041,923
Trading, at fair value	82,826	89,972
Total investment securities	1,281,200	1,131,895
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	1,793,927	2,524,867
Trading, at fair value	-	874,129
Total Farmer Mac Guaranteed Securities	1,793,927	3,398,996
USDA Guaranteed Securities:		
Available-for-sale, at fair value	781,823	-
Trading, at fair value	407,844	-
Total USDA Guaranteed Securities	1,189,667	-
Loans:		
Loans held for sale, at lower of cost or fair value	758,437	666,534
Loans held for investment, at amortized cost	90,823	93,478
Loans held for investment in consolidated trusts, at amortized cost	1,789,026	-
Allowance for loan losses	(9,142)	(6,292)
Total loans, net of allowance	2,629,144	753,720
Real estate owned, at lower of cost or fair value	3,132	739
Financial derivatives, at fair value	21,170	15,040
Interest receivable	64,794	67,178
Guarantee and commitment fees receivable	34,195	55,016
Deferred tax asset, net	20,081	24,146
Prepaid expenses and other assets	23,644	37,289
Total Assets	$ 7,479,165	$ 6,138,813
Liabilities, Mezzanine Equity and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$ 3,404,475	$ 3,662,898
Due after one year	2,082,578	1,908,713
Total notes payable	5,487,053	5,571,611
Debt securities of consolidated trusts held by third parties	1,337,331	-
Financial derivatives, at fair value	110,602	107,367
Accrued interest payable	47,530	39,562
Guarantee and commitment obligation	31,039	48,526
Accounts payable and accrued expenses	12,094	23,445
Reserve for losses	6,427	7,895
Total Liabilities	7,032,076	5,798,406
Mezzanine Equity:		
	-	144,216

Series B redeemable preferred stock, par value $1,000, per share 150,000 shares authorized, issued and outstanding as of December 31, 2009 (redemption value $150,000,000)		
Stockholders' Equity:		
Preferred stock:		
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 issued and outstanding as of March 31, 2010 and December 31, 2009	57,578	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization	1,031	1,031
Class B Voting, $1 par value, no maximum authorization	500	500
Class C Non-Voting, $1 par value, no maximum authorization	8,613	8,611
Additional paid-in capital	97,861	97,090
Accumulated other comprehensive income	7,587	3,254
Retained earnings	32,066	28,127
Total Stockholders' Equity	205,236	196,191
Non-controlling interest - preferred stock	241,853	-
Total Equity	447,089	196,191
Total Liabilities, Mezzanine Equity and Equity	$ 7,479,165	$ 6,138,813

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 March 31, 2010	March 31, 2009
	(in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	$ 6,483	$ 8,909
Farmer Mac and USDA Guaranteed Securities	20,831	27,759
Loans	33,418	10,485
Total interest income	60,732	47,153
Total interest expense	37,115	23,713
Net interest income	23,617	23,440
Provision for loan losses	(2,850)	(3,534)
Net interest income after provision for loan losses	20,767	19,906
Non-interest income:		
Guarantee and commitment fees	5,919	7,410
(Losses)/gains on financial derivatives	(5,804)	1,711
Gains on trading assets	3,367	31,625
Other-than-temporary impairment losses	-	(81)
Gains on sale of available-for-sale investment securities	240	3,150
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	1,581
Lower of cost or fair value adjustment on loans held for sale	(2,274)	-
Other income	829	234
Non-interest income	2,277	45,630
Non-interest expense:		
Compensation and employee benefits	3,511	4,025
General and administrative	2,503	2,914
Regulatory fees	563	513
Real estate owned operating costs	10	21
(Recoveries)/provision for losses	(1,468)	2,519
Non-interest expense	5,119	9,992
Income before income taxes	17,925	55,544
Income tax expense	4,336	18,090
Net income	13,589	37,454
Less: Net income attributable to non-controlling interest - preferred stock dividends	(4,068)	-
Net income attributable to Farmer Mac	9,521	37,454
Preferred stock dividends	(1,970)	(3,936)
Loss on retirement of preferred stock	(5,784)	-
Net income available to common stockholders	$ 1,767	$ 33,518
Earnings per common share and dividends:		
Basic earnings per common share	$ 0.17	$ 3.31

Diluted earnings per common share	$	0.17	$	3.31
Common stock dividends per common share	$	0.05	$	0.05

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended			
	March 31, 2010		March 31, 2009	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	58	$ 57,578	9	$ 9,200
Issuance of Series C preferred stock	-	-	11	10,800
Balance, end of period	58	$ 57,578	20	$ 20,000
Common stock:				
Balance, beginning of period	10	$ 10,142	10	$ 10,132
Issuance of Class C common stock	-	2	-	3
Balance, end of period	10	$ 10,144	10	$ 10,135
Additional paid-in capital:				
Balance, beginning of period		$ 97,090		$ 95,572
Stock-based compensation expense		760		654
Issuance of Class C common stock		11		6
Expiration of stock options		-		(1,159)
Balance, end of period		$ 97,861		$ 95,073
Retained earnings/(accumulated deficit):				
Balance, beginning of period		$ 28,127		$ (52,144)
Net income attributable to Farmer Mac		9,521		37,454
Cash dividends:				
Preferred stock, Series B ($8.33 per share)		(1,250)		(3,726)
Preferred stock, Series C ($12.50 per share)		(720)		(210)
Common stock ($0.05 per share)		(507)		(507)
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		$ 32,066		$ (19,133)
Accumulated other comprehensive income:				
Balance, beginning of period		$ 3,254		$ (47,412)
Change in unrealized gain on available-for-sale securities, net of tax and reclassification adjustments		4,310		1,764
Change in unrealized gain on financial derivatives, net of tax and reclassification adjustments		23		39
Balance, end of period		$ 7,587		$ (45,609)
Total Stockholders' Equity		$ 205,236		$ 60,466
Non-controlling interest:				
Balance, beginning of period		$ -		$ -
Preferred stock - Farmer Mac II LLC		241,853		-
Balance, end of period		$ 241,853		$ -
Total Equity		$ 447,089		$ 60,466
Comprehensive income:				
Net income		$ 13,589		$ 37,454
Changes in accumulated other comprehensive income, net of tax		4,333		1,803

Comprehensive income		17,922		39,257
Less: Comprehensive income attributable to non-controlling interest		4,068		-
Total Comprehensive income attributable to Farmer Mac	$	13,854	$	39,257

