FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
May 09, 2013

As filed with the Securities and Exchange Commission on May 9, 2013

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, 2013.
Commission File Number 001-14951

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

Federally chartered instrumentality of the United States	52-1578738
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1999 K Street, N.W., 4th Floor, Washington, D.C.	20006
(Address of principal executive offices)	(Zip code)

(202) 872-7700
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
As of May 1, 2013, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,278,349 shares of Class C non-voting common stock.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2013	December 31, 2012
	(in thousands)	
Assets:		
Cash and cash equivalents	$893,387	$785,564
Investment securities:		
Available-for-sale, at fair value	2,296,187	2,498,382
Trading, at fair value	1,129	1,247
Total investment securities	2,297,316	2,499,629
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	5,100,080	4,766,258
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,569,160	1,486,595
Trading, at fair value	87,271	104,188
Total USDA Guaranteed Securities	1,656,431	1,590,783
Loans:		
Loans held for sale, at lower of cost or fair value	—	673,991
Loans held for investment, at amortized cost	2,212,211	1,503,559
Loans held for investment in consolidated trusts, at amortized cost	561,682	563,575
Allowance for loan losses	(7,967)	(11,351)
Total loans, net of allowance	2,765,926	2,729,774
Real estate owned, at lower of cost or fair value	4,417	3,985
Financial derivatives, at fair value	26,254	31,173
Interest receivable (includes $3,243 and $9,676, respectively, related to consolidated trusts)	66,535	103,414
Guarantee and commitment fees receivable	42,359	41,789
Deferred tax asset, net	—	3,123
Prepaid expenses and other assets	39,967	66,709
Total Assets	$12,892,672	$12,622,201
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$6,543,973	$6,567,366
Due after one year	4,978,118	5,034,739
Total notes payable	11,522,091	11,602,105
Debt securities of consolidated trusts held by third parties	167,250	167,621
Financial derivatives, at fair value	133,838	150,682
Accrued interest payable (includes $1,276 and $2,534, respectively, related to consolidated trusts)	35,474	51,779
Guarantee and commitment obligation	38,905	37,803
Accounts payable and accrued expenses	350,578	13,710
Deferred tax liability, net	9,423	—
Reserve for losses	6,285	5,539
Total Liabilities	12,263,844	12,029,239

Commitments and Contingencies (Note 6)		
Equity:		
Preferred stock:		
Series A, par value $25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	—
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	—	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 9,223,342 shares and 9,171,343 shares outstanding, respectively	9,223	9,171
Additional paid-in capital	108,386	106,617
Accumulated other comprehensive income, net of tax, related to available-for-sale securities	92,359	73,969
Retained earnings	117,143	102,243
Total Stockholders' Equity	386,975	351,109
Non-controlling interest - preferred stock	241,853	241,853
Total Equity	628,828	592,962
Total Liabilities and Equity	$12,892,672	$12,622,201

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	$5,734	$6,232
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	31,721	37,746
Loans	24,043	29,153
Total interest income	61,498	73,131
Total interest expense	33,128	38,923
Net interest income	28,370	34,208
Provision for loan losses	(430)	(420)
Net interest income after provision for loan losses	27,940	33,788
Non-interest income:		
Guarantee and commitment fees	6,612	5,930
Gains on financial derivatives and hedging activities	4,494	6,400
Gains on trading assets	210	1,099
Gains on sale of available-for-sale investment securities	2	28
Gains on sale of real estate owned	47	—
Other income	1,080	721
Non-interest income	12,445	14,178
Non-interest expense:		
Compensation and employee benefits	4,698	4,485
General and administrative	2,917	2,758
Regulatory fees	594	563
Real estate owned operating costs, net	126	6
Provision for losses	746	30
Non-interest expense	9,081	7,842
Income before income taxes	31,304	40,124
Income tax expense	8,716	11,654
Net income	22,588	28,470
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,547)	(5,547)
Net income attributable to Farmer Mac	17,041	22,923
Preferred stock dividends	(851)	(720)
Net income attributable to common stockholders	$16,190	$22,203
Earnings per common share and dividends:		
Basic earnings per common share	$1.51	$2.14
Diluted earnings per common share	$1.45	$2.04
Common stock dividends per common share	$0.12	$0.10

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Net income	$22,588	$28,470
Other comprehensive income/(loss), net of tax:		
Unrealized holding gains on available-for-securities (1)	21,812	36
Less reclassification adjustments included in:		
Gains on financial derivatives and hedging activities (2)	(3,207)	—
Gains on sale of available-for-sale investment securities (3)	(1)	(18)
Other income (4)	(214)	(265)
Other comprehensive income/(loss)	18,390	(247)
Comprehensive income	40,978	28,223
Less: Comprehensive income attributable to noncontrolling interest - preferred stock dividends	(5,547)	(5,547)
Comprehensive income attributable to Farmer Mac	$35,431	$22,676

(1) Presented net of income tax expense of $11.7 million and $19,000 for the three months ended March 31, 2013 and 2012, respectively.

(2) Relates to the amortization of the fair value of the hedged items prior to hedge inception. Presented net of income tax benefit of $1.7 million for the three months ended March 31, 2013.

(3) Represents realized gains on sales of available-for-sale investment securities. Presented net of income tax benefit of $1,000 and $10,000 for the three months ended March 31, 2013 and 2012, respectively.

(4) Represents amortization of deferred gains related to certain available-for-sale USDA Guaranteed Securities and Farmer Mac Guaranteed Securities. Presented net of income tax benefit of $0.1 million for both the three months ended March 31, 2013 and 2012.

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended			
	March 31, 2013		March 31, 2012	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	58	$57,578	58	$57,578
Issuance of Series A preferred stock	2,400	58,333	—	—
Redemption of Series C preferred stock	(58)	(57,578)	—	—
Balance, end of period	2,400	$58,333	58	$57,578
Common stock:				
Balance, beginning of period	10,702	$10,702	10,357	$10,357
Issuance of Class C common stock	52	52	16	16
Balance, end of period	10,754	$10,754	10,373	$10,373
Additional paid-in capital:				
Balance, beginning of period		$106,617		$102,821
Stock-based compensation expense		866		956
Issuance of Class C common stock		3		4
Tax effect of stock-based awards		900		429
Balance, end of period		$108,386		$104,210
Retained earnings:				
Balance, beginning of period		$102,243		$62,554
Net income attributable to Farmer Mac		17,041		22,923
Cash dividends:				
Preferred stock, Series A ($0.2978 per share)		(715)		—
Preferred stock, Series C ($2.36 per share in 2013 and $12.50 per share in 2012)		(136)		(720)
Common stock ($0.12 per share in 2013 and $0.10 per share in 2012)		(1,290)		(1,038)
Balance, end of period		$117,143		$83,719
Accumulated other comprehensive income:				
Balance, beginning of period		$73,969		$79,370
Other comprehensive income/(loss), net of tax		18,390		(247)
Balance, end of period		$92,359		$79,123
Total Stockholders' Equity		$386,975		$335,003
Non-controlling interest - preferred stock:				
Balance, beginning of period		$241,853		$241,853
Issuance of Preferred stock - Farmer Mac II LLC		—		—
Balance, end of period		$241,853		$241,853
Total Equity		$628,828		$576,856

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Cash flows from operating activities:		
Net income	$22,588	$28,470
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Guaranteed Securities	2,712	3,672
Amortization of debt premiums, discounts and issuance costs	3,286	3,362
Net change in fair value of trading securities, hedged assets, financial derivatives, and loans held for sale	(8,997)	(16,768)
Gains on the sale of available-for-sale investment securities	(2)	(28)
Gains on the sale of real estate owned	(47)	—
Total provision for losses	1,176	450
Deferred income taxes	1,992	5,190
Stock-based compensation expense	865	956
Proceeds from repayment of trading investment securities	315	288
Purchases of loans held for sale	—	(27,991)
Proceeds from repayment of loans purchased as held for sale	66,095	46,873
Net change in:		
Interest receivable	36,879	36,717
Guarantee and commitment fees receivable	(570)	129
Other assets	27,003	6,690
Accrued interest payable	(16,305)	(19,017)
Other liabilities	5,069	3,783
Net cash provided by operating activities	142,059	72,776
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(244,819)	(649,645)
Purchases of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(222,187)	(301,725)
Purchases of loans held for investment	(190,149)	(106,845)
Purchases of defaulted loans	(140)	(729)
Proceeds from repayment of available-for-sale investment securities	439,135	291,065
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	163,508	177,551
Proceeds from repayment of loans purchased as held for investment	93,587	88,440
Proceeds from sale of available-for-sale investment securities	15,014	5,028
Proceeds from sale of Farmer Mac Guaranteed Securities	25,042	3,380
Proceeds from sale of real estate owned	203	—
Net cash provided by/(used in) investing activities	79,194	(493,480)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	15,653,949	16,835,683
Proceeds from issuance of medium-term notes	703,268	565,987
Payments to redeem discount notes	(16,021,517)	(16,436,929)
Payments to redeem medium-term notes	(419,000)	(332,000)

Excess tax benefits related to stock-based awards	613	623
Payments to third parties on debt securities of consolidated trusts	(25,413)	(48,162)
Proceeds from common stock issuance	888	4
Proceeds from Series A Preferred stock issuance	58,333	—
Retirement of Series C Preferred stock	(57,578)	—
Dividends paid - Non-controlling interest - preferred stock	(5,547)	(5,547)
Dividends paid on common and preferred stock	(1,426)	(1,038)
Net cash (used in)/provided by financing activities	(113,430)	578,621
Net increase in cash and cash equivalents	107,823	157,917
Cash and cash equivalents at beginning of period	785,564	817,046
Cash and cash equivalents at end of period	$893,387	$974,963

See accompanying notes to consolidated financial statements.

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

1. ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") and subsidiaries have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2012 consolidated balance sheet presented in this report has been derived from the Corporation's audited 2012 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2012 consolidated financial statements of Farmer Mac and subsidiaries included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 18, 2013. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Below is a summary of Farmer Mac's significant accounting policies.

Principles of Consolidation

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

A Farmer Mac guarantee of timely payment of principal and interest is an explicit element of the terms of all Farmer Mac Guaranteed Securities. When Farmer Mac retains such securities in its portfolio, that guarantee is not extinguished. For Farmer Mac Guaranteed Securities in the Corporation's portfolio, Farmer Mac has entered into guarantee arrangements with FMMSC. The guarantee fee rate established between Farmer Mac and FMMSC is an element in determining the fair value of these Farmer Mac Guaranteed Securities, and guarantee fees related to these securities are reflected in guarantee and commitment fees in the consolidated statements of operations. These guarantee fees totaled $2.6 million and for both the three months ended March 31, 2013 and 2012. The corresponding expense of FMMSC has been eliminated against interest income in consolidation. All other inter-company balances and transactions have been eliminated in consolidation.

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

Farmer Mac considers highly liquid investment securities with maturities at the time of purchase of three months or less to be cash equivalents. The carrying value of cash and cash equivalents is a reasonable

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estimate of their approximate fair value. Changes in the balance of cash and cash equivalents are reported in the consolidated statements of cash flows.

