FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
May 12, 2009

As filed with the Securities and Exchange Commission on
May 12, 2009

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, 2009

Commission File Number 001-14951

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

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

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

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

Yes x No 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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, 2009 the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,606,617 shares of Class C Non-Voting Common Stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2009	December 31, 2008
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 283,801	$ 278,412
Investment securities:		
Available-for-sale, at fair value	867,942	1,072,096
Trading, at fair value	178,752	163,763
Total investment securities	1,046,694	1,235,859
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	1,564,907	1,511,694
Trading, at fair value	925,747	939,550
Total Farmer Mac Guaranteed Securities	2,490,654	2,451,244
Loans:		
Loans held for sale, at lower of cost or fair value	590,343	66,680
Loans held for investment, at amortized cost	80,338	718,845
Allowance for loan losses	(13,228)	(10,929)
Total loans, net of allowance	657,453	774,596
Real estate owned, at lower of cost or fair value	606	606
Financial derivatives, at fair value	24,545	27,069
Interest receivable	46,939	73,058
Guarantee and commitment fees receivable	56,339	61,109
Deferred tax asset, net	72,668	87,793
Prepaid expenses and other assets	91,178	117,561
Total Assets	$ 4,770,877	$ 5,107,307
Liabilities, Mezzanine Equity and Stockholders' Equity:		
Liabilities:		
Notes payable:		
Due within one year	$ 3,286,336	$ 3,757,099
Due after one year	1,005,981	887,999
Total notes payable	4,292,317	4,645,098
Financial derivatives, at fair value	163,666	181,183
Accrued interest payable	34,821	40,470
Guarantee and commitment obligation	51,790	54,954
Accounts payable and accrued expenses	15,576	20,532
Reserve for losses	8,025	5,506
Total Liabilities	4,566,195	4,947,743
Mezzanine Equity:		
Series B redeemable preferred stock, par value $1,000, 150,000 shares authorized, issued and outstanding	144,216	144,216
Stockholders' Equity:		

Preferred stock:		
Series C, stated at redemption/liquidation value, $1000 per share, 75,000 shares authorized, 20,000 and 9,200 issued and outstanding as of March 31, 2009 and December 31, 2008, respectively	20,000	9,200
Common stock:		
Class A Voting, $1 par value, no maximum authorization	1,031	1,031
Class B Voting, $1 par value, no maximum authorization	500	500
Class C Non-Voting, $1 par value, no maximum authorization	8,604	8,601
Additional paid-in capital	95,073	95,572
Accumulated other comprehensive loss	(45,609)	(47,412)
Accumulated deficit	(19,133)	(52,144)
Total Stockholders' Equity	60,466	15,348
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 4,770,877	$ 5,107,307

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
	(in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	$ 8,909	$ 41,508
Farmer Mac Guaranteed Securities	27,759	18,770
Loans	10,485	11,831
Total interest income	47,153	72,109
Total interest expense	23,713	54,171
Net interest income	23,440	17,938
Provision for loan losses	(3,534)	-
Net interest income after provision for loan losses	19,906	17,938
Non-interest income/(loss):		
Guarantee and commitment fees	7,410	6,634
Gains/(losses) on financial derivatives	1,711	(41,720)
Gains on trading assets	31,625	10,111
Impairment losses on available-for-sale investment securities	(81)	-
Gains on sale of available-for-sale investment securities	3,150	1
Gains on sale of loans and Farmer Mac Guaranteed Securities	1,581	-
Other income	234	460
Non-interest income/(loss)	45,630	(24,514)
Non-interest expense:		
Compensation and employee benefits	4,025	3,650
General and administrative	2,914	2,028
Regulatory fees	513	513
Real estate owned operating costs, net	21	49
Provision for losses	2,519	-
Non-interest expense	9,992	6,240
Income/(loss) before income taxes	55,544	(12,816)
Income tax expense/(benefit)	18,090	(5,119)
Net income/(loss)	37,454	(7,697)
Preferred stock dividends	(3,936)	(560)
Net income/(loss) available to common stockholders	$ 33,518	$ (8,257)
Earnings per common share and dividends:		
Basic earnings/(loss) per common share	$ 3.31	$ (0.84)
Diluted earnings/(loss) per common share	$ 3.31	$ (0.84)
Common stock dividends per common share	$ 0.05	$ 0.10