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended March 31, 2010	March 31, 2009
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 13,589	$ 37,454
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Net amortization of premiums and discounts on loans, investments, and Farmer Mac and USDA Guaranteed Securities	1,632	1,228
Amortization of debt premiums, discounts and issuance costs	1,362	4,826
Proceeds from repayment and sale of trading investment securities	236	268
Purchases of loans held for sale	(127,740)	(15,144)
Proceeds from repayment of loans held for sale	32,963	1,538
Net change in fair value of trading securities and financial derivatives	(6,262)	(46,617)
Amortization of transition adjustment on financial derivatives	34	39
Other-than-temporary impairment losses	-	81
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	(1,581)
Gains on the sale of available-for-sale investments securities	(240)	(3,150)
Total provision for losses	1,382	6,053
Deferred income taxes	289	13,290
Stock-based compensation expense	760	654
Decrease in interest receivable	2,384	26,119
Decrease in guarantee and commitment fees receivable	20,821	4,770
Decrease in other assets	15,922	25,753
Increase/(decrease) in accrued interest payable	7,968	(5,649)
Decrease in other liabilities	(19,931)	(9,843)
Net cash (used in)/provided by operating activities	(54,831)	40,089
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(284,149)	-
Purchases of Farmer Mac Guaranteed Securities	(93,197)	(352,078)
Purchases of loans held for investment	(9,226)	(14,670)
Purchases of defaulted loans	(2,490)	(5,030)
Proceeds from repayment of available-for-sale investment securities	57,766	82,531
Proceeds from repayment of Farmer Mac Guaranteed Securities	56,912	67,277
Proceeds from repayment of loans held for investment	84,464	34,034
Proceeds from sale of available-for-sale investment securities	69,175	128,400
Proceeds from sale of trading securities - fair value option	5,013	-
Proceeds from sale of Farmer Mac Guaranteed Securities	6,724	17,124
Proceeds from sale of loans	763	358,953
Net cash (used in)/provided by investing activities	(108,245)	316,541
Cash flows from financing activities:		
Proceeds from issuance of discount notes	14,970,627	16,997,175
Proceeds from issuance of medium-term notes	339,653	919,427
Payments to redeem discount notes	(15,099,610)	(17,111,209)
Payments to redeem medium-term notes	(296,590)	(1,163,000)

Payment to third parties on debt securities of consolidated trusts	(72,971)	-
Proceeds from common stock issuance	13	9
Issuance costs on retirement of preferred stock	(5,784)	-
Proceeds from preferred stock issuance - Farmer Mac II LLC	241,853	-
Proceeds from preferred stock issuance	-	10,800
Retirement of Series B Preferred stock	(144,216)	-
Dividends paid - Non-controlling interest - preferred stock	(4,005)	-
Dividends paid on common and preferred stock	(2,477)	(4,443)
Net cash used in financing activities	(73,507)	(351,241)
Net (decrease)/increase in cash and cash equivalents	(236,583)	5,389
Cash and cash equivalents at beginning of period	654,794	278,412
Cash and cash equivalents at end of period	$ 418,211	$ 283,801

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 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 the annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2009 condensed consolidated balance sheet presented in this report has been derived from the Corporation's audited 2009 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 audited 2009 consolidated financial statements of Farmer Mac included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 16, 2010. 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.

(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 three months ended March 31, 2010 and 2009.

	For the Three Months Ended March 31, 2010	March 31, 2009
	(in thousands)	
Cash paid during the quarter for:		
Interest	$ 18,799	$ 23,172
Income taxes	1,500	-
Non-cash activity:		
Real estate owned acquired through foreclosure	2,393	-
Loans acquired and securitized as Farmer Mac Guaranteed Securities	-	17,124
Loans acquired and securitized as loans held for investment in consolidated trusts	763	-
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts, upon the adoption of new consolidation guidance	1,400,371	-
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to debt securities of consolidated trusts held by third parties, upon the adoption of new consolidation guidance	1,400,371	-
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	-
Transfers of Farmer Mac I Guaranteed Securities to loans held for sale	-	288,012
Transfers of loans held for investment to loans held for sale	-	617,072

(b) Allowance for Losses

As of March 31, 2010, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs, Farmer Mac I Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities.

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 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.

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 Farmer Mac's portfolio of loans and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs have been scored and classified for each calendar quarter since first quarter 2000. The allowance methodology captures the migration of loan scores across concurrent and overlapping three-year time horizons and calculates loss rates separately within each loan classification for (1) loans underlying LTSPCs and (2) loans held and loans underlying Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of unimpaired loans in Farmer Mac's portfolio to estimate inherent losses, on the assumption that the historical credit losses and trends used to calculate loss rates will continue in the future. Management evaluates this assumption by taking into consideration factors, including:

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

Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs, in accordance with the standard on accounting for contingencies issued by the Financial Accounting Standards Board ("FASB").

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, to determine if there are probable losses inherent in those assets.

Farmer Mac also analyzes assets in its portfolio for impairment in accordance with the FASB standard on measuring individual impairment of a loan. Farmer Mac's impaired assets include:

- non-performing assets (loans 90 days or more past due, in foreclosure, restructured, in bankruptcy – including loans performing under either their original loan terms or a court-approved bankruptcy plan – and real estate owned ("REO");
- 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. In the event that the collateral value does not support the total recorded investment, Farmer Mac provides a specific allowance 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.

The table below summarizes the components of Farmer Mac's allowance for losses as of March 31, 2010 and December 31, 2009:

	March 31, 2010		December 31, 2009	
	(in thousands)			
Allowance for loan losses	$	9,142	$	6,292
Reserve for losses:				
On-balance sheet Farmer Mac I Guaranteed Securities		-		-
Off-balance sheet Farmer Mac I Guaranteed Securities		-		2,033
LTSPCs		6,427		5,862
Farmer Mac Guaranteed Securities - Rural Utilities		-		-
Total	$	15,569	$	14,187

The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three months ended March 31, 2010 and 2009:

	For the Three Months Ended											
	March 31, 2010						March 31, 2009					
	Allowance for Loan Losses		Reserve for Losses		Total Allowance for Losses		Allowance for Loan Losses		Reserve for Losses		Total Allowance for Losses	
	(in thousands)											
Beginning balance	$	6,292	$	7,895	$	14,187	$	10,929	$	5,506	$	16,435
Provision/(recovery) for losses		2,850		(1,468)		1,382		3,534		2,519		6,053
Charge-offs		-		-		-		(2,000)		-		(2,000)
Recoveries		-		-		-		765		-		765
Ending balance	$	9,142	$	6,427	$	15,569	$	13,228	$	8,025	$	21,253

Upon the adoption of the new consolidation guidance on January 1, 2010, Farmer Mac reclassified $2.0 million from the reserve for losses to the allowance for loan losses as a result of Farmer Mac being determined the primary beneficiary of certain VIEs with beneficial interests owned by third party investors. The provision/(recovery) for losses for the three months ended March 31, 2010 reflects this reclassification as well as provisions of $0.9 million and $0.5 million, respectively, accounted for in the allowance for loan losses and reserve for losses. Prior to the adoption of this guidance, Farmer Mac classified these interests as off-balance sheet Farmer Mac I Guaranteed Securities.