The following table sets forth information regarding certain cash and non-cash transactions for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Cash paid during the period for:		
Interest	$33,068	$34,082
Non-cash activity:		
Real estate owned acquired through loan liquidation	1,034	—
Loans acquired and securitized as Farmer Mac Guaranteed Securities	25,042	3,380
Purchases of securities traded, not yet settled	325,000	—
Consolidation of Farm and Ranch Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts and to debt securities of consolidated trusts held by third parties	25,042	3,380
Transfers of loans held for sale to loans held for investment	673,991	—

On January 1, 2013, Farmer Mac transferred $674.0 million of loans from held to sale to held for investment because Farmer Mac either (1) no longer intends to sell these loans in the foreseeable future or (2) generally securitizes these loans using VIEs that are ultimately consolidated on Farmer Mac's balance sheet and reported as "Loans held for investment in consolidated trusts, at amortized cost." Farmer Mac transferred these loans at the lower of cost or fair value (determined on a pooled basis). Farmer Mac recorded a $5.9 million unamortized discount for loans transferred at fair value. At the time of purchase, loans are classified as either held for sale or held for investment depending upon management's intent and ability to hold the loans for the foreseeable future. Cash receipts from the repayment of loans are classified within the statements of cash flows based on management's intent upon purchase of the loan, as prescribed by accounting guidance related to the statement of cash flows.

(b) Allowance for Losses

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

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses that are charged to non-interest expense, and is reduced by charge-offs for actual losses, net of recoveries. Negative provisions, or releases of allowance for losses, generally are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period. In certain circumstances, for example when a defaulted loan is purchased out of a guaranteed security or pursuant to an LTSPC, the related reserve for losses is

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reclassified as allowance for loan losses and there is a corresponding release from the provision for losses and a charge to the provision for loan losses.

The total allowance for losses consists of a general allowance for losses and a specific allowance for impaired loans.

Charge-offs

Farmer Mac records a charge-off against the allowance for losses principally when a loss has been confirmed through the receipt of assets, generally the underlying collateral, in full satisfaction of the loan. The loss equals the excess of the recorded investment in the loan over the fair value of the collateral less estimated selling costs.

General Allowance for Losses

Farm & Ranch

Farmer Mac's methodology for determining its allowance for losses incorporates the Corporation's loan classification system. That system scores loans based on criteria such as historical repayment performance, indicators of current financial condition, loan seasoning, loan size, and loan-to-value ratio. For purposes of the loss allowance methodology, the loans in Farmer Mac's portfolio of loans and loans underlying Farm & Ranch Guaranteed Securities and LTSPCs have been scored and classified for each calendar quarter since first quarter 2000. The allowance methodology captures the migration of loan scores across concurrent and overlapping 3-year time horizons and calculates loss rates separately within each loan classification for (1) loans underlying LTSPCs and (2) loans held and loans underlying Farm & Ranch Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of unimpaired loans in Farmer Mac's portfolio to estimate inherent losses, on the assumption that the historical credit losses and trends used to calculate loss rates will continue in the future.

Management evaluates this assumption by taking into consideration several factors, including:

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

Management believes that its use of this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans held in the Farm & Ranch portfolio and loans underlying Farm & Ranch Guaranteed Securities and LTSPCs. There were no purchases or sales during first quarter 2013 that materially affected the credit profile of the Farm & Ranch portfolio.

Farmer Mac has not provided an allowance for losses for loans underlying Farm & Ranch AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization required for Farm & Ranch AgVantage

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securities. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans.

USDA Guarantees

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

Rural Utilities

Farmer Mac separately evaluates the rural utilities loans it owns, as well as the lender obligations and loans underlying or securing its Rural Utilities Guaranteed Securities, including AgVantage securities, to determine if there are any probable losses inherent in those assets. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. No allowance for losses has been provided for this portfolio segment based on the credit quality of the collateral supporting rural utilities assets and Farmer Mac's counterparty risk analysis. As of March 31, 2013, there were no delinquencies and no probable losses inherent in Farmer Mac's rural utilities loans held or in any Rural Utilities Guaranteed Securities.

Specific Allowance for Impaired Loans

Farmer Mac also analyzes certain loans in its portfolio for impairment in accordance with accounting guidance on measuring individual impairment of a loan. Farmer Mac's impaired loans generally include loans 90 days or more past due, in foreclosure, restructured, in bankruptcy and certain performing loans that have previously been delinquent or are secured by real estate that produces agricultural commodities or products currently under stress.

For loans with an updated appraised value, other updated collateral valuation, or management's estimate of discounted collateral value, this analysis includes the measurement of the fair value of the underlying collateral for individual loans relative to the total recorded investment, including principal, interest, and advances and net of any charge-offs. In the event that the collateral value does not support the total recorded investment, Farmer Mac specifically provides an allowance for the loan for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. Estimated selling costs are based on historical selling costs incurred by Farmer Mac or management's best estimate of selling costs for a particular property. For the remaining impaired assets without updated valuations, this analysis is performed in the aggregate in consideration of the similar risk characteristics of the assets and historical statistics. Farmer Mac considers appraisals aged more than two years as of the reporting period end date to be outdated.

Farmer Mac believes this methodology that utilizes loan classification scores and historical loss experience is a better indication of impairment for these collateral-dependent loans than other valuation

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methods. Impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets and historical statistics on $68.8 million (54.0 percent) of impaired loans as of March 31, 2013, which resulted in a specific reserve of $1.4 million. As of December 31, 2012, the impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets and historical statistics on $56.0 million (55.8 percent) of impaired loans, which resulted in a specific reserve of $1.1 million.

Farmer Mac uses a risk-based approach in determining the necessity of obtaining updated appraisals on impaired loans. For example, larger exposures associated with highly improved and specialized collateral will generally receive updated appraisals once the loans are identified as impaired. In addition, updated appraisals are always obtained during the foreclosure process. Depending on the risk factors associated with the loan and underlying collateral, which can vary widely depending on the circumstances of the loan and collateral, this can occur early in the foreclosure process, while in other instances this may occur just prior to the transfer of title. As part of its routine credit review process, Farmer Mac often will exercise judgment in discounting an appraisal value due to local real estate trends or the condition of the property (e.g., following an inspection by Farmer Mac or the servicer). In addition, a property appraisal value may be discounted based on the market's reaction to Farmer Mac's asking price for sale of the property.

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a troubled debt restructuring ("TDR"). Farmer Mac has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due in a timely manner, including interest accrued at the original contract rate. In making its determination of whether a borrower is experiencing financial difficulties, Farmer Mac considers several factors, including whether (1) the borrower has declared or is in the process of declaring bankruptcy, (2) there is substantial doubt as to whether the borrower will continue to be a going concern, and (3) the borrower can obtain funds from other sources at an effective interest rate at or near a current market interest rate for debt with similar risk characteristics. Farmer Mac evaluates TDRs similarly to other impaired loans for purposes of the allowance for losses. For the quarter ended ended March 31, 2013, the recorded investment of loans determined to be TDRs was $0.2 million before restructuring and $0.3 million after restructuring. For the quarter ended March 31, 2012, the recorded investment of loans determined to be TDRs was $1.0 million before restructuring and $1.1 million after restructuring. As of March 31, 2013, there were three TDRs identified during the previous 12 months that were in default, under the modified terms, with a recorded investment of $1.3 million. The impact of TDRs on Farmer Mac's allowance for loan losses was immaterial in both first quarter 2013 and 2012. See Note 5 for more information related to the allowance for losses.

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(c) Financial Derivatives

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows, or debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts principally to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac is required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

Accounting for financial derivatives differs significantly depending on whether a derivative is designated in a fair value or cash flow hedging relationship. Derivative instruments designated in hedging relationships that mitigate exposure to changes in the fair value of assets or liabilities are considered fair value hedges. Derivative instruments designated in hedging relationships that mitigate exposure to the variability in expected future cash flows or other forecasted transactions are considered cash flow hedges. In order to qualify for hedge accounting treatment, documentation must indicate the intention to designate the derivative as a hedge of a specific asset or liability or a future cash flow. Effectiveness of the hedge must be monitored over the life of the hedging relationship.

Financial derivatives are recorded on the consolidated balance sheets at fair value as a freestanding asset or liability on a gross basis without giving consideration to master netting arrangements. Fair value hedges are accounted for by recording the fair value of the financial derivative and the change in fair value of the hedged item attributable to the risk being hedged on the consolidated balance sheets with the net difference reported in gains/(losses) on financial derivatives and hedging activities in the consolidated statements of operations. The accrual of the contractual amounts due on the financial derivative is included as an adjustment to the yield of the hedged item and is reported in net interest income. Cash flow hedges which are deemed effective under GAAP are accounted for by recording the fair value of the financial derivative as either a freestanding asset or a freestanding liability on the consolidated balance sheets, with the effective portion of the change in fair value of the financial derivative recorded in accumulated other comprehensive income within stockholders' equity, net of tax. Amounts are reclassified from accumulated other comprehensive income to interest income or expense in the consolidated statements of operations in the period the hedged transaction affects earnings. Any ineffective portion of the change in fair value of the financial derivative is reported in gains/(losses) on financial derivatives and hedging activities in the consolidated statements of operations. If it becomes probable that a hedged forecasted transaction will not occur, any amounts included in accumulated other comprehensive income related to the specific hedging relationship are reclassified from accumulated other comprehensive income to the consolidated statements of operations and reported in gains/(losses) on financial derivatives and hedging activities.

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

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(d) Earnings Per Common Share

Basic earnings per common share ("EPS") is based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share is based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights ("SARs"), and non-vested restricted stock awards. The following schedule reconciles basic and diluted EPS for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended					
	March 31, 2013			March 31, 2012		
	Net Income	Weighted-Average Shares	$ per Share	Net Income	Weighted-Average Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	$16,190	10,737	$1.51	$22,203	10,365	$2.14
Effect of dilutive securities (1):						
Stock options, SARs and restricted stock	—	424	(0.06)	—	538	(0.10)
Diluted EPS	$16,190	11,161	$1.45	$22,203	10,903	$2.04

(1) For the three months ended March 31, 2013 and 2012, stock options and SARs of 4,000 and 582,447, 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, 2013 and 2012, contingent shares of non-vested restricted stock of 25,300 and 79,300, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions were not met.

(e) Fair Value Measurement

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

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

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(f) Consolidation of Variable Interest Entities

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

The VIEs in which Farmer Mac has a variable interest are limited to securitization trusts. The major factor in determining if Farmer Mac is the primary beneficiary is whether Farmer Mac has the power to direct the activities of the trust that potentially have the most significant impact on the economic performance of the trust. Generally, the ability to make decisions regarding default mitigation is evidence of that power. Farmer Mac determined that it is the primary beneficiary for the securitization trusts related to most Farm & Ranch 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 Farm & Ranch 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 these trusts, the shared power provisions are substantive with respect to decision-making power and relate to the same activity (i.e., default mitigation). 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. In the event that a related party status changes, consolidation or deconsolidation of these securitization trusts could occur.