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended March 31, 2009	March 31, 2008
	(in thousands)	
Cash flows from operating activities:		
Net income/(loss)	$ 37,454	$ (7,697)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on loans and investments	1,228	1,141
Amortization of debt premiums, discounts and issuance costs	4,826	28,538
Proceeds from repayment and sale of trading investment securities	268	423
Purchases of loans held for sale	(15,144)	(8,424)
Proceeds from repayment of loans held for sale	1,538	4,095
Net change in fair value of trading securities and financial derivatives	(46,617)	28,889
Amortization of SFAS 133 transition adjustment on financial derivatives	39	72
Impairment losses on available-for-sale investment securities	81	-
Gains on sale of available-for-sale investment securities	(3,150)	(1)
Gains on sale of loans and Farmer Mac Guaranteed Securities	(1,581)	-
Total provision for losses	6,053	-
Deferred income taxes	13,290	(10,679)
Stock-based compensation expense	654	914
Decrease in interest receivable	26,119	33,291
Decrease in guarantee and commitment fees receivable	4,770	2,079
Decrease/(increase) in other assets	25,753	(7,804)
Decrease in accrued interest payable	(5,649)	(16,273)
Decrease in other liabilities	(9,843)	(12,203)
Net cash provided by operating activities	40,089	36,361
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	-	(835,025)
Purchases of Farmer Mac Guaranteed Securities	(352,078)	(60,281)
Purchases of loans held for investment	(14,670)	(29,044)
Purchases of defaulted loans	(5,030)	(1,163)
Proceeds from repayment of available-for-sale investment securities	82,531	367,527
Proceeds from repayment of Farmer Mac Guaranteed Securities	67,277	69,697
Proceeds from repayment of loans	34,034	41,983
Proceeds from sale of available-for-sale investment securities	128,400	-
Proceeds from sale of loans held	358,953	-
Proceeds from sale of Farmer Mac Guaranteed Securities	17,124	6,118
Net cash provided by/(used in) investing activities	316,541	(440,188)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	16,997,175	34,398,361
Proceeds from issuance of medium-term notes	919,427	639,974
Payments to redeem discount notes	(17,111,209)	(33,934,610)
Payments to redeem medium-term notes	(1,163,000)	(599,000)
Proceeds from common stock issuance	9	22

Purchases of common stock	-	(830)
Proceeds from preferred stock issuance	10,800	-
Dividends paid	(4,443)	(1,546)
Net cash (used in)/provided by financing activities	(351,241)	502,371
Net increase in cash and cash equivalents	5,389	98,544
Cash and cash equivalents at beginning of period	278,412	101,445
Cash and cash equivalents at end of period	$ 283,801	$ 199,989

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Accounting Policies

The interim unaudited condensed consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations and cash flows of Farmer Mac for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2008 condensed consolidated balance sheet presented in this report has been derived from the Corporation's audited 2008 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial position, condensed consolidated results of operations and condensed consolidated cash flows as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited 2008 consolidated financial statements of Farmer Mac included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 16, 2009. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Below is a summary of Farmer Mac's significant accounting policies.

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

Farmer Mac considers highly liquid investment securities with original maturities of three months or less at the time of purchase to be cash equivalents. Changes in the balance of cash and cash equivalents are reported in the condensed consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the three months ended March 31, 2009 and 2008.

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
	(in thousands)	
Cash paid for:		
Interest	$ 23,172	$ 40,171
Income taxes	-	16,000
Non-cash activity:		
Loans acquired and securitized as Farmer Mac Guaranteed Securities	17,124	577
Transfers of investment securities from available-for-sale to trading from the effect of adopting SFAS 159	-	600,468
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting SFAS 159	-	428,670
Transfers of Farmer Mac I Guaranteed Securities to loans held for sale	288,012	-
Transfers of loans held for investment to loans held for sale	617,072	-

(b) Allowance for Losses

As of March 31, 2009, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held, real estate owned and loans underlying LTSPCs, Farmer Mac I Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (“SFAS 5”) and Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended (“SFAS 114”).

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses that are charged to non-interest expense and is reduced by charge-offs for actual losses, net of recoveries. Negative provisions for loan losses or negative provisions for losses are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period.

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

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

Farmer Mac separately evaluates the cooperative lender obligations and loans underlying its Farmer Mac Guaranteed Securities – Rural Utilities to determine if there are probable losses inherent in the securities or the underlying rural utilities loans.