No allowance for losses has been provided for AgVantage securities, securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"), or USDA Guaranteed 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. 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 March 31, 2010, 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 March 31, 2010, Farmer Mac had not experienced any credit losses on any AgVantage securities. The guaranteed portions presented as USDA Guaranteed Securities, as well as those that collateralize 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 March 31, 2010, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any USDA Guaranteed Securities held or on any Farmer Mac II Guaranteed Securities.

As of March 31, 2010, Farmer Mac individually analyzed $50.3 million of its $83.9 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $33.6 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac's specific allowance for under-collateralized assets was $1.5 million as of March 31, 2010, and $0.6 million as of December 31, 2009. Farmer Mac's non-specific or general allowances were $14.1 million as of March 31, 2010 and $13.6 million as of December 31, 2009.

Farmer Mac recognized interest income of approximately $0.5 million and $1.1 million on impaired loans during the three months ended March 31, 2010 and 2009 respectively. During the three months ended March 31, 2010 and 2009, Farmer Mac's average investment in impaired loans was $92.6 million and $125.7 million, respectively.

(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, 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 March 31, 2010 and December 31, 2009:

March 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	$ 65,175	$ -	$ (1,379)	5.70%	0.25%		7.45
Pay fixed non-callable	1,214,333	-	(106,330)	4.95%	0.26%		4.32
Receive fixed callable	175,000	-	(18)	0.17%	0.48%		1.03
Receive fixed non-callable	2,058,620	22,206	(1)	0.45%	1.87%		2.19
Basis swaps	253,012	52	(3,616)	1.49%	0.57%		2.07
Credit default swaps	30,000	-	(295)	1.00%	0.00%		1.81
Agency forwards	49,488	-	(21)			99.77	
Treasury futures	11,300	-	(39)			115.90	
Credit valuation adjustment	-	(1,088)	1,097				
Total financial derivatives	$ 3,856,928	$ 21,170	$ (110,602)				

December 31, 2009

	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	$ 65,686	$ -	$ (1,725)	5.70%	0.27%		7.78
Pay fixed non-callable	1,236,156	5	(99,913)	4.95%	0.26%		4.62
Receive fixed callable	300,000	236	-	0.09%	0.54%		0.76
Receive fixed non-callable	2,262,714	14,298	(2,815)	0.41%	1.80%		2.25
Basis swaps	262,177	294	(3,673)	1.63%	0.61%		2.39

Credit default swaps	30,000	-	(214)	1.00%	0.00%		2.14
Agency forwards	75,511	453	-			101.22	
Treasury futures	20,500	3	-			115.47	
Credit valuation adjustment	-	(249)	973				
Total financial derivatives	$ 4,252,744	$ 15,040	$ (107,367)				

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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 March 31, 2010, 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 $96.4 million. As of March 31, 2010, Farmer Mac posted assets with a fair value of $21.1 million as collateral for its derivatives in net liability positions. If Farmer Mac had breached certain provisions of the derivative contracts as of March 31, 2010, it could have been required to settle its obligations under the agreements or post additional collateral of $75.3 million.

The following table summarizes the effects of Farmer Mac's financial derivatives on the condensed consolidated statements of operations for the three months ended March 31, 2010 and 2009:

	(Losses)/Gains on Financial Derivatives For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(in thousands)	
Interest rate swaps	$ (4,546)	$ 2,659
Agency forwards	(598)	(879)
Treasury futures	(249)	(9)
Credit default swaps	(377)	-
	(5,770)	1,771
Amortization of derivatives transition adjustment	(34)	(60)
Total	$ (5,804)	$ 1,711

As of March 31, 2010 and December 31, 2009, respectively, Farmer Mac had approximately $23,000 and $0.1 million of net after-tax unrealized losses on financial derivatives included in accumulated other comprehensive income related to the financial derivatives 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 12 months, Farmer Mac estimates that $0.1 million of the amount currently reported in accumulated other comprehensive income will be reclassified into earnings.

As of March 31, 2010, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with total notional amount of $96.0 million and a fair value of $(3.6) million, compared to $105.2 million and $(3.7) million, respectively, as of December 31, 2009. 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 gains on those outstanding basis swaps of $0.1 million for first quarter 2010, compared to unrealized losses of $0.5 million for the same period in 2009.

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(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, stock appreciation rights ("SARs") and nonvested restricted stock awards. The following schedule reconciles basic and diluted earnings per common share ("EPS") for the three months ended March 31, 2010 and 2009:

	For the Three Months Ended					
	March 31, 2010			March 31, 2009		
	Net Income	Shares	$ per Share	Net Income	Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income available to common stockholders	$ 1,767	10,143	$ 0.17	$ 33,518	10,135	$ 3.31
Effect of dilutive securities:						
Stock options, SARs and restricted stock (1)		308	-		-	-
Diluted EPS	$ 1,767	10,451	$ 0.17	$ 33,518	10,135	$ 3.31

(1) For the three months ended March 31, 2010 and 2009, stock options, SARs and nonvested restricted stock of 1,581,965 and 1,697,829, 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 March 31, 2010, 82,500 contingent shares of nonvested restricted stock were outstanding but not included in the computation of diluted earnings per share because the performance conditions were not met.

(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. Upon stock option exercise, new shares are issued by the Corporation. Under the plan, stock options awarded 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 that options issued to directors, if not exercised, expire five years from the date of grant. 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. As of June 30, 2008, the plan had terminated pursuant to its terms and no further grants will be made under it.

During 2008, Farmer Mac's stockholders approved the 2008 Omnibus Incentive Compensation Plan that 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 and SARs awarded to directors vest fully after approximately one year. If not exercised or terminated earlier due to the termination of employment or service on the Board, SARs granted to officers or employees expire after ten years and those granted to directors expire after seven years. For all SARs granted, the exercise price is equal to the closing price of the Class C Non-Voting Common Stock on the date of grant. SARs granted during 2009 have exercise prices ranging from \$5.93 to \$7.78 per share. Restricted stock was awarded to directors in June 2009 and vests fully after approximately one year. Restricted stock awarded to officers in June 2009 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. No restricted stock awards were granted during first quarter 2010.

For the three months ended March 31, 2010, Farmer Mac recognized \$0.8 million of compensation expense related to stock options, SARs and restricted stock, compared to \$0.7 million for the same period in 2009.