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

For those trusts where Farmer Mac has a variable interest but has not been determined to be the primary beneficiary, Farmer Mac's interests are presented as either "Farmer Mac Guaranteed Securities" or "Investment securities" on the consolidated balance sheets. Farmer Mac's involvement in VIEs classified as Farmer Mac Guaranteed Securities include securitization trusts under the USDA Guarantees line of business and certain trusts related to Farm & Ranch AgVantage securities. In the case of the USDA Guarantees trusts, Farmer Mac is not determined to be the primary beneficiary because it does not have the decision-making power over default mitigation activities. Based on the USDA's program authority over the servicing and default mitigation activities of the USDA guaranteed portions of loans, Farmer Mac believes that the USDA has the power to direct the activities that most significantly impact the trust's economic performance. Farmer Mac does not have exposure to losses that could be significant to the trust and there are no triggers that would result in Farmer Mac superseding the USDA's authority with regard to directing the activities of the trust. For the AgVantage trusts, Farmer Mac currently does not have the power to direct the activities that have the most significant economic impact to the trust unless, as guarantor, there is a default by the issuer of the trust securities. Should there be a default, Farmer Mac would reassess whether it is the primary beneficiary of those trusts. The amounts disclosed in the tables

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below represent Farmer Mac's holdings of a portion of the beneficial interests issued by these AgVantage Trusts. For VIEs classified as investment securities, which include auction-rate certificates, asset-backed securities, and government-sponsored enterprise ("GSE")-guaranteed mortgage-backed securities, Farmer Mac is determined not to be the primary beneficiary because of the lack of voting rights or other powers to direct the activities of the trust. The following tables present, by line of business, details about the consolidation of VIEs:

	Consolidation of Variable Interest Entities March 31, 2013				
	Farm & Ranch	USDA Guarantees	Rural Utilities	Investments	Total
	(in thousands)				
On-Balance Sheet:					
Consolidated VIEs:					
Loans held for investment in consolidated trusts, at amortized cost (1)	$166,162	$—	$395,520	$—	$561,682
Debt securities of consolidated trusts held by third parties (2)	167,250	—	—	—	167,250
Unconsolidated VIEs:					
Farmer Mac Guaranteed Securities:					
Carrying value (3)	31,345	27,198	—	—	58,543
Maximum exposure to loss (4)	30,000	25,852	—	—	55,852
Investment securities:					
Carrying value	—	—	—	699,591	699,591
Maximum exposure to loss (4)	—	—	—	708,317	708,317
Off-Balance Sheet:					
Unconsolidated VIEs:					
Farmer Mac Guaranteed Securities:					
Maximum exposure to loss (4) (5)	1,826,499	25,581	—	—	1,852,080

(1) Includes unamortized premiums related to Rural Utilities of $33.8 million.
(2) Includes borrower remittances of $1.1 million, which have not been passed through to third party investors as of March 31, 2013.
(3) Includes unamortized premiums and discounts and fair value adjustments related to Farm & Ranch and USDA Guarantees of $1.3 million and $1.3 million, respectively.
(4) Farmer Mac uses unpaid principal balance and outstanding face amount of investment securities to represent maximum exposure to loss.
(5) Of the Farm & Ranch amount, $856.5 million relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.

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	Consolidation of Variable Interest Entities December 31, 2012				
	Farm & Ranch	USDA Guarantees	Rural Utilities	Investments	Total
	(in thousands)				
On-Balance Sheet:					
Consolidated VIEs:					
Loans held for investment in consolidated trusts, at amortized cost (1)	$160,436	$—	$403,139	$—	$563,575
Debt securities of consolidated trusts held by third parties (2)	167,621	—	—	—	167,621
Unconsolidated VIEs:					
Farmer Mac Guaranteed Securities:					
Carrying value (3)	31,370	26,681	—	—	58,051
Maximum exposure to loss (4)	30,000	26,238	—	—	56,238
Investment securities:					
Carrying value	—	—	—	724,893	724,893
Maximum exposure to loss (4)	—	—	—	737,148	737,148
Off-Balance Sheet:					
Unconsolidated VIEs:					
Farmer Mac Guaranteed Securities:					
Maximum exposure to loss (4) (5)	1,881,370	29,658	—	—	1,911,028

(1) Includes unamortized premiums related to Rural Utilities of $34.3 million.
(2) Includes borrower remittances of $7.2 million, which have not been passed through to third party investors as of December 31, 2012.
(3) Includes unamortized premiums and discounts and fair value adjustments related to Farm & Ranch and USDA Guarantees of $1.4 million and $0.4 million, respectively.
(4) Farmer Mac uses unpaid principal balance and the outstanding face amount of investment securities to represent maximum exposure to loss.
(5) Of the Farm & Ranch amount, $911.4 million relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.

(g) New Accounting Standards

Offsetting Assets and Liabilities

On December 16, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-11, Disclosures about Offsetting Assets and Liabilities, which provided new guidance requiring entities to disclose net and gross information for certain derivative instruments and financial instruments and information about the impact of collateral on offsetting arrangements and other amounts subject to a master netting agreement that are not offset on the balance sheet. On January 31, 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities addressing the implementation of ASU 2011-11. The amendment clarifies that the scope of ASU 2011-11 applies to recognized derivative instruments, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in the financial statements or are subject to enforceable master netting arrangements or similar agreements. ASU 2011-11 and ASU 2013-01 were effective for interim and annual periods beginning on or after January 1, 2013. The adoption of ASU 2011-11 and ASU 2013-01 during first quarter 2013 did not have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

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Comprehensive Income

On February 5, 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("AOCI"). The new guidance requires entities to disclose additional information about reclassification adjustments, including changes in AOCI balances by component and significant items reclassified out of AOCI. An entity would disaggregate the total change of each component of other comprehensive income and separately present reclassification adjustments and current period other comprehensive income. ASU 2013 02 also requires significant items reclassified out of AOCI to be presented either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. The income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustment must be presented in the financial statement or notes to the financial statements. The amendments in ASU 2013-02 do not change the current requirement for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 was effective for all reporting periods beginning on or after December 15, 2012. The adoption of the new guidance during first quarter 2013 did not have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

(h) Reclassifications

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

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2. INVESTMENT SECURITIES

The following tables present the amount outstanding, amortized cost, and fair values of Farmer Mac's investment securities as of March 31, 2013 and December 31, 2012:

	March 31, 2013					
	Amount Outstanding	Unamortized Premium/(Discount)	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	$ —	$74,100	$—	$(8,887)	$65,213
Floating rate asset-backed securities	146,110	(326)	145,784	905	(11)	146,678
Fixed rate asset-backed securities	2,983	—	2,983	—	(3)	2,980
Floating rate corporate debt securities	91,345	(16)	91,329	475	—	91,804
Fixed rate corporate debt securities	62,000	258	62,258	117	(18)	62,357
Floating rate Government/GSE guaranteed mortgage-backed securities	673,283	5,603	678,886	9,096	(4)	687,978
Fixed rate GSE guaranteed mortgage-backed securities	1,580	1	1,581	123	—	1,704
Floating rate GSE subordinated debt	70,000	—	70,000	—	(6,849)	63,151
Fixed rate GSE preferred stock	78,500	683	79,183	7,609	—	86,792
Fixed rate taxable municipal bonds	8,542	50	8,592	5	—	8,597
Floating rate senior agency debt	50,000	(3)	49,997	51	—	50,048
Fixed rate senior agency debt	119,000	474	119,474	147	—	119,621
Fixed rate U.S. Treasuries	907,000	1,996	908,996	268	—	909,264
Total available-for-sale	2,284,443	8,720	2,293,163	18,796	(15,772)	2,296,187
Trading:						
Floating rate asset-backed securities	4,013	—	4,013	—	(2,884)	1,129
Total investment securities	$2,288,456	$ 8,720	$2,297,176	$18,796	$(18,656)	$2,297,316

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	December 31, 2012					
	Amount Outstanding	Unamortized Premium/(Discount)	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	$ —	$74,100	$—	$(10,941)	$63,159
Floating rate asset-backed securities	150,519	(372)	150,147	933	(36)	151,044
Fixed rate asset-backed securities	6,501	—	6,501	—	—	6,501
Floating rate corporate debt securities	76,345	(32)	76,313	450	—	76,763
Fixed rate corporate debt securities	51,969	243	52,212	204	—	52,416
Floating rate Government/GSE guaranteed mortgage-backed securities	699,062	5,973	705,035	8,035	(211)	712,859
Fixed rate GSE guaranteed mortgage-backed securities	1,910	1	1,911	154	—	2,065
Floating rate GSE subordinated debt	70,000	—	70,000	—	(12,569)	57,431
Fixed rate GSE preferred stock	78,500	784	79,284	7,802	—	87,086
Floating rate senior agency debt	50,000	(6)	49,994	61	—	50,055
Fixed rate senior agency debt	72,700	287	72,987	128	(1)	73,114
Fixed rate U.S. Treasuries	1,163,400	2,240	1,165,640	258	(9)	1,165,889
Total available-for-sale	2,495,006	9,118	2,504,124	18,025	(23,767)	2,498,382
Trading:						
Floating rate asset-backed securities	4,327	—	4,327	—	(3,080)	1,247
Total investment securities	$2,499,333	$ 9,118	$2,508,451	$18,025	$(26,847)	$2,499,629

During the three months ended March 31, 2013, Farmer Mac received proceeds of $15.0 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $2,000, compared to proceeds of $5.0 million for the same period in 2012, resulting in gross realized gains of $28,000.

As of March 31, 2013 and December 31, 2012, unrealized losses on available-for-sale investment securities were as follows:

	March 31, 2013			
	Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$65,213	$(8,887)
Floating rate asset-backed securities	—	—	10,337	(11)
Fixed rate asset-backed securities	2,981	(3)	—	—
Fixed rate corporate debt securities	25,099	(18)	—	—
Floating rate Government/GSE guaranteed mortgage-backed securities	8,185	(2)	816	(2)

Floating rate GSE subordinated debt	—	—	63,151	(6,849)
Total	$36,265	$(23)	$139,517	$(15,749)

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	December 31, 2012			
	Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$63,159	$(10,941)
Floating rate asset-backed securities	21,648	(27)	3,619	(9)
Floating rate Government/GSE guaranteed mortgage-backed securities	174,352	(209)	829	(2)
Floating rate GSE subordinated debt	—	—	57,431	(12,569)
Fixed rate senior agency debt	50,088	(1)	—	—
Fixed rate U.S. Treasuries	136,194	(9)	—	—
Total	$382,282	$(246)	$125,038	$(23,521)

The unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to March 31, 2013 and December 31, 2012, as applicable. The resulting decrease in fair values reflect an increase in the perceived risk by the financial markets related to those securities. As of March 31, 2013, all of the investment securities in an unrealized loss position had credit ratings of at least "AA+" except three that were rated "A-". As of December 31, 2012, all of the investment securities in an unrealized loss position had credit ratings of at least "AA+" except one that was rated "A-". The unrealized losses were on 16 and 17 individual investment securities as of March 31, 2013 and December 31, 2012, respectively.

As of March 31, 2013, 9 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $15.7 million. As of December 31, 2012, 9 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $23.5 million. The unrealized losses on those securities are principally due to a general widening of credit spreads from the dates of acquisition. Securities in unrealized loss positions 12 months or more have a fair value as of March 31, 2013 that is, on average, approximately 89.9 percent of their amortized cost basis. Farmer Mac believes that all of these unrealized losses are recoverable within a reasonable period of time by way of changes in credit spreads or maturity. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities represent other-than-temporary impairment as of March 31, 2013 and December 31, 2012. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

Farmer Mac did not own any held-to-maturity investment securities as of March 31, 2013 and December 31, 2012. As of March 31, 2013, Farmer Mac owned trading investment securities with an amortized cost of $4.0 million, a fair value of $1.1 million, and a weighted average yield of 4.29 percent. As of December 31, 2012, Farmer Mac owned trading investment securities with an amortized cost of $4.3 million, a fair value of $1.2 million, and a weighted average yield of 4.29 percent.