Farmer Mac also analyzes impaired assets in its portfolio for impairment under SFAS 114. Farmer Mac’s impaired assets include:

- non-performing assets (loans 90 days or more past due, in foreclosure, restructured, in bankruptcy – including loans performing under either their original loan terms or a court-approved bankruptcy plan – and real estate owned);

- loans for which Farmer Mac had adjusted the timing of borrowers' payment schedules, but still expects to collect all amounts due and has not made economic concessions; and
- additional performing loans that have previously been delinquent or are secured by real estate that produces agricultural commodities or products currently under stress.

For loans with an updated appraised value, other updated collateral valuation or management's estimate of discounted collateral value, this analysis includes the measurement of the fair value of the underlying collateral for individual loans relative to the total recorded investment, including principal, interest and advances. In the event that the collateral value does not support the total recorded investment, Farmer Mac 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. 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.

Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs and Farmer Mac Guaranteed Securities - Rural Utilities in accordance with SFAS 5 and SFAS 114.

The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three months ended March 31, 2009 and 2008:

	For the Three Months Ended March 31, 2009			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	(in thousands)			
Beginning balance	$ 10,929	$ -	$ 5,506	$ 16,435
Provision for losses	3,534	-	2,519	6,053
Charge-offs	(2,000)	-	-	(2,000)
Recoveries	765	-	-	765
Ending balance	$ 13,228	$ -	$ 8,025	$ 21,253

	For the Three Months Ended March 31, 2008			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	(in thousands)			
Beginning balance	$ 1,690	$ -	$ 2,197	$ 3,887
Provision for losses	-	-	-	-
Charge-offs	(39)	-	-	(39)
Recoveries	-	-	-	-
Ending balance	$ 1,651	$ -	$ 2,197	$ 3,848

No allowance for losses has been provided for loans underlying AgVantage securities or securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"). Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security. As of March 31, 2009, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. As of March 31, 2009, Farmer Mac had not experienced any credit losses on any AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the United States Department of Agriculture ("USDA"). Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of March 31, 2009, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities.

The table below summarizes the components of Farmer Mac's allowance for losses as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
	(in thousands)	
Allowance for loan losses	$ 13,228	$ 10,929
Real estate owned valuation allowance	-	-
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	519	869
Off-balance sheet Farmer Mac I Guaranteed Securities	1,692	535
LTSPCs	5,814	4,102
Farmer Mac Guaranteed Securities - Rural Utilities	-	-
Total	$ 21,253	$ 16,435

As of March 31, 2009, Farmer Mac individually analyzed $94.9 million of its $131.9 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $37.0 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac's specific allowance for under-collateralized assets was $12.1 million as of March 31, 2009 and $8.6 million as of December 31, 2008. Farmer Mac's non-specific or general allowance was $9.2 million as of March 31, 2009 and $7.8 million as of December 31, 2008.

Farmer Mac recognized interest income of approximately $1.1 million and $1.2 million on impaired loans during the three months ended March 31, 2009 and 2008, respectively. During the three months ended March 31, 2009 and 2008, Farmer Mac's average investment in impaired loans was $125.7 million and $38.9 million, respectively.

(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 to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac also recognizes certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative as promulgated by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133").

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 mortgage-backed securities and the debt of other government-sponsored enterprises ("GSEs"), futures contracts involving U.S. Treasury securities and interest rate swap contracts. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both U.S. Treasury rates and spreads on Farmer Mac debt and Farmer Mac Guaranteed Securities. The notional amounts of these contracts are determined based on a duration-matched hedge ratio between the hedged item and the hedge instrument. Gains or losses generated by these hedge transactions should offset changes in funding costs or Farmer Mac Guaranteed Securities sale prices that occur during the hedge period.

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability in accordance with SFAS 133. Farmer Mac does not designate its financial derivatives as fair value hedges or cash flow hedges; therefore, the changes in the fair values of financial derivatives are reported as gains or losses on financial derivatives in the condensed consolidated statements of operations.

The following tables summarize information related to Farmer Mac's financial derivatives as of March 31, 2009 and December 31, 2008:

	March 31, 2009						
	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in Years)
	(dollars in thousands)						
Interest rate swaps:							
Pay fixed callable	$ 145,246	$ -	$ (5,305)	5.52%	1.21%		7.77
Pay fixed non-callable	1,296,551	-	(153,943)	5.20%	1.24%		5.08
Receive fixed callable	425,000	516	(77)	1.23%	1.77%		0.77
Receive fixed non-callable	2,268,981	23,823	(87)	1.22%	1.79%		1.75
Basis swaps	220,474	30	(4,248)	2.84%	1.78%		3.56
Agency forwards	77,109	176	-			108.30	
Treasury futures	2,100	-	(6)			123.78	
Total financial derivatives	$ 4,435,461	$ 24,545	$ (163,666)	2.63%	1.61%		