The following tables summarize activity related to stock options, SARs and nonvested restricted stock awards for the three months ended March 31, 2010 and 2009:

	For the Three Months Ended			
	March 31, 2010		March 31, 2009	
	Stock Options and SARs	Weighted-Average Exercise Price	Stock Options and SARs	Weighted-Average Exercise Price
Outstanding, beginning of period	1,799,465	$ 22.68	2,237,711	$ 25.54
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled	-	-	(539,882)	28.30
Outstanding, end of period	1,799,465	$ 22.68	1,697,829	$ 24.66
Stock options and SARs exercisable at the end of the period	1,398,269	$ 25.17	1,308,518	$ 24.93

	For the Three Months Ended			
	March 31, 2010		March 31, 2009	
	Nonvested Restricted Stock	Weighted-Average Grant-date Fair Value	Nonvested Restricted Stock	Weighted-Average Grant-date Fair Value
Outstanding, beginning of period	200,548	$ 5.93	-	$ -
Granted	-	-	-	-
Canceled	-	-	-	-
Outstanding, end of period	200,548	$ 5.93	-	$ -

The cancellations of stock options during the first three months of 2009 were due to unvested options or SARs terminating and the cancellation of a portion of vested options upon employee and officers' departures from Farmer Mac. There were no such cancellations during the first three months of 2010. There were no stock options or SARs exercised during the first three months of 2010 or 2009.

The following tables summarize information regarding stock options, SARs and nonvested restricted stock outstanding as of March 31, 2010:

	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	300,000	9.0 years	30,000	8.5 years	252,000	9.0 years
10.00 - 14.99	-	-	-	-	-	-
15.00 - 19.99	81,722	4.0 years	81,722	4.0 years	81,722	4.0 years
20.00 - 24.99	550,588	4.1 years	550,588	4.1 years	550,588	4.1 years
25.00 - 29.99	653,487	4.6 years	530,290	4.0 years	641,680	4.5 years
30.00 - 34.99	213,668	1.9 years	205,669	1.7 years	211,268	1.8 years
	1,799,465		1,398,269		1,737,258	

	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
$ 5.93	200,548	0.9 years	180,496	0.9 years

There were no stock options, SARs or restricted stock granted during first quarter 2010. The weighted-average grant date fair value of options and SARs granted during 2009 was $5.11. The fair values for SARs and stock options were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2009
Risk-free interest rate	1.6%
Expected years until exercise	7 years
Expected stock volatility	103.6%
Dividend yield	3.2%

(f) Fair Value Measurement

Effective January 1, 2008, Farmer Mac adopted new accounting guidance for fair value measurements. The guidance 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 inputs (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in long-dated volatilities).

Effective January 1, 2008, Farmer Mac adopted FASB guidance on the fair value option for financial instruments that provides companies an irrevocable option to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. On January 1, 2008, Farmer Mac recorded a cumulative effect of adoption adjustment of $12.1 million, net of tax, as an increase to the beginning balance of retained earnings. The fair value option election was made for certain available-for-sale investment securities and certain Farmer Mac II Guaranteed Securities that were classified as held-to-maturity on January 1, 2008. 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 variable interest entities ("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 variable interest entities ("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 new 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 new 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 has a significant impact on the presentation of Farmer Mac's consolidated financial statements beginning in 2010. 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 that 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 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 recorded as either Farmer Mac Guaranteed Securities or Investment Securities. 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 the AgVantage program. 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 primary beneficiary of those trusts. For VIEs classified as Investment Securities, which include 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. The Farmer Mac Guaranteed Securities trusts and Investment Securities trusts have carrying amounts on the condensed consolidated balance sheet totaling $72.7 million and $444.2 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 $2.8 billion.

(h) New Accounting Standards

Accounting for Transfers of Financial Assets

On December 23, 2009, the FASB issued an Accounting Standards Update ("ASU"), which codifies recent accounting guidance related to transfers of financial assets. The new guidance eliminates the concept of a QSPE, changes the requirements for derecognizing financial assets and enhances information reported to financial statement users by increasing the transparency or disclosures about transfers of financial assets and an entity's continuing involvement with transferred financial assets. Farmer Mac adopted the ASU on January 1, 2010 and the impact of adoption was not material to Farmer Mac's financial condition, results of operations or cash flows.

Variable Interest Entities

On December 23, 2009, the FASB issued an ASU, which codifies recent accounting guidance on consolidation of VIEs. The new guidance replaces the quantitative-based risks-and-rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity. The ASU requires additional disclosures about a reporting entity's involvement with VIEs and about any significant changes in risk exposure as a result of that involvement. Farmer Mac adopted this ASU on January 1, 2010, which resulted in the consolidation of assets and liabilities onto Farmer Mac's balance sheet in connection with trusts that previously qualified for the QSPE exception. Additionally, interest income and interest expense related to the consolidated assets and liabilities of the trusts will be reflected in the statement of operations.

As of December 31, 2009, Farmer Mac disclosed the impact of adopting the new consolidation standard as an increase in consolidated assets of $292.8 million, requiring incremental regulatory capital of $5.9 million, and an increase in retained earnings of $2.6 million. Upon adoption, Farmer Mac reassessed its securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities in consideration of the related party relationship with certain counterparties to these transactions and concluded that additional trusts required consolidation. The actual impact upon adoption was an increase in consolidated assets of $1.5 billion, which resulted in an incremental capital requirement of $30.4 million. The transition adjustment upon adoption did not change significantly from the reported amount, increasing retained earnings by $2.7 million, which is presented in the Condensed Consolidated Statement of Equity as "Cumulative effect of adoption of new accounting standard, net of tax."

Accounting Standards Update on Fair Value Measurements and Disclosures

On January 21, 2010, the FASB issued a new accounting standard, which amends FASB guidance on fair value measurements and disclosures to add new requirements for disclosures about transfers into and out of levels 1 and 2 and separate disclosures about purchases, sales, issuance, and settlements relating to level 3 measurements. The new standard also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The ASU is effective for first quarter 2010 reporting except for the level 3 activity disclosures, which are effective in first quarter 2011. Adoption of the new accounting guidance did not have a significant impact on Farmer Mac's fair value disclosures.

(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 March 31, 2010 and December 31, 2009.

	March 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	$ -	$ (11,844)	$ 62,256
Floating rate asset-backed securities	26,163	10	(15)	26,158
Floating rate corporate debt securities	218,932	654	(864)	218,722
Floating rate Government/GSE guaranteed mortgage-backed securities	409,466	1,666	(612)	410,520
Fixed rate GSE guaranteed mortgage-backed securities	5,790	326	-	6,116
Floating rate GSE subordinated debt	70,000	-	(19,464)	50,536
Fixed rate GSE preferred stock	80,237	3,169	-	83,406
Fixed rate senior agency debt	5,485	-	(2)	5,483
Fixed rate Treasuries	335,148	53	(24)	335,177
Total available-for-sale	1,225,321	5,878	(32,825)	1,198,374
Trading:				
Floating rate asset-backed securities	6,472	-	(5,020)	1,452
Fixed rate GSE preferred stock	84,381	-	(3,007)	81,374
Total trading	90,853	-	(8,027)	82,826
Total investment securities	$ 1,316,174	$ 5,878	$ (40,852)	$ 1,281,200