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The amortized cost, fair value, and weighted average yield of available-for-sale investment securities by remaining contractual maturity as of March 31, 2013 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.

	Investment Securities Available-for-Sale as of March 31, 2013		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$1,102,158	$1,102,548	0.59%
Due after one year through five years	178,721	179,528	1.02%
Due after five years through ten years	399,858	396,373	1.07%
Due after ten years	612,426	617,738	2.61%
Total	$2,293,163	$2,296,187	1.25%

3. FARMER MAC GUARANTEED SECURITIES AND USDA GUARANTEED SECURITIES

The following tables set forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of March 31, 2013 and December 31, 2012:

	March 31, 2013					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Farm & Ranch	$3,439,200	$ 151	$3,439,351	$95,508	$(6,339)	$3,528,520
USDA Guarantees	25,853	(451)	25,402	1,796	—	27,198
Rural Utilities	1,545,582	—	1,545,582	15,568	(16,788)	1,544,362
Total Farmer Mac Guaranteed Securities	5,010,635	(300)	5,010,335	112,872	(23,127)	5,100,080
USDA Guaranteed Securities	1,514,581	5,562	1,520,143	49,084	(67)	1,569,160
Total available-for-sale	6,525,216	5,262	6,530,478	161,956	(23,194)	6,669,240
Trading:						
USDA Guaranteed Securities	82,090	5,893	87,983	573	(1,285)	87,271
Total Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	$6,607,306	$ 11,155	$6,618,461	$162,529	$(24,479)	$6,756,511

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	December 31, 2012					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Farm & Ranch	$3,339,200	$ 160	$3,339,360	$92,223	$(5,094)	$3,426,489
USDA Guarantees	26,238	(452)	25,786	909	(14)	26,681
Rural Utilities	1,298,506	—	1,298,506	18,530	(3,948)	1,313,088
Total Farmer Mac Guaranteed Securities	4,663,944	(292)	4,663,652	111,662	(9,056)	4,766,258
USDA Guaranteed Securities	1,461,184	5,975	1,467,159	19,605	(169)	1,486,595
Total available-for-sale	6,125,128	5,683	6,130,811	131,267	(9,225)	6,252,853
Trading:						
USDA Guaranteed Securities	98,499	6,415	104,914	624	(1,350)	104,188
Total Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	$6,223,627	$ 12,098	$6,235,725	$131,891	$(10,575)	$6,357,041

The unrealized losses presented above are principally due to higher interest rates from the date of acquisition to March 31, 2013 and December 31, 2012, as applicable. Additionally, the $325.0 million Rural Utilities AgVantage Security purchased in first quarter 2013 was at a narrow net interest margin spread, which resulted in an unrealized fair value loss as of March 31, 2013. The unrealized losses related to Farmer Mac's USDA Guarantees line of business are backed by the full faith and credit of the United States. None of the Farm & Ranch or Rural Utilities Guaranteed Securities has been in an unrealized loss position for greater than 12 months. Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities and USDA Guaranteed Securities represents an other-than-temporary impairment as of March 31, 2013 and December 31, 2012. 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.

During the three months ended March 31, 2013 and 2012 Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities.

The amortized cost, fair value, and weighted average yield of available-for-sale Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by remaining contractual maturity as of March 31, 2013 are set forth below. The balances presented are based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

	Farmer Mac Guaranteed Securities and USDA Guaranteed Securities Available-for-Sale as of March 31, 2013			
	Amortized Cost	Fair Value	Weighted-Average Yield	
	(dollars in thousands)			
Due within one year	$829,636	$838,105	2.01	%
Due after one year through five years	3,136,706	3,220,504	2.33	%
Due after five years through ten years	760,245	777,915	2.62	%
Due after ten years	1,803,891	1,832,716	2.61	%

Total	$6,530,478	$6,669,240	2.40 %

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Farmer Mac did not own any held-to-maturity Farmer Mac Guaranteed Securities or USDA Guaranteed Securities as of March 31, 2013 and December 31, 2012. As of March 31, 2013, Farmer Mac owned trading USDA Guaranteed Securities with an amortized cost of $88.0 million, a fair value of $87.3 million, and a weighted average yield of 5.73 percent. As of December 31, 2012, Farmer Mac owned trading USDA Guaranteed Securities with an amortized cost of $104.9 million, a fair value of $104.2 million, and a weighted average yield of 5.77 percent.

4. FINANCIAL DERIVATIVES

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows, or debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Certain financial derivatives are designated as fair value hedges of fixed rate assets classified as available-for-sale to protect against fair value changes in the assets related to a benchmark interest rate (i.e., LIBOR).

Farmer Mac manages the interest rate risk related to loans it has committed to acquire, but has not yet purchased and permanently funded, through the use of forward sale contracts on the debt of other GSEs and futures contracts involving U.S. Treasury securities. 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 are expected to offset changes in funding costs.

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability. Changes in the fair values of financial derivatives are reported in "Gains on financial derivatives and hedging activities" in the consolidated statements of operations. For financial derivatives designated in fair value hedging relationships, changes in the fair values of the hedged items related to the risk being hedged are also reported in "Gains on financial derivatives and hedging activities" in the consolidated statements of operations. Farmer Mac currently has no financial derivatives designated in cash flow hedging relationships.

Market Risk:

Market risk is the risk of an adverse effect resulting from changes in interest rates or spreads on the value of a financial instrument. Farmer Mac manages market risk associated with financial derivatives by establishing and monitoring limits as to the degree of risk that may be undertaken. This risk is periodically measured as part of Farmer Mac's overall risk monitoring processes, which include market value of equity measurements, net interest income modeling, and other measures.

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Credit Risk:

Credit risk is the risk that a counterparty will fail to perform according to the terms of a financial contract in which Farmer Mac has an unrealized gain. Credit losses could occur in the event of non-performance by counterparties to the financial derivative contracts. Farmer Mac mitigates this counterparty credit risk by contracting only with counterparties that have investment grade credit ratings (i.e., at least BBB), establishing and maintaining collateral requirements based upon credit ratings, and entering into netting agreements. Netting agreements provide for the calculation of the net amount of all receivables and payables under all transactions covered by the netting agreement between Farmer Mac and a single counterparty. Farmer Mac's exposure to credit risk related to its financial derivatives is represented by those counterparties for which Farmer Mac has a net receivable, including the effect of any netting arrangements. As of March 31, 2013 and December 31, 2012, Farmer Mac's credit exposure to interest rate swap counterparties, excluding netting arrangements and any adjustment for nonperformance risk, but including accrued interest, was $35.8 million and $37.1 million, respectively; however, including netting arrangements and accrued interest, Farmer Mac's credit exposure was $2.7 million and $2.4 million as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, Farmer Mac held cash of $1.5 million and $1.7 million, respectively, as collateral for its derivatives in net asset positions, resulting in uncollateralized net asset positions of $1.2 million and $0.8 million, respectively. Farmer Mac records cash held as collateral as an increase in the balance of cash and cash equivalents and an increase in the balance of accounts payable and accrued expenses.

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 an event of default were to occur with respect to Farmer Mac under the derivative contracts, such as the failure to pay amounts when due, any other material breach of the agreements that remains unremedied, a material default under another of Farmer Mac's credit agreements, or bankruptcy, insolvency or receivership, the related counterparty could request payment or full collateralization on the derivative contracts. In addition, if Farmer Mac ceases to be a federally chartered instrumentality of the United States, the related counterparty could request full collateralization on the derivative contracts. As of March 31, 2013 and December 31, 2012, the fair value of Farmer Mac's derivatives in a net liability position including accrued interest but excluding netting arrangements and any adjustment for nonperformance risk, was $142.4 million and $168.0 million, respectively; however, including netting arrangements and accrued interest, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level, was $109.3 million and $135.8 million as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, Farmer Mac posted cash of $36.7 million and $60.3 million, respectively, as collateral for its derivatives in net liability positions. Farmer Mac records posted cash as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of prepaid expenses and other assets. If Farmer Mac had breached certain provisions of the derivative contracts as of March 31, 2013 and December 31, 2012, it could have been required to settle its obligations under the agreements or post additional collateral of $72.6 million and $75.5 million, respectively. As of March 31, 2013 and December 31, 2012, there were no financial derivatives in a net payable position where Farmer Mac was required to pledge collateral which the counterparty had the right to sell or repledge.

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Interest Rate Risk:

Farmer Mac uses financial derivatives to manage its interest rate risk exposure by effectively modifying the interest rate reset or maturity characteristics of certain assets and liabilities and by locking in the rates for certain forecasted issuances of liabilities. The primary financial derivatives Farmer Mac uses include interest rate swaps and forward sale contracts. Farmer Mac uses interest rate swaps to assume fixed rate interest payments in exchange for floating rate interest payments and vice versa. Depending on the economic hedging relationship, the effects of these agreements are (a) the conversion of variable rate liabilities to longer-term fixed rate liabilities, (b) the conversion of long-term fixed rate assets to shorter-term floating rate assets, or (c) the reduction of the variability of future changes in interest rates on forecasted issuances of liabilities. The accrual of the contractual amounts due on these agreements that are not designated in hedging relationships is recorded as "Gains on financial derivatives and hedging activities" in the consolidated statements of operations.

The following tables summarize information related to Farmer Mac's financial derivatives on a gross basis without giving consideration to master netting arrangements as of March 31, 2013 and December 31, 2012 and the effects of financial derivatives on the consolidated statements of operations for the three months ended March 31, 2013 and 2012:

	March 31, 2013						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$950,000	$—	$(52,967)	2.20%	0.30%		3.83
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	749,874	857	(80,097)	4.85%	0.29%		4.18
Receive fixed non-callable	4,355,623	25,075	(446)	0.32%	0.81%		0.74
Receive fixed callable	290,000	—	(429)	0.14%	0.58%		3.75
Basis swaps	550,223	375	(642)	0.37%	0.31%		1.24
Agency forwards	2,435	—	(1)			99.83	
Treasury futures	14,400	13	—			132.08	
Credit valuation adjustment		(66)	744				
Total financial derivatives	$6,912,555	$26,254	$(133,838)				
Collateral (received)/pledged		(1,495)	36,711				
Net amount		$24,759	$(97,127)				

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	December 31, 2012						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$950,000	$—	$(58,758)	2.20%	0.31%		4.07
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	805,622	357	(91,205)	4.83%	0.32%		4.14
Receive fixed non-callable	4,135,149	30,338	(211)	0.33%	0.85%		0.74
Receive fixed callable	245,000	6	(238)	0.15%	0.55%		3.89
Basis swaps	609,262	499	(784)	0.43%	0.36%		1.29
Agency forwards	59,035	—	(58)			101.22	
Treasury futures	11,200	—	(12)			129.77	
Credit valuation adjustment		(27)	584				
Total financial derivatives	$6,815,268	$31,173	$(150,682)				
Collateral (received)/pledged		(1,650)	60,311				
Net amount		$29,523	$(90,371)				

	Gains on Financial Derivatives and Hedging Activities	
	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Fair value hedges:		
Interest rate swaps	$5,791	$—
Hedged items	(3,138)	—
Gains on hedging activities (1)	2,653	—
No hedge designation:		
Interest rate swaps	2,846	6,306
Agency forwards	(984)	203
Treasury futures	(21)	(34)
Credit default swaps	—	(75)
Gains on financial derivatives not designated in hedging relationships	1,841	6,400
Gains on financial derivatives and hedging activities	$4,494	$6,400

(1) Includes gains of $3.0 million that are excluded from the assessment of hedge effectiveness and losses of $0.3 million due to hedge ineffectiveness for the three months ended March 31, 2013.