	December 31, 2008						
	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in Years)
	(dollars in thousands)						
Interest rate swaps:							
Pay fixed callable	$ 208,958	$ -	$ (6,646)	5.51%	3.23%		7.66
Pay fixed non-callable	1,311,218	-	(169,040)	5.21%	3.05%		5.33
Receive fixed callable	606,500	1,727	(65)	2.91%	3.20%		1.28
Receive fixed non-callable	1,347,069	25,269	(94)	2.23%	2.28%		1.43
Basis swaps	206,863	45	(3,734)	3.84%	3.28%		4.31
Agency forwards	74,998	-	(1,604)			105.85	
Treasury futures	2,500	28	-			126.88	
Total financial derivatives	$ 3,758,106	$ 27,069	$ (181,183)	3.68%	2.82%		

In the normal course of business, collateral requirements contained in Farmer Mac's derivative contracts are enforced by Farmer Mac and its counterparties. Upon enforcement of the collateral requirements, the amount of collateral posted is typically based on the net fair value of all derivative contracts with the counterparty, i.e., derivative assets net of derivative liabilities at the counterparty level. If Farmer Mac were to be in violation of certain provisions of the derivative contracts, the related counterparty could request payment or full collateralization on the derivative contracts. As of March 31, 2009, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level, which includes accrued interest but excludes any adjustment for nonperformance risk, was $156.8 million. As of March 31, 2009, Farmer Mac posted assets with a fair value of $85.2 million as collateral for its derivatives in net liability positions. If Farmer Mac had breached certain provisions of the derivative contracts as of

March 31, 2009, it could have been required to settle its obligations under the agreements or post additional collateral of $71.6 million.

The following table summarizes the effects of Farmer Mac's financial derivatives on the condensed consolidated statements of operations for the three months ended March 31, 2009 and 2008:

	Gains/(Losses) on Financial Derivatives For the Three Months Ended	
	March 31, 2009	March 31, 2008
	(in thousands)	
Interest rate swaps	$ 2,659	$ (41,148)
Agency forwards	(879)	(318)
Treasury futures	(9)	(143)
	1,771	(41,609)
Amortization of SFAS 133 transition adjustment	(60)	(111)
Total	$ 1,711	$ (41,720)

As of March 31, 2009 and December 31, 2008, Farmer Mac had approximately $0.2 million of net after-tax unrealized losses on financial derivatives included in accumulated other comprehensive loss related to the SFAS 133 transition adjustment. These amounts will be reclassified into earnings in the same period or periods during which the hedged forecasted transactions (either the payment of interest or the issuance of discount notes) affect earnings or immediately when it becomes probable that the original hedged forecasted transaction will not occur within two months of the originally specified date. Over the next 12 months, Farmer Mac estimates that $0.1 million of the amount currently reported in accumulated other comprehensive loss will be reclassified into earnings.

As of March 31, 2009, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with total notional amount of $120.5 million and a fair value of $(4.2) million. As of December 31, 2008, those basis swaps had a total notional amount of $131.9 million and a fair value of $(3.7) million. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps economically hedge most of the interest rate basis risk related to loans Farmer Mac purchases that pay a Constant Maturity Treasury based-rate and the discount notes Farmer Mac issues to fund the loan purchases. The pricing of discount notes is closely correlated to LIBOR rates. Accordingly, Farmer Mac recorded unrealized losses on those outstanding basis swaps of $0.5 million for first quarter 2009, $2.5 million for fourth quarter 2008 and $2.4 million for first quarter 2008.

(d) Earnings/(Loss) Per Common Share

Basic earnings/(loss) per common share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings/(loss) per common share are based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options and stock appreciation rights ("SARs"). The following schedule reconciles basic and diluted earnings/(loss) per common share ("EPS") for the three months ended March 31, 2009 and 2008:

	For the Three Months Ended					
	March 31, 2009			March 31, 2008		
	Net Income	Shares	$ per Share	Net (Loss)	Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income/(loss) available to common stockholders	$ 33,518	10,135	$ 3.31	$ (8,257)	9,867	$ (0.84)
Effect of dilutive securities:						
Stock options and SARs (1)	-	-	-	-	-	-
Diluted EPS	$ 33,518	10,135	$ 3.31	$ (8,257)	9,867	$ (0.84)

(1) For the three months ended March 31, 2009 and 2008, stock options and SARs of 1,697,829 and 2,218,199, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive.