	December 31, 2009			
	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	$ -	$ (1,216)	$ 72,884
Floating rate asset-backed securities	58,157	26	(40)	58,143
Floating rate corporate debt securities	246,758	267	(1,420)	245,605
Floating rate Government/GSE guaranteed mortgage-backed securities	404,452	1,188	(1,419)	404,221
Fixed rate GSE guaranteed mortgage-backed securities	6,248	289	-	6,537
Floating rate GSE subordinated debt	70,000	-	(22,438)	47,562
Fixed rate GSE preferred stock	90,543	-	(1,332)	89,211
Fixed rate Treasuries	117,810	-	(50)	117,760
Total available-for-sale	1,068,068	1,770	(27,915)	1,041,923
Trading:				
Floating rate asset-backed securities	6,708	-	(4,884)	1,824
Fixed rate GSE preferred stock	89,637	-	(1,489)	88,148
Total trading	96,345	-	(6,373)	89,972
Total investment securities	$ 1,164,413	$ 1,770	$ (34,288)	$ 1,131,895

During first quarter 2010, Farmer Mac did not recognize in earnings any other-than-temporary impairment charges. In first quarter 2009, Farmer Mac recognized in earnings other-than-temporary impairment charges of $81,000 (in addition to $51.7 million other-than-temporary impairment charges recorded in 2008) related to its investment in Fannie Mae floating rate preferred stock.

During the three months ended March 31, 2010, Farmer Mac received proceeds of $69.6 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.4 million and gross realized losses of $0.2 million. During the three months ended March 31, 2009, Farmer Mac received proceeds of $128.4 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $3.2 million.

As of March 31, 2010 and December 31, 2009, unrealized losses on available-for-sale investment securities were as follows:

	March 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	$ -	$ -	$ 110,348	$ (864)
Floating rate asset-backed securities	-	-	5,385	(15)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	62,256	(11,844)
Floating rate Government/GSE guaranteed mortgage-backed securities	89,479	(125)	109,498	(487)
Floating rate GSE subordinated debt	-	-	50,536	(19,464)
Fixed rate senior agency debt	5,484	(2)	-	-
Fixed rate Treasuries	175,108	(24)	-	-
Total	$ 270,071	$ (151)	$ 338,023	$ (32,674)

	December 31, 2009 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	$ -	$ -	$ 182,745	$ (1,420)
Floating rate asset-backed securities	-	-	17,319	(40)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	72,884	(1,216)
Floating rate Government/GSE guaranteed mortgage-backed securities	116,754	(645)	121,877	(774)
Floating rate GSE subordinated debt	-	-	47,562	(22,438)
Fixed rate GSE preferred stock	89,211	(1,332)	-	-
Fixed rate Treasuries	117,760	(50)	-	-
Total	$ 323,725	$ (2,027)	$ 442,387	$ (25,888)

The temporary unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to March 31, 2010 and December 31, 2009, 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 March 31, 2010, all of the investment securities in an unrealized loss position were rated at least “A” by Standard & Poor’s. As of December 31, 2009, all of the investment securities in an unrealized loss position were rated at least “A,” except one that was not rated. The unrealized losses were on 77 and 86 individual investment securities as of March 31, 2010 and December 31, 2009, respectively.

As of March 31, 2010, 58 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $32.7 million. As of December 31, 2009, 73 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $25.9 million. Securities in unrealized loss positions 12 months or more have a fair value as of March 31, 2010 that is, on average, approximately 91 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 March 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.

Farmer Mac did not own any held-to-maturity investments as of March 31, 2010 and 2009. As of March 31, 2010, Farmer Mac owned trading investments with an amortized cost of $90.9 million, a fair value of $82.8 million, and a weighted-average yield of 8.10 percent. The amortized cost, fair value and weighted-average yield of investments by remaining contractual maturity for available-for-sale investment securities as of March 31, 2010 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 March 31, 2010		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$ 345,527	$ 345,578	0.33%
Due after one year through five years	227,924	227,645	0.51%
Due after five years through ten years	106,921	107,485	2.65%
Due after ten years	544,949	517,666	2.79%
Total	$ 1,225,321	$ 1,198,374	1.66%

Note 3. Farmer Mac and USDA Guaranteed Securities

The following table sets forth information about on-balance sheet Farmer Mac and USDA Guaranteed Securities as of March 31, 2010 and December 31, 2009.

	March 31, 2010		
	Available-for-Sale	Trading	Total
Farmer Mac I	$ 48,080	$ -	$ 48,080
Farmer Mac II	39,692	-	39,692
Rural Utilities	1,706,155	-	1,706,155
Farmer Mac Guaranteed Securities	1,793,927	-	1,793,927
USDA Guaranteed Securities	781,823	407,844	1,189,667
Total	$ 2,575,750	$ 407,844	$ 2,983,594
Amortized cost	$ 2,547,928	$ 409,362	$ 2,957,290
Unrealized gains	34,181	-	34,181
Unrealized losses	(6,359)	(1,518)	(7,877)
Fair value	$ 2,575,750	$ 407,844	$ 2,983,594

	December 31, 2009		
	Available-for-Sale	Trading	Total
Farmer Mac I	$ 56,864	$ -	$ 56,864
Farmer Mac II	764,792	422,681	1,187,473
Rural Utilities	1,703,211	451,448	2,154,659
Total	$ 2,524,867	$ 874,129	$ 3,398,996
Amortized cost	$ 2,493,644	$ 817,631	$ 3,311,275
Unrealized gains	39,657	56,569	96,226
Unrealized losses	(8,434)	(71)	(8,505)
Fair value	$ 2,524,867	$ 874,129	$ 3,398,996

Upon the adoption of the new consolidation guidance on January 1, 2010, Farmer Mac was determined 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 sheets. Upon consolidation, Farmer Mac transferred these assets from Farmer Mac Guaranteed Securities to loans held for investment in consolidated trusts. The transferred assets on January 1, 2010 included Farmer Mac Guaranteed Securities – Rural Utilities with an unpaid principal balance of $412.9 million and a fair value of $455.6 million and Farmer Mac I Guaranteed Securities with an unpaid principal balance of $5.3 million and a fair value of $5.6 million.

On January 25, 2010, Farmer Mac contributed substantially all of the assets, in excess of $1.1 billion, comprising the Farmer Mac II program 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., transferred to a trust whereby Farmer Mac II Guaranteed Securities were issued) but also included $35.0 million of 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 and will not issue Farmer Mac II Guaranteed Securities to Farmer Mac II LLC in the future. 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 would be available to creditors of Farmer Mac only after all obligations owed to creditors of and equity holders in Farmer Mac II LLC had been satisfied.

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of acquisition to March 31, 2010 and December 31, 2009, as applicable. As of March 31, 2010 and December 31, 2009, the unrealized losses presented above are related to Farmer Mac II and USDA Guaranteed Securities, which 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 represents an other-than-temporary impairment as of March 31, 2010 and December 31, 2009. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

Farmer Mac realized no gains or losses from the sale of Farmer Mac and USDA Guaranteed Securities for the three months ended March 31, 2010 and 2009.