As of March 31, 2013, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with a total notional amount of $40.2 million and a fair value of $(0.5) million, compared to $49.3 million and $(0.7) million, respectively, as of December 31, 2012. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps hedge most of the interest rate basis risk related to loans Farmer Mac purchases that pay a Constant 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

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those outstanding basis swaps for the three months ended March 31, 2013 and 2012 of $0.2 million and $0.1 million, respectively.

5. LOANS AND ALLOWANCE FOR LOSSES

Loans

Farmer Mac classifies loans as either held for investment or held for sale. Loans held for investment are recorded at the unpaid principal balance, net of unamortized premium or discount and other cost adjustments. Loans held for sale are reported at the lower of cost or fair value determined on a pooled basis. The following table displays the composition of the loan balances as of March 31, 2013 and December 31, 2012:

	March 31, 2013			December 31, 2012		
	Unsecuritized	In Consolidated Trusts	Total	Unsecuritized	In Consolidated Trusts	Total
	(in thousands)					
Farm & Ranch	$1,538,381	$166,163	$1,704,544	$1,519,415	$160,436	$1,679,851
Rural Utilities	677,931	361,767	1,039,698	663,097	368,848	1,031,945
Total unpaid principal balance (1)	2,216,312	527,930	2,744,242	2,182,512	529,284	2,711,796
Unamortized premiums, discounts and other cost basis adjustments	(4,101)	33,752	29,651	981	34,291	35,272
Lower of cost or fair value adjustment on loans held for sale	—	—	—	(5,943)	—	(5,943)
Total loans	$2,212,211	$561,682	$2,773,893	$2,177,550	$563,575	$2,741,125
Loans held for investment, at amortized cost	$2,212,211	$561,682	$2,773,893	$1,503,559	$563,575	$2,067,134
Loans held for sale, at lower of cost or fair value	—	—	—	673,991	—	673,991
Total loans	2,212,211	561,682	2,773,893	2,177,550	563,575	2,741,125
Allowance for loan losses	(7,643)	(324)	(7,967)	(10,986)	(365)	(11,351)
Loans held for sale, at lower of cost or fair value	$2,204,568	$561,358	$2,765,926	$2,166,564	$563,210	$2,729,774

(1) Unpaid principal balance is the basis of presentation in disclosures of outstanding balances for Farmer Mac's lines of business. See "Management's Discussion and Analysis—Results of Operations—Business Volume".

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities. As of March 31, 2013 and December 31, 2012, Farmer Mac recorded allowances for losses of $14.3 million and $16.9 million, respectively. No allowance for losses has been provided for the USDA Guarantees and Rural Utilities lines of business and Farm & Ranch AgVantage securities as of March 31, 2013 and December 31, 2012. See Note 1(b), Note 3 and Note 6 for more information about Farmer

Mac Guaranteed Securities. Farmer Mac's allowance for losses is presented in two components on its consolidated balance sheets:

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

The following is a summary of the changes in the allowance for losses for the three months ended March 31, 2013 and 2012:

	March 31, 2013			March 31, 2012		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
For the Three Months Ended:						
Beginning Balance	$11,351	$5,539	$16,890	$10,161	$7,355	$17,516
Provision for losses	430	746	1,176	420	30	450
Charge-offs	(3,814)	—	(3,814)	—	—	—
Ending Balance	$7,967	$6,285	$14,252	$10,581	$7,385	$17,966

During first quarter 2013, Farmer Mac recorded provisions to its allowance for loan losses of $0.4 million and provisions to its reserve for losses of $0.7 million. The increased provisions recorded during first quarter 2013 were primarily attributable to increased estimated probable losses inherent in Farmer Mac's non-ethanol related Ag. Storage and Processing loans. Farmer Mac also recorded charge-offs of $3.8 million to its allowance for loan losses during first quarter 2013. The charge-offs recorded in first quarter 2013 included a $3.6 million charge-off related to one ethanol loan that transitioned to REO during the quarter and for which Farmer Mac had previously provided a specific allowance. During first quarter 2012, Farmer Mac recorded provisions to its allowance for loan losses of $0.4 million and provisions to its reserve for losses of $30,000. Farmer Mac recorded no charge-offs to its allowance for losses during first quarter 2012.

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The following tables present the changes in the allowance for losses for the three months ended March 31, 2013 and 2012 by commodity type:

	For the Three Months Ended March 31, 2013						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Beginning Balance	$2,589	$2,316	$1,534	$784	$ 9,661	$6	$16,890
Provision for/(release of) losses	28	199	53	(51)	935	12	1,176
Charge-offs	—	(189)	—	—	(3,625)	—	(3,814)
Ending Balance	$2,617	$2,326	$1,587	$733	$ 6,971	$18	$14,252

	For the three Months Ended March 31, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Beginning Balance	$4,133	$3,365	$685	$1,223	$ 8,106	$4	$17,516
Provision for/(release of) losses	133	117	(49)	252	(6)	3	450
Charge-offs	—	—	—	—	—	—	—
Ending Balance	$4,266	$3,482	$636	$1,475	$ 8,100	$7	$17,966

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The following tables present the ending balances of loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities and the related allowance for losses by impairment method and commodity type as of March 31, 2013 and December 31, 2012:

	As of March 31, 2013						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	$999,390	$245,448	$264,593	$48,215	$ 43,450	$—	$1,601,096
Off-balance sheet	1,197,974	569,230	973,358	128,349	177,488	9,993	3,056,392
Total	$2,197,364	$814,678	$1,237,951	$176,564	$ 220,938	$9,993	$4,657,488
Individually evaluated for impairment:							
On-balance sheet	$31,342	$47,429	$13,667	$10,895	$ —	$115	$103,448
Off-balance sheet	6,894	7,022	4,731	2,125	—	901	21,673
Total	$38,236	$54,451	$18,398	$13,020	$ —	$1,016	$125,121
Total Farm & Ranch loans:							
On-balance sheet	$1,030,732	$292,877	$278,260	$59,110	$ 43,450	$115	$1,704,544
Off-balance sheet	1,204,868	576,252	978,089	130,474	177,488	10,894	3,078,065
Total	$2,235,600	$869,129	$1,256,349	$189,584	$ 220,938	$11,009	$4,782,609
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	$1,485	$499	$478	$45	$ 2,281	$—	$4,788
Off-balance sheet	395	210	656	48	4,690	4	6,003
Total	$1,880	$709	$1,134	$93	$ 6,971	$4	$10,791
Individually evaluated for impairment:							
On-balance sheet	$688	$1,547	$328	$616	$ —	$—	$3,179
Off-balance sheet	49	70	125	24	—	14	282
Total	$737	$1,617	$453	$640	$ —	$14	$3,461
Total Farm & Ranch loans:							
On-balance sheet	$2,173	$2,046	$806	$661	$ 2,281	$—	$7,967
Off-balance sheet	444	280	781	72	4,690	18	6,285
Total	$2,617	$2,326	$1,587	$733	$ 6,971	$18	$14,252

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	As of December 31, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	$977,564	$260,047	$268,869	$50,287	$ 42,812	$—	$1,599,579
Off-balance sheet	1,169,710	584,880	1,002,164	136,482	144,637	11,000	3,048,873
Total	$2,147,274	$844,927	$1,271,033	$186,769	$ 187,449	$11,000	$4,648,452
Individually evaluated for impairment:							
On-balance sheet	$22,002	$29,647	$11,511	$12,660	$ 4,337	$115	$80,272
Off-balance sheet	2,073	7,958	5,197	2,436	—	901	18,565
Total	$24,075	$37,605	$16,708	$15,096	$ 4,337	$1,016	$98,837
Total Farm & Ranch loans:							
On-balance sheet	$999,566	$289,694	$280,380	$62,947	$ 47,149	$115	$1,679,851
Off-balance sheet	1,171,783	592,838	1,007,361	138,918	144,637	11,901	3,067,438
Total	$2,171,349	$882,532	$1,287,741	$201,865	$ 191,786	$12,016	$4,747,289
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	$1,406	$586	$499	$46	$ 2,265	$—	$4,802
Off-balance sheet	476	215	680	57	3,996	5	5,429
Total	$1,882	$801	$1,179	$103	$ 6,261	$5	$10,231
Individually evaluated for impairment:							
On-balance sheet	$684	$1,465	$335	$665	$ 3,400	$—	$6,549
Off-balance sheet	23	50	20	16	—	1	110
Total	$707	$1,515	$355	$681	$ 3,400	$1	$6,659
Total Farm & Ranch loans:							
On-balance sheet	$2,090	$2,051	$834	$711	$ 5,665	$—	$11,351
Off-balance sheet	499	265	700	73	3,996	6	5,539
Total	$2,589	$2,316	$1,534	$784	$ 9,661	$6	$16,890

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The following tables present by commodity type the unpaid principal balances, recorded investment, and specific allowance for losses related to impaired loans and the recorded investment in loans on nonaccrual status as of March 31, 2013 and December 31, 2012:

	As of March 31, 2013						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$18,255	$23,574	$6,800	$1,934	$—	$—	$50,563
Unpaid principal balance	18,027	23,428	6,659	1,914	—	—	50,028
With a specific allowance:							
Recorded investment	20,896	31,692	12,008	11,202	—	1,022	76,820
Unpaid principal balance	20,209	31,023	11,739	11,106	—	1,016	75,093
Associated allowance	737	1,617	453	640	—	14	3,461
Total:							
Recorded investment	39,151	55,266	18,808	13,136	—	1,022	127,383
Unpaid principal balance	38,236	54,451	18,398	13,020	—	1,016	125,121
Associated allowance	737	1,617	453	640	—	14	3,461
Recorded investment of loans on nonaccrual status (1)	$10,582	$15,358	$4,024	$6,722	$—	$—	$36,686

(1) Includes $4.5 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

	As of December 31, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$7,295	$11,652	$7,644	$3,140	$—	$907	$30,638
Unpaid principal balance	7,247	11,509	7,489	3,090	—	901	30,236
With a specific allowance:							
Recorded investment	17,214	26,567	9,360	12,118	4,337	117	69,713
Unpaid principal balance	16,829	26,095	9,219	12,007	4,337	114	68,601
Associated allowance	706	1,515	355	682	3,400	1	6,659
Total:							
Recorded investment	24,509	38,219	17,004	15,258	4,337	1,024	100,351
Unpaid principal balance	24,076	37,604	16,708	15,097	4,337	1,015	98,837

Associated allowance	706	1,515	355	682	3,400	1	6,659
Recorded investment of loans on nonaccrual status (1)	$11,888	$15,789	$5,141	$8,180	$4,337	$—	$45,335

(1) Includes $15.7 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

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The following table presents by commodity type the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended March 31, 2013						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Average recorded investment in impaired loans	$31,830	$46,743	$17,906	$14,197	$2,169	$1,023	$113,868
Income recognized on impaired loans	342	374	154	194	—	—	1,064

	For the Three Months Ended March 31, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Average recorded investment in impaired loans	$27,676	$34,003	$12,303	$15,729	$5,121	$1,037	$95,869
Income recognized on impaired loans	87	280	62	104	—	—	533

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. In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days delinquent (depending on the provisions of the applicable agreement) upon the request of the counterparty. Subsequent to the purchase, these 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.