(e) Stock-Based Compensation

In 1997, Farmer Mac adopted a stock option plan for directors, officers and other employees to acquire shares of Class C Non-Voting Common Stock. Upon stock option exercise, new shares are issued by the Corporation. Under the plan, stock options awarded vest annually in thirds, with the first third vesting one year after the date of grant. If not exercised, any options granted under the 1997 plan expire ten years from the date of grant, except that options issued to directors since June 1, 1998, if not exercised, expire five years from the date of grant. For all stock options granted, the exercise price is equal to the closing price of the Class C Non-Voting Common Stock on or immediately preceding the date of grant. As of June 30, 2008, the plan had terminated pursuant to its terms and no further grants will be made under it.

During 2008, Farmer Mac's stockholders approved the 2008 Omnibus Incentive Compensation Plan that authorizes the grants of restricted stock, stock options and SARs, among other alternative forms of equity-based compensation, to directors, officers and other employees. SARs awarded to officers and employees vest annually in thirds and SARs awarded to directors vest fully after approximately one year. If not exercised or terminated earlier due to the termination of employment or service on the Board, SARs granted to officers or employees expire after ten years and those granted to directors expire after seven years. For all SARs granted, the exercise price is equal to the closing price of the Class C Non-Voting Common Stock on the date of grant. SARs granted during 2008 have exercise prices ranging from $7.35 to $28.94 per share.

For the three months ended March 31, 2009, Farmer Mac recognized $0.7 million of compensation expense related to stock options and SARs, compared to $0.9 million for the three months ended March 31, 2008.

The following table summarizes stock option and SARs activity for the three months ended March 31, 2009 and 2008:

	For the Three Months Ended			
	March 31, 2009		March 31, 2008	
	Stock Options and SARs	Weighted-Average Exercise Price	Stock Options and SARs	Weighted-Average Exercise Price
Outstanding, beginning of period	2,237,711	$ 25.54	2,218,199	$ 25.48
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled	(539,882)	28.30	-	-
Outstanding, end of period	1,697,829	$ 24.66	2,218,199	$ 25.48
Options and SARs exercisable at end of period	1,308,518	$ 24.93	1,360,222	$ 24.46

The cancellations of stock options during first quarter 2009 were due to unvested options or SARs terminating and the cancellation of a portion of vested options upon employee and officers' departures from Farmer Mac. There were no cancellations of stock options or SARs during first quarter 2008. There were no stock options or SARs exercised during first quarter 2009 or first quarter 2008.

The following table summarizes information regarding stock options and SARs outstanding as of March 31, 2009:

	Outstanding		Exercisable		Vested or Expected to Vest	
Range of Exercise Prices	Stock Options and SARS	Weighted-Average Remaining Contractual Life	Stock Options and SARS	Weighted-Average Remaining Contractual Life	Stock Options and SARS	Weighted-Average Remaining Contractual Life
$5.00 - $ 9.99	90,000	9.5 years	-	-	63,000	9.5 years
10.00 - 14.99	-	-	-	-	-	-
15.00 - 19.99	81,722	5.0 years	81,722	5.0 years	81,722	5.0 years
20.00 - 24.99	656,952	4.3 years	646,114	4.3 years	653,700	4.3 years
25.00 - 29.99	655,487	5.6 years	383,017	4.4 years	620,574	5.5 years
30.00 - 34.99	213,668	2.9 years	197,665	2.4 years	208,867	2.8 years
	1,697,829		1,308,518		1,627,863	

There were no stock options or SARS granted during first quarter 2009. The weighted-average grant date fair value of options and SARs granted during the year ended December 31, 2008 was $9.71 per share. The fair values were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2008
Risk-free interest rate	2.4%
Expected years until exercise	6 years
Expected stock volatility	52.2%
Dividend yield	2.2%

(f) Reclassifications

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

(g) Fair Value

Effective January 1, 2008, Farmer Mac adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 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). Effective January 1, 2009, Farmer Mac adopted FASB Statement of Position No. 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2") for all non-recurring fair value measurements of non-financial assets and liabilities. FSP 157-2 had delayed the effective date of SFAS 157 for non-recurring, non-financial assets and liabilities.

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

Effective January 1, 2008, Farmer Mac adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 provides companies an irrevocable option to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. On January 1, 2008, Farmer Mac recorded a cumulative effect of adoption adjustment of $12.1 million, net of tax, as an increase to the beginning balance of retained earnings. The fair value option election was made for certain available-for-sale investment securities and certain Farmer Mac II Guaranteed Securities that were classified as held-to-maturity on January 1, 2008.