The table below presents a sensitivity analysis for the Corporation's on-balance sheet Farmer Mac and USDA Guaranteed Securities as of March 31, 2010 and December 31, 2009.

	March 31, 2010	December 31, 2009
	(dollars in thousands)	
Fair value of beneficial interests retained in Farmer Mac and USDA Guaranteed Securities	$ 2,983,594	$ 3,398,996
Weighted-average remaining life (in years)	3.4	3.7
Weighted-average prepayment speed (annual rate)	4.6%	3.8%
Effect on fair value of a 10% adverse change	$ (1,050)	$ (18)
Effect on fair value of a 20% adverse change	$ (2,030)	$ (36)
Weighted-average discount rate	2.7%	2.8%
Effect on fair value of a 10% adverse change	$ (16,366)	$ (22,081)
Effect on fair value of a 20% adverse change	$ (33,145)	$ (44,531)

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 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 for Farmer Mac loans, LTSPCs and Farmer Mac and USDA Guaranteed Securities as of March 31, 2010 and December 31, 2009.

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

	March 31, 2010	December 31, 2009
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$ 765,934	$ 733,422
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	4,357	5,307
Beneficial interests owned by third party investors	1,335,953	-
Farmer Mac Guaranteed Securities - AgVantage	45,050	48,800
Farmer Mac II:		
USDA Guaranteed Securities	1,156,930	-
Farmer Mac Guaranteed Securities	41,258	1,164,996
Rural Utilities:		
Loans	87,662	28,644
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	406,679	412,948
Farmer Mac Guaranteed Securities - AgVantage	1,675,000	1,675,000
Total on-balance sheet	$ 5,518,823	$ 4,069,117
Off-balance sheet:		
Farmer Mac I:		
AgVantage	$ 2,945,000	$ 2,945,000
LTSPCs	1,846,244	2,165,706
Farmer Mac Guaranteed Securities	348,154	1,492,239
Farmer Mac II:		
Farmer Mac Guaranteed Securities	39,351	34,802
Rural Utilities:		
AgVantage	14,235	14,240
Total off-balance sheet	$ 5,192,984	$ 6,651,987
Total	$ 10,711,807	$ 10,721,104

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 regains effective control over the transferred loans. Considering the low loan-to-value ratios in its portfolio, Farmer Mac believes that it is probable at the acquisition of these loans that it will be able to collect all contractually required payments receivable. 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. The following table presents information related to Farmer Mac’s acquisition of defaulted loans for the three months ended March 31, 2010 and 2009 and the outstanding balances and carrying amounts of all such loans as of March 31, 2010 and December 31, 2009, respectively.

	For the Three Months Ended March 31, 2010	March 31, 2009
	(in thousands)	
Unpaid principal balance at acquisition date	$ 2,490	$ 5,064
Contractually required payments receivable	2,557	5,074
Impairment recognized subsequent to acquisition	1,381	2,000

	March 31, 2010	December 31, 2009
	(in thousands)	
Outstanding balance	$ 48,672	$ 50,409
Carrying amount	38,086	39,810

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 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 March 31, 2010, 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 March 31, 2010, 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 United States Department of Agriculture. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of March 31, 2010, 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 March 31, 2010, 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 March 31, 2010, Farmer Mac had not experienced any credit losses on any of those loans or securities.

	90-Day Delinquencies (1)			Net Credit Losses (2)	
	As of March 31, 2010	As of December 31, 2009	As of March 31, 2009	For the Three Months Ended March 31, 2010	March 31, 2009
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$ 43,569	$ 35,470	$ 80,964	$ -	$ 1,235
Total on-balance sheet	$ 43,569	$ 35,470	$ 80,964	$ -	$ 1,235
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$ 26,866	$ 14,056	$ 5,270	$ -	$ -
Guaranteed Securities	-	-	-	-	-
Total off-balance sheet	$ 26,866	$ 14,056	$ 5,270	$ -	$ -
Total	$ 70,435	$ 49,526	$ 86,234	$ -	$ 1,235

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

(2) Includes loans and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

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 months ended March 31, 2010 and 2009:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(in thousands)	
Net income	$ 13,589	$ 37,454
Available-for-sale securities, net of tax:		
Net unrealized holding gains (1)	4,500	1,764
Reclassification adjustment for realized gains	(190)	-
Net change from available-for-sale securities	4,310	1,764
Financial derivatives, net of tax:		
Reclassification for amortization of financial derivatives transition adjustment (2)	23	39
Other comprehensive income, net of tax	4,333	1,803
Comprehensive income	17,922	39,257
Less: Comprehensive income attributable to non-controlling interest	4,068	-
Total comprehensive income attributable to Farmer Mac	$ 13,854	$ 39,257

(1) Unrealized gains on available for sale securities is shown net of income tax expense of $2.2 million and $0.9 million for the three months ended March 31, 2010 and 2009, respectively.
(2) Amortization of financial derivatives transition adjustment is shown net of income tax expense of $12,000 and $21,000 for the three months ended March 31, 2010 and 2009, respectively.

The following table presents Farmer Mac's accumulated other comprehensive income as of March 31, 2010 and December 31, 2009 and changes in the components of accumulated other comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2009.

	March 31, 2010	December 31, 2009
	(in thousands)	
Available-for-sale securities:		
Beginning balance	$ 3,300	$ (47,214)
Net unrealized gains, net of tax	4,310	50,514
Ending balance	$ 7,610	$ 3,300
Financial derivatives:		
Beginning balance	$ (46)	$ (198)
Amortization of financial derivatives transition adjustment, net of tax	23	152
Ending balance	$ (23)	$ (46)
Accumulated other comprehensive income, net of tax	$ 7,587	$ 3,254

Note 5. Off-Balance Sheet Guarantees and Long-Term Standby Purchase Commitments

Overview

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 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, 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 FASB 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 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 three months ended March 31, 2010 and 2009 were \$0.8 million and \$17.1 million, respectively. The following table summarizes cash flows received from and paid to trusts used for securitizations:

	For the Three Months Ended March 31, 2010	March 31, 2009
	(in thousands)	
Proceeds from new securitizations	$ 763	$ 17,124
Guarantee fees received	1,237	3,609
Purchases of assets from the trusts	(2,323)	-
Servicing advances	(236)	(4)
Repayments of servicing advances	77	2

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 March 31, 2010 and December 31, 2009, 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				
		March 31, 2010		December 31, 2009
		(in thousands)		
Farmer Mac I:				
AgVantage	$	2,945,000	$	2,945,000
Farmer Mac Guaranteed Securities		348,154		1,492,239
Farmer Mac II Guaranteed Securities		39,351		34,802
Rural Utilities AgVantage		14,235		14,240
Total off-balance sheet Farmer Mac Guaranteed Securities	$	3,346,740	$	4,486,281

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 $18.7 million as of March 31, 2010 and $33.9 million as of December 31, 2009. Upon adoption of the new consolidation guidance on January 1, 2010, Farmer Mac eliminated $15.5 million of the guarantee and commitment obligation related to the consolidated trusts. See Note 1(g) for more information. As of March 31, 2010, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 14.0 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).