During the three months ended March 31, 2013, Farmer Mac purchased two defaulted loans having an unpaid principal balance of $0.1 million from pools underlying Farm & Ranch Guaranteed Securities and LTSPCs. During the three months ended March 31, 2012, Farmer Mac purchased one defaulted loan having an unpaid principal balance of $0.7 million from pools underlying Farm & Ranch Guaranteed Securities and LTSPCs.

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The following tables present information related to Farmer Mac's acquisition of defaulted loans for the three months ended March 31, 2013 and 2012 and the outstanding balances and carrying amounts of all such loans as of March 31, 2013 and December 31, 2012:

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Unpaid principal balance at acquisition date:		
Loans underlying LTSPCs	$37	$—
Loans underlying Farmer Mac Guaranteed Securities	103	729
Total unpaid principal balance at acquisition date	140	729
Contractually required payments receivable	143	732
Impairment recognized subsequent to acquisition	386	15
Recovery/release of allowance for defaulted loans	50	40

	March 31, 2013	December 31, 2012
	(in thousands)	
Outstanding balance	$34,166	$41,737
Carrying amount	29,870	33,798

Net credit losses and 90-day delinquencies as of and for the periods indicated for loans held and loans underlying Farm & Ranch Guaranteed Securities and LTSPCs are presented in the table below. Information is not presented for loans underlying Farm & Ranch AgVantage securities and the USDA Guarantees and Rural Utilities lines of business. 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.

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As of March 31, 2013, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. To date, Farmer Mac has not experienced any credit losses on any Farm & Ranch AgVantage securities. The USDA-guaranteed portions presented as USDA Guaranteed Securities, as well as those that collateralize Farmer Mac Guaranteed Securities, are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of March 31, 2013, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any of those USDA Guaranteed Securities or Farmer Mac Guaranteed Securities. As of March 31, 2013, there were no delinquencies and no probable losses inherent in the Farmer Mac's rural utilities loans held or in any Farmer Mac Guaranteed Securities – Rural Utilities. As of March 31, 2013, Farmer Mac has not experienced any credit losses on any of those loans or securities.

	90-Day Delinquencies (1) As of		Net Credit Losses For the Three Months Ended	
	March 31, 2013	December 31, 2012	March 31, 2013	March 31, 2012
	(in thousands)			
On-balance sheet assets:				
Farm & Ranch:				
Loans	$32,198	$29,592	$3,810	$—
Total on-balance sheet	$32,198	$29,592	$3,810	$—
Off-balance sheet assets:				
Farm & Ranch:				
LTSPCs	$7,465	$3,671	$—	$—
Total off-balance sheet	$7,465	$3,671	$—	$—
Total	$39,663	$33,263	$3,810	$—

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

Of the $32.2 million and $29.6 million of on-balance sheet loans reported as 90-day delinquencies as of March 31, 2013 and December 31, 2012, respectively, $11.3 million and $4.6 million, respectively, are loans subject to "removal-of-account" provisions.

Credit Quality Indicators

Farmer Mac analyzes credit risk related to loans held and loans underlying LTSPCs and Farm & Ranch Guaranteed Securities (excluding AgVantage securities) based on internally assigned loan scores (i.e., risk ratings) that are derived by taking into consideration such factors as historical repayment performance, indicators of current financial condition, loan seasoning, loan size, and loan-to-value ratio. Loans are then classified into one of the following asset categories based on their underlying risk rating: acceptable; other assets especially mentioned; and substandard. Farmer Mac believes this analysis provides meaningful information regarding the credit risk profile of its Farm & Ranch portfolio as of each quarterly reporting period end date.

Farmer Mac also uses 90-day delinquency information to evaluate its credit risk exposure on these assets because historically it has been the best measure of borrower credit quality deterioration. Most of the

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loans held and underlying LTSPCs and Farm & Ranch Guaranteed Securities have annual (January 1) or semi-annual (January 1 and July 1) payment dates and are supported by less frequent and less predictable revenue sources, such as the cash flows generated from the maturation of crops, sales of livestock, and government farm support programs. Taking into account the reduced frequency of payment due dates and revenue sources, Farmer Mac considers 90-day delinquency to be the most significant observation point when evaluating delinquency information.

The following tables present credit quality indicators related to loans held and loans underlying LTSPCs and Farm & Ranch Guaranteed Securities (excluding AgVantage securities) as of March 31, 2013 and December 31, 2012:

	As of March 31, 2013						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade (1)							
On-balance sheet:							
Acceptable	$970,854	$226,463	$251,822	$45,379	$13,258	$—	$1,507,776
Other assets especially mentioned ("OAEM") (2)	28,572	18,401	12,771	2,836	10,201	—	72,781
Substandard (2)	31,306	48,013	13,667	10,895	19,991	115	123,987
Total on-balance sheet	$1,030,732	$292,877	$278,260	$59,110	$43,450	$115	$1,704,544
Off-Balance Sheet:							
Acceptable	$1,175,751	$551,729	$907,719	$122,724	$147,942	$9,287	$2,915,152
Other assets especially mentioned ("OAEM") (2)	8,255	8,574	35,532	3,381	7,201	598	63,541
Substandard (2)	20,862	15,949	34,838	4,369	22,345	1,009	99,372
Total off-balance sheet	$1,204,868	$576,252	$978,089	$130,474	$177,488	$10,894	$3,078,065
Total Ending Balance:							
Acceptable	$2,146,605	$778,192	$1,159,541	$168,103	$161,200	$9,287	$4,422,928
Other assets especially mentioned ("OAEM") (2)	36,827	26,975	48,303	6,217	17,402	598	136,322
Substandard (2)	52,168	63,962	48,505	15,264	42,336	1,124	223,359
Total	$2,235,600	$869,129	$1,256,349	$189,584	$220,938	$11,009	$4,782,609
Commodity analysis of past due loans (1)							
On-balance sheet	$3,828	$16,961	$6,905	$4,385	$—	$119	$32,198
Off-balance sheet	4,275	42	2,876	272	—	—	7,465
90-days or more past due	$8,103	$17,003	$9,781	$4,657	$—	$119	$39,663

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

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

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	As of December 31, 2012						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade (1)							
On-balance sheet:							
Acceptable	$947,097	$226,253	$252,525	$48,156	$11,972	$—	$1,486,003
Other assets especially mentioned ("OAEM") (2)	30,466	33,794	16,344	2,131	19,981	—	102,716
Substandard (2)	22,003	29,647	11,511	12,660	15,196	115	91,132
Total on-balance sheet	$999,566	$289,694	$280,380	$62,947	$47,149	$115	$1,679,851
Off-Balance Sheet							
Acceptable	$1,143,790	$567,064	$922,254	$130,557	$114,983	$10,287	$2,888,935
Other assets especially mentioned ("OAEM") (2)	10,459	5,068	40,410	3,220	23,372	592	83,121
Substandard (2)	17,534	20,706	44,697	5,141	6,282	1,022	95,382
Total off-balance sheet	$1,171,783	$592,838	$1,007,361	$138,918	$144,637	$11,901	$3,067,438
Total Ending Balance:							
Acceptable	$2,090,887	$793,317	$1,174,779	$178,713	$126,955	$10,287	$4,374,938
Other assets especially mentioned ("OAEM") (2)	40,925	38,862	56,754	5,351	43,353	592	185,837
Substandard (2)	39,537	50,353	56,208	17,801	21,478	1,137	186,514
Total	$2,171,349	$882,532	$1,287,741	$201,865	$191,786	$12,016	$4,747,289
Commodity analysis of past due loans (1)							
On-balance sheet	$3,971	$10,756	$4,389	$6,022	$4,337	$117	$29,592
Off-balance sheet	697	45	2,833	96	—	—	3,671
90-days or more past due	$4,668	$10,801	$7,222	$6,118	$4,337	$117	$33,263

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

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

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Concentrations of Credit Risk

The following table sets forth the geographic and commodity/collateral diversification, as well as the range of original loan-to-value ratios, for all loans held and loans underlying Farm & Ranch Guaranteed Securities (excluding AgVantage securities) and LTSPCs as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
	(in thousands)	
By commodity/collateral type:		
Crops	$2,235,600	$2,171,349
Permanent plantings	869,129	882,532
Livestock	1,256,349	1,287,741
Part-time farm	189,584	201,865
Ag. Storage and Processing (including ethanol facilities)	220,938	191,786
Other	11,009	12,016
Total	$4,782,609	$4,747,289
By geographic region (1):		
Northwest	$464,878	$840,693
Southwest	1,742,298	1,781,822
Mid-North	1,411,917	989,903
Mid-South	569,876	504,914
Northeast	250,982	261,756
Southeast	342,658	368,201
Total	$4,782,609	$4,747,289
By original loan-to-value ratio:		
0.00% to 40.00%	$1,219,929	$1,338,715
40.01% to 50.00%	923,067	851,980
50.01% to 60.00%	1,345,849	1,296,225
60.01% to 70.00%	1,132,798	1,091,427
70.01% to 80.00%	118,843	122,259
80.01% to 90.00%	42,123	46,683
Total	$4,782,609	$4,747,289

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

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

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

Farmer Mac offers two credit enhancement alternatives to direct loan purchases that allow approved lenders the ability to retain the cash flow benefits of their loans and increase their liquidity and lending capacity: (1) Farmer Mac Guaranteed Securities, which are available through the Farm & Ranch, the USDA Guarantees, or the Rural Utilities lines of business, and (2) LTSPCs, which are available through the Farm & Ranch or the USDA Guarantees lines of business. 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 consolidated balance sheet. Upon consolidation, Farmer Mac eliminates the portion of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. For the remainder of these transactions, or in the event of deconsolidation, both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac. Farmer Mac accounts for these transactions and other financial guarantees in accordance with accounting guidance on accounting for guarantees. Farmer Mac records, at the inception of a guarantee, a liability for the fair value of its obligation to stand ready to perform under the terms of each guarantee and an asset that is equal to the fair value of the fees that will be received over the life of each guarantee. The fair values of the guarantee obligation and asset at inception are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are derived using a Monte Carlo simulation model. The guarantee obligation and corresponding asset are subsequently amortized into guarantee and commitment fee income in relation to the decline in the unpaid principal balance on the underlying agricultural real estate mortgage and rural utilities loans.

Off-Balance Sheet Farmer Mac Guaranteed Securities

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, 2013 and December 31, 2012, 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, 2013	December 31, 2012
	(in thousands)	
Farm & Ranch:		
Farmer Mac Guaranteed Securities - AgVantage	$970,000	$970,000
Farmer Mac Guaranteed Securities	856,500	911,370
USDA Guarantees:		
Farmer Mac Guaranteed Securities	25,581	29,658
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	12,669	12,669
Total off-balance sheet Farmer Mac Guaranteed Securities	$1,864,750	$1,923,697

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Proceeds from new securitizations	$25,042	$3,380
Guarantee fees received	992	714
Purchases of assets from the trusts	(103)	(729)

Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated $15.2 million as of March 31, 2013 and $15.8 million as of December 31, 2012. As of March 31, 2013 and December 31, 2012, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.2 years and 13.4 years, respectively. As of March 31, 2013 and December 31, 2012, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 4.2 years and 4.7 years.

Long-Term Standby Purchase Commitments

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

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was $2.2 billion as of both March 31, 2013 and December 31, 2012.

As of March 31, 2013 and December 31, 2012, the weighted-average remaining maturity of all loans underlying LTSPCs was 13.7 years and 13.6 years, respectively. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the consolidated balance sheet. This liability approximated $23.7 million as of March 31, 2013 and $22.0 million as of December 31, 2012.

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7. EQUITY

Common Stock

Farmer Mac has three classes of common stock outstanding:

- Class A voting common stock, which may be held only by banks, insurance companies and other financial institutions or similar entities that are not institutions of the Farm Credit System ("FCS"). By federal statute, no holder of Class A voting common stock may directly or indirectly be a beneficial owner of more than 33 percent of the outstanding shares of Class A voting common stock;
- Class B voting common stock, which may be held only by institutions of the FCS. There are no restrictions on the maximum holdings of Class B voting common stock; and
- Class C non-voting common stock, which has no ownership restrictions.

During first quarter 2013, Farmer Mac paid a quarterly dividend of $0.12 per share on all classes of the Corporation's common stock. During 2012, Farmer Mac paid quarterly dividends of $0.10 per share on the Corporation's common stock. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Preferred Stock

On January 17, 2013, Farmer Mac issued 2.4 million shares of 5.875% Non-Cumulative Preferred Stock, Series A (the "Series A Preferred Stock"). The Series A Preferred Stock has a par value of $25.00 per share, a liquidation preference of $25.00 per share, and an annual dividend rate of 5.875 percent. Dividends on the Series A Preferred Stock are non-cumulative, so dividends that are not declared for a payment date will not accrue. Farmer Mac incurred $1.7 million of direct costs related to the issuance of Series A Preferred Stock. Farmer Mac used the proceeds from the sale of the Series A Preferred Stock to redeem and retire the outstanding shares of Series C Non-Voting Cumulative Preferred Stock ("Series C Preferred Stock"). As of March 31, 2013, Farmer Mac had 2.4 million shares of Series A Preferred Stock outstanding and no shares of Series C Preferred Stock outstanding. As of December 31, 2012, Farmer Mac had 57,578 shares of Series C Preferred Stock outstanding. Prior to its redemption, dividends on Series C Preferred Stock compounded quarterly at an annual rate of 5.0 percent of the then-applicable liquidation preference per share, with the annual rate scheduled to increase to (1) 7.0 percent on January 1 following the fifth anniversary of the applicable issue date and (2) 9.0 percent on January 1 following the tenth anniversary of the applicable issue date.

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

Non-Controlling Interest in Farmer Mac II LLC

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

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Dividends on the Farmer Mac II LLC Preferred Stock will be payable if, when and as declared by Farmer Mac II LLC's board of directors, quarterly, on a non-cumulative basis, on March 30, June 30, September 30, and December 30 of each year. For each quarterly period from the date of issuance to but excluding the payment date occurring on March 30, 2015, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 8.875 percent per annum. For each quarterly period from March 30, 2015 to but excluding the payment date occurring on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 10.875 percent per annum. For each quarterly period beginning on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be an annual rate equal to three-month LIBOR plus 8.211 percent. Dividends on the Farmer Mac II LLC Preferred Stock are non-cumulative, so dividends that are not declared for a payment date will not accrue. The Farmer Mac II LLC Preferred Stock is permanent equity of Farmer Mac II LLC and is presented as "Non-controlling interest – preferred stock" within permanent equity on the consolidated balance sheets of Farmer Mac. Farmer Mac II LLC incurred $8.1 million of direct costs related to the issuance of the Farmer Mac II LLC Preferred Stock, which reduced the amount of non-controlling interest – preferred stock. The accrual of declared dividends is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the consolidated statements of operations on a pre-tax basis. The consolidated tax benefit is included in income tax expense. Farmer Mac II LLC may redeem the preferred stock on March 30 of 2015, 2016, 2017, 2018, and 2019 and on any payment date on or after March 30, 2020, in whole or in part, at a cash redemption price equal to the liquidation preference.

Statutory and Regulatory Capital Requirements

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

- Statutory minimum capital requirement – Farmer Mac's statutory minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income plus non-controlling interest - preferred stock) equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, specifically including:
  - the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
  - instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
  - other off-balance sheet obligations of Farmer Mac.
- Statutory critical capital requirement – Farmer Mac's critical capital level is an amount of core capital equal to 50 percent of the total minimum capital requirement at that time.
- Risk-based capital requirement – Farmer Mac's charter directs the Farm Credit Administration ("FCA") to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters.

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

As of March 31, 2013, Farmer Mac's minimum and critical capital requirements were $380.9 million and $190.5 million, respectively, and its actual core capital level was $536.5 million, which was $155.6 million above the minimum capital requirement and $346.0 million above the critical capital requirement as of that date. As of December 31, 2012, Farmer Mac's minimum and critical capital

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requirements were $374.0 million and $187.0 million, respectively, and its actual core capital level was $519.0 million, which was $145.0 million above the minimum capital requirement and $332.0 million above the critical capital requirement as of that date.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of March 31, 2013 was $66.5 million, and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $550.7 million exceeded that amount by approximately $484.2 million. As of December 31, 2012, Farmer Mac's risk-based capital requirement was $58.1 million, and Farmer Mac's regulatory capital of $535.9 million exceeded that amount by approximately $477.8 million.

8. FAIR VALUE DISCLOSURES

Fair Value Measurement

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

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

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

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

Farmer Mac performs a detailed analysis of the assets and liabilities carried at fair value to determine the appropriate level based on the transparency of the inputs used in the valuation techniques. In certain

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

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

Recurring Fair Value Measurements and Classification

Available-for-Sale and Trading Investment Securities

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

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

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

Farmer Mac's investment securities include callable, highly rated auction-rate certificates ("ARCs"), the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates as set forth in the related transaction documents in the event of a failed auction. These formula-based floating rates, which may at times reset to zero, are intended to preserve the underlying principal balance of the securities and avoid overall cash shortfalls. Accordingly, payments of

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accrued interest may also be delayed and are ultimately subject to cash availability. Beginning in mid-February 2008, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac continues to believe that the credit quality of these securities is high, based on the underlying collateralization and the securities' ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so.

Farmer Mac classifies its estimates of fair value for ARCs as Level 3 measurements. During first quarter 2013 and 2012, Farmer Mac used unadjusted quotes from a broker specializing in these types of securities to determine the estimated fair value of these investments as of each quarter end. Through discussions with the broker, Farmer Mac gained an understanding of the assumptions underlying the broker quotes and independently benchmarked those quotes against other dealer price indications. Farmer Mac believes the broker quotes are the best indication of fair value as of the measurement date although there is uncertainty regarding the ability to transact at such levels. Considering there is no active secondary market for these securities, although limited observable transactions do occasionally occur, price quotes vary significantly among dealers or independent pricing services, if provided at all, and there is little transparency in the price determination, Farmer Mac believes these measurements are appropriately classified as Level 3.

Net transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets and liabilities as of the beginning of the reporting period. There were no transfers within the fair value hierarchy for fair value measurements of Farmer Mac's investment securities during the first three months of 2013 and 2012.

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

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

Farmer Mac made no transfers within the fair value hierarchy for fair value measurements of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities during the first three months of 2013 and 2012.

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 and forward sales contracts on the debt of other GSEs. Farmer Mac estimates the fair value of these financial instruments primarily based upon the counterparty valuations. Farmer Mac internally values its derivative portfolio using a discounted cash flow valuation technique and obtains a secondary valuation for certain interest rate swaps

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to corroborate the counterparty valuations. Farmer Mac also regularly reviews the counterparty valuations as part of the collateral exchange process. Farmer Mac classifies these fair value measurements as Level 2.

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

During first quarter 2013, Farmer Mac observed an increasing trend in the use of the overnight index swap ("OIS") curve by other market participants to value certain collateralized interest rate swap agreements. As a result, Farmer Mac concluded that the OIS curve was a more appropriate curve to use to discount the cash flows on certain collateralized interest rate swaps as of March 31, 2013. The impact of this change was not significant.

As of March 31, 2013, the consideration of credit risk, Farmer Mac's and the counterparties, resulted in an adjustment of $0.7 million to the valuations of Farmer Mac's derivative portfolio. As of December 31, 2012, the consideration of credit risk, Farmer Mac's and the counterparties, resulted in an adjustment of $0.6 million to the valuations of Farmer Mac's derivative portfolio. See Note 1(c) and Note 4 for further information regarding Farmer Mac's derivative portfolio.

Nonrecurring Fair Value Measurements and Classification

Loans Held-for-Sale

Loans held for sale are reported at the lower of cost or fair value in the consolidated balance sheets. Farmer Mac internally models the fair value of loans by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. The fair values of these instruments are classified as level 3 measurements. As of March 31, 2013, Farmer Mac had no loans classified as held for sale. As of December 31, 2012, Farmer Mac recorded an adjustment of $5.9 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. For these impaired loans, the fair value of the loan generally is based on the fair value of the underlying property, which is determined by recent third-party appraisals. Farmer Mac reports these loans at their estimated net realizable value (fair value less estimated costs to sell) and classifies the fair values as level 3 measurements. Farmer Mac uses net realizable value as a reasonable estimate of fair value in the tables below.

When recent third-party appraisals are not available, Farmer Mac measures loan impairment in the aggregate in consideration of the similar risk characteristics of the assets and historical statistics, and does not include these impaired loans in the tables below.

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Real Estate Owned

Farmer Mac initially records REO properties at net realizable value and subsequently records them at the lower of carrying value or net realizable value. The fair value of the REO generally is based on third-party appraisals. Farmer Mac classifies the REO fair values as Level 3 measurements. Farmer Mac uses net realizable value as a reasonable estimate of fair value in the tables below.

Fair Value Classification and Transfers

As of March 31, 2013, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.8 billion whose fair values were estimated by management in the absence of readily determinable fair values. These financial instruments measured as Level 3 represented 53 percent of total assets and 74 percent of financial instruments measured at fair value as of March 31, 2013.
As of December 31, 2012, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $7.1 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 56 percent of total assets and 73 percent of financial instruments measured at fair value as of December 31, 2012.