In the future, Farmer Mac will operate only that part of the Farmer Mac II program that involves the transfer of USDA-guaranteed portions to trusts and the issuance of Farmer Mac II Guaranteed Securities, and will only do so to the extent that Farmer Mac is approached or referred by an investor. Farmer Mac will not issue Farmer Mac II Guaranteed Securities to Farmer Mac II LLC in the future.

Long-Term Standby Purchase Commitments (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 March 31, 2010 and $2.2 billion as of December 31, 2009.

As of March 31, 2010, the weighted-average remaining maturity of all loans underlying LTSPCs was 14.6 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 $12.3 million as of March 31, 2010 and $14.7 million as of December 31, 2009.

Note 6. Stockholders' Equity and Mezzanine 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 fourth quarter 2004 through fourth quarter 2008, Farmer Mac paid a quarterly dividend of $0.10 per share on all classes of the Corporation's common stock. Throughout 2009, Farmer Mac paid a quarterly dividend of $0.05 per share on all classes of the Corporation's common stock. On February 4, 2010, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock that was paid on March 31, 2010. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Preferred Stock

During 2010 and 2009, Farmer Mac had two series of preferred stock outstanding:

- Series B preferred stock, which was newly issued on September 30, 2008 and on December 15, 2008, is temporary equity and is reported as Mezzanine Equity on the condensed consolidated balance sheets because it contains redemption features that, although remote, are not solely within the control of Farmer Mac, was repurchased and retired on January 25, 2010 such that none was outstanding on March 31, 2010; and
- Series C preferred stock, which was newly issued during fourth quarter 2008 and during 2009, is a component of Stockholders' Equity on the condensed consolidated balance sheets.

The Series C preferred stock was issued pursuant to an initiative under which any participant who used Farmer Mac for a credit enhancement or purchase transaction in excess of $20.0 million was required to purchase an equity interest in Farmer Mac in the form of shares of Series C preferred stock, thereby enabling Farmer Mac to raise additional capital to support its mission of providing liquidity and lending capacity to agricultural and rural utilities lenders. Farmer Mac sold the 57,578 shares of Series C preferred stock without registration under the Securities Act of 1933, as amended, in reliance upon the exemption provided by Section 3(a)(2), for an aggregate purchase price of $57.6 million or $1,000 per share. There were 57,578 shares of Series C preferred stock outstanding as of March 31, 2010, all held by the National Rural Utilities Cooperative Finance Corporation ("National Rural"). This initiative that required participants to purchase Series C preferred stock ended in fourth quarter 2009.

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 Subsidiary

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

The $250.0 million of proceeds from the offering of the FALConS were used by the Trust to purchase the Company Preferred Stock from Farmer Mac. Farmer Mac II LLC issued its Company Preferred Stock and its common equity interest to Farmer Mac as consideration for the contribution by Farmer Mac to Farmer Mac II LLC of substantially all of the assets, in excess of $1.1 billion, comprising the Farmer Mac II program business. Farmer Mac used the proceeds from the sale of the Company Preferred Stock to the Trust to repurchase and retire Farmer Mac's outstanding Series B preferred stock, which had an aggregate liquidation preference of $150.0 million, and for general corporate purposes. The Company Preferred Stock is permanent equity of Farmer Mac II LLC and presented as "Non-controlling interest – preferred stock" within permanent equity on the consolidated balance sheets of Farmer Mac.

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to, and as of March 31, 2010 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 March 31, 2010, Farmer Mac's minimum and critical capital requirements were $244.5 million and $122.3 million, respectively, and Farmer Mac's core capital (common and preferred stock outstanding plus non-controlling interest – preferred stock, additional paid-in-capital and retained earnings) level was $439.5 million, $195.0 million above the minimum capital requirement and $317.2 million above the critical capital requirement. As of December 31, 2009, Farmer Mac's minimum and critical capital requirements were $217.0 million and $108.5 million, respectively, and its actual core capital level was $337.2 million, $120.2 million above the minimum capital requirement and $228.7 million above the critical capital requirement.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of March 31, 2010 was $41.7 million and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $455.1 million exceeded that requirement by approximately $413.4 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters" for more information about proposed changes to the risk-based capital stress test applicable to Farmer Mac.

Note 7. Fair Value Disclosures

Fair Value Measurement

Effective January 1, 2008, Farmer Mac adopted FASB guidance on fair value measurements, which defines fair value, establishes a hierarchy for ranking fair value measurements, and expands disclosures about fair value measurements. 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 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 performed 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, 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 values 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, duration, 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.

During first quarter 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 estimate of fair value for these securities as of March 31, 2010 was the fair values provided by an independent third party pricing service. Farmer Mac corroborated the fair value measurements provided by the independent third party pricing service through internally-developed models that employ a discounted cash flow approach. Farmer Mac transferred these securities out of level 3 based on their fair values as of the beginning of the quarterly reporting period.

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

Farmer Mac estimates the fair value of its Farmer Mac 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 and USDA Guaranteed Securities by obtaining a secondary valuation from an independent third party pricing service.

Upon the adoption of the new consolidation guidance 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 sheets 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.” Going forward, these loans will be reported at their amortized cost and will no longer be 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 quarterly reporting period.

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 estimates of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved.

As of March 31, 2010, the consideration of credit risk related to both Farmer Mac and the counterparties did not result in a material adjustment to the valuations of Farmer Mac's derivative portfolio. As of December 31, 2009, 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.

Nonrecurring Fair Value Measurements and Classification

Loans Held for Sale

Loans held for sale are reported at the lower of cost or fair value in the consolidated balance sheets. Farmer Mac internally models the fair value of loans by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. The fair values of these instruments are classified as level 3 measurements. As of March 31, 2010, Farmer Mac recorded an adjustment of $2.4 million to report loans held for sale at the lower of cost or fair value. As of December 31, 2009, Farmer Mac recorded an adjustment of $0.1 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 costs 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 similar 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

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 similar properties in similar geographical areas and/or assessment through observation of such properties. Farmer Mac classifies the REO fair values as level 3 measurements.

Fair Value Classification and Transfers

As of March 31, 2010, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $3.1 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 42 percent of total assets and 70 percent of financial instruments measured at fair value as of March 31, 2010. As of December 31, 2009, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $3.7 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 61 percent of total assets and 80 percent of financial instruments measured at fair value as of December 31, 2009.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of March 31, 2010 and December 31, 2009, 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 March 31, 2010

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Recurring:				
Assets:				
Investment securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ -	$ 62,256	$ 62,256
Floating rate asset-backed securities	-	26,158	-	26,158
Floating rate corporate debt securities	-	218,722	-	218,722
Floating rate Government/GSE guaranteed mortgage-backed securities	-	410,520	-	410,520
Fixed rate GSE guaranteed mortgage-backed securities	-	6,116	-	6,116
Floating rate GSE subordinated debt	-	50,536	-	50,536
Floating rate GSE preferred stock	-	83,406	-	83,406
Treasuries	335,177	-	-	335,177
Senior agency debt	-	5,483	-	5,483
Total available-for-sale	335,177	800,941	62,256	1,198,374
Trading:				
Floating rate asset-backed securities	-	-	1,452	1,452
Fixed rate GSE preferred stock	-	81,374	-	81,374
Total trading	-	81,374	1,452	82,826
Total investment securities	335,177	882,315	63,708	1,281,200
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	48,080	48,080
Farmer Mac II	-	-	39,692	39,692
Rural Utilities	-	-	1,706,155	1,706,155
Total available-for-sale	-	-	1,793,927	1,793,927
Trading - Farmer Mac II	-	-	-	-
Total Farmer Mac Guaranteed Securities	-	-	1,793,927	1,793,927
USDA Guaranteed Securities:				
Available-for-sale	-	-	781,823	781,823
Trading	-	-	407,844	407,844
Total USDA Guaranteed Securities	-	-	1,189,667	1,189,667
Financial derivatives	-	21,170	-	21,170
Total Assets at fair value	$ 335,177	$ 903,485	$ 3,047,302	$ 4,285,964
Liabilities:				
Financial derivatives	$ 39	$ 106,972	$ 3,591	$ 110,602
Total Liabilities at fair value	$ 39	$ 106,972	$ 3,591	$ 110,602
Nonrecurring:				
Assets:				
Loans held for sale, at lower of cost or fair value	$ -	$ -	$ 85,248	$ 85,248
Loans held for investment, at fair value	-	-	10,522	10,522
Total Assets at fair value	$ -	$ -	$ 95,770	$ 95,770

Assets and Liabilities Measured at Fair Value as of December 31, 2009

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Recurring:				
Assets:				
Investment securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ -	$ 72,884	$ 72,884
Floating rate asset-backed securities	-	58,143	-	58,143
Floating rate corporate debt securities	-	245,605	-	245,605
Floating rate Government/GSE guaranteed mortgage-backed securities	-	404,221	-	404,221
Fixed rate GSE guaranteed mortgage-backed securities	-	6,537	-	6,537
Floating rate GSE subordinated debt	-	-	47,562	47,562
Fixed rate GSE preferred stock	-	-	89,211	89,211
Treasuries	117,760	-	-	117,760
Total available-for-sale	117,760	714,506	209,657	1,041,923
Trading:				
Floating rate asset-backed securities	-	-	1,824	1,824
Fixed rate GSE preferred stock	-	-	88,148	88,148
Total trading	-	-	89,972	89,972
Total investment securities	117,760	714,506	299,629	1,131,895
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	56,864	56,864
Farmer Mac II	-	-	764,792	764,792
Rural Utilities	-	-	1,703,211	1,703,211
Total available-for-sale	-	-	2,524,867	2,524,867
Trading:				
Farmer Mac II	-	-	422,681	422,681
Rural Utilities	-	-	451,448	451,448
Total trading	-	-	874,129	874,129
Total Farmer Mac Guaranteed Securities	-	-	3,398,996	3,398,996
Financial derivatives	3	15,037	-	15,040
Total Assets at fair value	$ 117,763	$ 729,543	$ 3,698,625	$ 4,545,931
Liabilities:				
Financial derivatives	$ -	$ 103,714	$ 3,653	$ 107,367
Total Liabilities at fair value	$ -	$ 103,714	$ 3,653	$ 107,367
Nonrecurring:				
Assets:				
Loans held for sale	$ -	$ -	$ 28,505	$ 28,505
Total Assets at fair value	$ -	$ -	$ 28,505	$ 28,505

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

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended March 31, 2010

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
	(in thousands)					
Recurring:						
Assets:						
Investment securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 72,884	$ -	$ -	$ (10,628)	$ -	$ 62,256
Floating rate GSE subordinated debt	47,562	-	-	-	(47,562)	-
Fixed rate GSE preferred stock	89,211	-	-	-	(89,211)	-
Total available-for-sale investment securities	209,657	-	-	(10,628)	(136,773)	62,256
Trading:						
Floating rate asset-backed securities(1)	1,824	(236)	(136)	-	-	1,452
Fixed rate GSE preferred stock	88,148	-	-	-	(88,148)	-
Total trading investment securities	89,972	(236)	(136)	-	(88,148)	1,452
Total investment securities	299,629	(236)	(136)	(10,628)	(224,921)	63,708
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	56,864	(3,757)	-	358	(5,385)	48,080
Farmer Mac II	764,792	(305)	-	(1,611)	(723,184)	39,692
Rural Utilities	1,703,211	-	-	2,944	-	1,706,155
Total available-for-sale	2,524,867	(4,062)	-	1,691	(728,569)	1,793,927
Trading:						
Farmer Mac II	422,681	-	-	-	(422,681)	-
Rural Utilities	451,448	-	-	-	(451,448)	-
Total trading	874,129	-	-	-	(874,129)	-
Total Farmer Mac Guaranteed Securities	3,398,996	(4,062)	-	1,691	(1,602,698)	1,793,927

USDA Guaranteed Securities:						
Available-for-sale	-	52,897	-	5,742	723,184	781,823
Trading (2)	-	(19,858)	5,021	-	422,681	407,844
Total USDA Guaranteed Securities	-	33,039	5,021	5,742	1,145,865	1,189,667
Total Assets at fair value	$ 3,698,625	$ 28,741	$ 4,885	$ (3,195)	$ (681,754)	$ 3,047,302
Liabilities:						
Financial derivatives(3)	(3,653)	-	62	-	-	(3,591)
Total Liabilities at fair value	$ (3,653)	$ -	$ 62	$ -	$ -	$ (3,591)
Nonrecurring:						
Assets:						
Loans held for sale, at lower of cost or fair value	$ 28,505	$ -	$ (2,274)	$ -	$ 59,017	$ 85,248
Loans held for investment, at fair value	-	-	(84)	-	10,606	10,522
Total Assets at fair value	$ 28,505	$ -	$ (2,358)	$ -	$ 69,623	$ 95,770

(1) Unrealized losses are attributable to assets still held as of March 31, 2010 and are recorded in gains on trading assets.

(2) Includes unrealized losses of $1.5 million attributable to assets still held as of March 31, 2010 that are recorded in gains on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of March 31, 2010 and are recorded in (losses)/gains on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended March 31, 2009

	Beginning Balance	Purchases, Sales, Issuances and Settlements, Net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment securities:						
Available-for-sale:						