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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, 2013 and December 31, 2012, 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, 2013

	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	$—	$—	$65,213	$65,213
Floating rate asset-backed securities	—	146,678	—	146,678
Fixed rate asset-backed securities	—	2,980	—	2,980
Floating rate corporate debt securities	—	91,804	—	91,804
Fixed rate corporate debt securities	—	62,357	—	62,357
Floating rate Government/GSE guaranteed mortgage-backed securities	—	687,745	233	687,978
Fixed rate GSE guaranteed mortgage-backed securities	—	1,704	—	1,704
Floating rate GSE subordinated debt	—	63,151	—	63,151
Fixed rate GSE preferred stock	—	86,792	—	86,792
Fixed rate taxable municipal bonds	—	8,597	—	8,597
Floating rate senior agency debt	—	50,048	—	50,048
Fixed rate senior agency debt	—	119,621	—	119,621
Fixed rate U.S. Treasuries	909,264	—	—	909,264
Total available-for-sale	909,264	1,321,477	65,446	2,296,187
Trading:				
Floating rate asset-backed securities	—	—	1,129	1,129
Total trading	—	—	1,129	1,129
Total Investment Securities	909,264	1,321,477	66,575	2,297,316
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farm & Ranch	—	—	3,528,520	3,528,520
USDA Guarantees	—	—	27,198	27,198
Rural Utilities	—	—	1,544,362	1,544,362
Total Farmer Mac Guaranteed Securities	—	—	5,100,080	5,100,080
USDA Guaranteed Securities:				
Available-for-sale	—	—	1,569,160	1,569,160
Trading	—	—	87,271	87,271
Total USDA Guaranteed Securities	—	—	1,656,431	1,656,431
Financial derivatives	13	26,241	—	26,254
Total Assets at fair value	$909,277	$1,347,718	$6,823,086	$9,080,081
Liabilities:				
Financial derivatives	$—	$133,306	$532	$133,838
Total Liabilities at fair value	$—	$133,306	$532	$133,838
Nonrecurring:				
Assets:				
Loans held for investment	—	—	5,939	5,939
REO	—	—	2,232	2,232

Total Nonrecurring Assets at fair value	$—	$—	$8,171	$8,171

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Assets and Liabilities Measured at Fair Value as of December 31, 2012

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$63,159	$63,159
Floating rate asset-backed securities	—	151,044	—	151,044
Fixed rate asset-backed securities	—	6,501	—	6,501
Floating rate corporate debt securities	—	76,763	—	76,763
Fixed rate corporate debt	—	52,416	—	52,416
Floating rate Government/GSE guaranteed mortgage-backed securities	—	712,859	—	712,859
Fixed rate GSE guaranteed mortgage-backed securities	—	2,065	—	2,065
Floating rate GSE subordinated debt	—	57,431	—	57,431
Fixed rate commercial paper	—	—	—	—
Fixed rate GSE preferred stock	—	87,086	—	87,086
Floating rate senior agency debt	—	50,055	—	50,055
Fixed rate senior agency debt	—	73,114	—	73,114
Fixed rate U.S. Treasuries	1,165,889	—	—	1,165,889
Total available-for-sale	1,165,889	1,269,334	63,159	2,498,382
Trading:				
Floating rate asset-backed securities	—	—	1,247	1,247
Total trading	—	—	1,247	1,247
Total Investment Securities	1,165,889	1,269,334	64,406	2,499,629
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farm & Ranch	—	—	3,426,489	3,426,489
USDA Guarantees	—	—	26,681	26,681
Rural Utilities	—	—	1,313,088	1,313,088
Total Farmer Mac Guaranteed Securities	—	—	4,766,258	4,766,258
USDA Guaranteed Securities:				
Available-for-sale	—	—	1,486,595	1,486,595
Trading	—	—	104,188	104,188
Total USDA Guaranteed Securities	—	—	1,590,783	1,590,783
Financial derivatives	—	31,173	—	31,173
Total Assets at fair value	$1,165,889	$1,300,507	$6,421,447	$8,887,843
Liabilities:				
Financial derivatives	$12	$149,979	$691	$150,682
Total Liabilities at fair value	$12	$149,979	$691	$150,682
Nonrecurring:				
Assets:				
Loans held for sale	$—	$—	$657,154	$657,154
Loans held for investment	—	—	8,130	8,130
REO	—	—	1,704	1,704
Total Nonrecurring Assets at fair value	$—	$—	$666,988	$666,988

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

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended March 31, 2013

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/ (Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$63,159	$—	$—	$—	$—	$ 2,054	$65,213
Floating rate Government/GSE guaranteed mortgage-backed securities	—	233	—	—	—	—	233
Total available-for-sale	63,159	233	—	—	—	2,054	65,446
Trading:							
Floating rate asset-backed securities (1)	1,247	—	—	(314)	196	—	1,129
Total trading	1,247	—	—	(314)	196	—	1,129
Total Investment Securities	64,406	233	—	(314)	196	2,054	66,575
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
Farm & Ranch	3,426,489	100,000	—	(9)	(3,138)	5,178	3,528,520
USDA Guarantees	26,681	—	—	(383)	—	900	27,198
Rural Utilities	1,313,088	325,000	—	(77,924)	—	(15,802)	1,544,362
Total Farmer Mac Guaranteed Securities	4,766,258	425,000	—	(78,316)	(3,138)	(9,724)	5,100,080
USDA Guaranteed Securities:							
Available-for-sale	1,486,595	122,187	—	(69,202)	—	29,580	1,569,160
Trading (2)	104,188	—	—	(16,931)	14	—	87,271
Total USDA Guaranteed Securities	1,590,783	122,187	—	(86,133)	14	29,580	1,656,431
Total Assets at fair value	$6,421,447	$547,420	$—	$(164,763)	$(2,928)	$ 21,910	$6,823,086
Liabilities:							
Financial derivatives (3)	$(691)	$—	$—	$—	$159	$ —	$(532)
Total Liabilities at fair value	$(691)	$—	$—	$—	$159	$ —	$(532)

(1) Unrealized gains are attributable to assets still held as of March 31, 2013 and are recorded in Gains on trading assets.

(2) Includes unrealized losses of $0.1 million attributable to assets still held as of March 31, 2013 that are recorded in Gains on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of March 31, 2013 and are recorded in Gains on financial derivatives and hedging activities.

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Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended March 31, 2012

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/ (Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$60,213	$—	$—	$—	$—	$ (1,345)	$58,868
Total available-for-sale	60,213	—	—	—	—	(1,345)	58,868
Trading:							
Floating rate asset-backed securities (1)	1,796	—	—	(288)	138	—	1,646
Total Trading	1,796	—	—	(288)	138	—	1,646
Total Investment Securities	62,009	—	—	(288)	138	(1,345)	60,514
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
Farm & Ranch	2,807,627	200,000	—	(8)	—	604	3,008,223
USDA Guarantees	35,599	—	—	(228)	—	758	36,129
Rural Utilities	1,446,046	—	—	(95,701)	—	(4,836)	1,345,509
Total Farmer Mac Guaranteed Securities	4,289,272	200,000	—	(95,937)	—	(3,474)	4,389,861
USDA Guaranteed Securities:							
Available-for-sale	1,279,546	101,725	—	(54,018)	—	1,449	1,328,702
Trading (2)	212,359	—	—	(28,923)	961	—	184,397
Total USDA Guaranteed Securities	1,491,905	101,725	—	(82,941)	961	1,449	1,513,099
Total Assets at fair value	$5,843,186	$301,725	$—	$(179,166)	$1,099	$ (3,370)	$5,963,474
Liabilities:							
Financial derivatives (3)	$(1,335)	$—	$—	$—	$110	$ —	$(1,225)
Total Liabilities at fair value	$(1,335)	$—	$—	$—	$110	$ —	$(1,225)

(1) Unrealized gains are attributable to assets still held as of December 31, 2012 and are recorded in Gains on trading assets.

(2) Includes unrealized gains of $0.8 million attributable to assets still held as of December 31, 2012 that are recorded in Gains on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of December 31, 2012 and are recorded in Gains on financial derivatives and hedging activities.

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The following tables presents additional information about the significant unobservable inputs, such as discount rates and constant prepayment rates ("CPR"), used in the fair value measurements categorized in Level 3 of the fair value hierarchy as of March 31, 2013 and December 31, 2012:

Financial Instruments	March 31, 2013 Fair Value (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$65,213	Indicative bids	Range of broker quotes	82.0% - 93.0% (88.0%)
Floating rate asset-backed securities	$1,129	Discounted cash flow	Discount rate	11.9% - 19.4% (15.9%)
			CPR	10%
Floating rate Government/GSE guaranteed mortgage-backed securities	$233	Discounted cash flow	Discount rate	1.6% - 1.6% (1.6%)
			CPR	7%
Farmer Mac Guaranteed Securities:				
Farm & Ranch	$3,528,520	Discounted cash flow	Discount rate	0.9% - 3.5% (1.6%)
USDA Guarantees	$27,198	Discounted cash flow	Discount rate	0.8% - 3.3% (1.9%)
			CPR	8% - 18% (15%)
Rural Utilities	$1,544,362	Discounted cash flow	Discount rate	0.8% - 3.0% (1.6%)
USDA Guaranteed Securities	$1,656,431	Discounted cash flow	Discount rate	1.2% - 5.3% (3.1%)
			CPR	0% - 27% (9%)
Liabilities:				
Financial Derivatives:				
Basis swaps	$532	Discounted cash flow	Discount rate	0.6% - 2.4% (1.3%)
			CPR	12% - 17% (16%)

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Financial Instruments	December 31, 2012 Fair Value (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$63,159	Indicative bids	Range of broker quotes	82.0% - 90.0% (85.0%)
Floating rate asset-backed securities	$1,247	Discounted cash flow	Discount rate	12.4% - 19.7% (16.2%)
			CPR	10%
Farmer Mac Guaranteed Securities:				
Farm & Ranch	$3,426,489	Discounted cash flow	Discount rate	1.1% - 3.4% (1.6%)
USDA Guarantees	$26,681	Discounted cash flow	Discount rate	1.0% - 3.4% (2.1%)
			CPR	8% - 17% (14%)
Rural Utilities	$1,313,088	Discounted cash flow	Discount rate	0.8% - 2.9% (1.6%)
USDA Guaranteed Securities	$1,590,783	Discounted cash flow	Discount rate	1.4% - 5.3% (3.4%)
			CPR	0% - 26% (10%)
Liabilities:				
Financial Derivatives:				
Basis swaps	$691	Discounted cash flow	Discount rate	1.0% - 3.0% (1.7%)
			CPR	11% - 19% (16%)

The significant unobservable inputs used in the fair value measurements of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities are prepayment rates and discount rates commensurate with the risks involved. Typically, significant increases (decreases) in any of these inputs in isolation may result in materially lower (higher) fair value measurements. Generally, in a rising interest rate environment, Farmer Mac would expect average discount rates to increase and would likely expect a corresponding decrease in forecasted prepayment rates. Conversely, in a declining interest rate environment, Farmer Mac would expect average discount rates to decrease and would likely expect a corresponding increase in forecasted prepayment rates. Prepayment rates are not presented in the table above for the Farm & Ranch and Rural Utilities securities structured as AgVantage securities because they generally do not pay down principal based on amortization schedules but instead typically have fixed maturity dates when the secured general obligations are due.

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Disclosures on Fair Value of Financial Instruments

The following table sets forth the estimated fair values and carrying values for financial assets, liabilities and guarantees and commitments as of March 31, 2013 and December 31, 2012:

	March 31, 2013		December 31, 2012	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$893,387	$893,387	$785,564	$785,564
Investment securities	2,297,316	2,297,316	2,499,629	2,499,629
Farmer Mac Guaranteed Securities	5,100,080	5,100,080	4,766,258	4,766,258
USDA Guaranteed Securities	1,656,431	1,656,431	1,590,783	1,590,783
Loans	2,832,842	2,765,926	2,746,742	2,729,774
Financial derivatives	26,254	26,254	31,173	31,173
Guarantee and commitment fees receivable:				
LTSPCs	29,225	24,653	27,805	22,863
Farmer Mac Guaranteed Securities	18,844	17,706	20,432	18,926
Financial liabilities:				
Notes payable:				
Due within one year	6,552,954	6,543,973	6,573,013	6,567,366
Due after one year	5,128,379	4,978,118	5,202,751	5,034,739
Debt securities of consolidated trusts held by third parties	173,575	167,250	164,910	167,621
Financial derivatives	133,838	133,838	150,682	150,682
Guarantee and commitment obligations:				
LTSPCs	28,317	23,745	26,896	21,954