See Note 7 for more information regarding fair value measurement.

(h) New Accounting Standards

In December 2007, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but affects only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Farmer Mac adopted this statement prospectively on January 1, 2009 and the impact of adoption was not material to its financial condition, results of operations or cash flows.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 ("SFAS 161"). This standard applies to derivative instruments, non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 does not change the accounting for derivatives and hedging activities, but requires disclosures concerning the effect on the financial statements from their use. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Farmer Mac adopted this statement in first quarter 2009. Since SFAS 161 only required additional disclosures, it did not have an impact on Farmer Mac's financial condition, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with GAAP. This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Farmer Mac does not expect the adoption of this statement to have a material impact on the Corporation's financial condition, results of operations or cash flows in future periods.

In September 2008, the FASB issued three separate but related Exposure Drafts for public comment. The proposed FASB Statements, Accounting for Transfers of Financial Assets and Amendments to FASB Interpretation No. 46(R) ("FIN 46(R)"), address amendments to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and to FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. The two proposed FASB statements would be effective for fiscal years beginning after November 15, 2009. The proposed statements, amending SFAS 140 and FIN 46(R), would remove the concept of a qualifying special-purpose entity ("QSPE") from SFAS 140 and remove the exception from applying FIN 46(R) to QSPEs. While the proposed standards have not been finalized, these changes may result in the consolidation of assets and liabilities onto Farmer Mac's condensed consolidated balance sheet in connection with trusts that currently qualify for the QSPE exception. Farmer Mac is currently evaluating the impact of this proposed standard.

In October 2008, FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The example emphasizes the principles of SFAS 157, including the objective of fair value, the necessary considerations pertaining to distressed transactions, the relevance of observable data, management's assumptions about nonperformance and liquidity risks, third-party pricing quotes and disclosure requirements. The FSP became effective on October 10, 2008 and applies to prior periods for which financial statements have not yet been issued. Entities must account for revisions to fair value estimates resulting from the adoption of the FSP as a change in accounting estimate under SFAS 154, Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3, but do not need to provide the disclosures required by that Statement. Farmer Mac adopted the provisions of FSP 157-3 on September 30, 2008 for its investments in GSE preferred stock issued by CoBank, ACB and AgFirst Farm Credit Bank.

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In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46R-8, Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities ("FSP No. FAS 140-4 and FIN 46R-8"). FSP No. FAS 140-4 and FIN 46R-8 amends the disclosure requirements of SFAS 140 and FIN 46R and is effective for the first reporting period ending after December 15, 2008, or December 31, 2008 for Farmer Mac. The adoption of FSP No. FAS 140-4 and FIN 46R-8 did not have a material impact on Farmer Mac's financial condition, results of operations or cash flows.

In January 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 ("FSP 99-20-1"). FSP 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets. The objective of FSP 99-20-1 was to achieve more consistent determination of whether an other-than-temporary impairment has occurred. An entity with beneficial interests within the scope of FSP 99-20-1 is no longer required to solely consider market participant assumptions when evaluating cash flows for an adverse change that would be indicative of other-than-temporary impairment. FSP 99-20-1 also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements of SFAS 115 and other related guidance. FSP 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008. The impact of adoption was not material to Farmer Mac's financial condition, results of operations or cash flows.

In April 2009, the FASB issued three final FSPs intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, Fair Value Measurements. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The FSPs are effective for interim and annual periods ending after June 15, 2009, but entities may early adopt the FSPs for the interim and annual periods ending after March 15, 2009. Farmer Mac will adopt the FSPs for the interim period ending June 30, 2009. Farmer Mac does not expect the adoption of this guidance to have a material impact on its financial condition, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP amends and clarifies FASB Statement No. 141 (revised 2007), Business Combinations, to address application issues relating to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP shall be effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Farmer Mac's adoption of this guidance did not have a material impact on its financial condition, results of operations or cash flows.

Note 2. Investments

The following tables present the amortized cost and estimated fair values of Farmer Mac's investments as of March 31, 2009 and December 31, 2008.

	March 31, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 74,100	$ -	$ (6,464)	$ 67,636
Floating rate asset-backed securities	78,350	-	(2,032)	76,318
Floating rate corporate debt securities	396,831	-	(46,138)	350,693
Floating rate Government/GSE guaranteed mortgage-backed securities	319,243	96	(3,223)	316,116
Fixed rate GSE guaranteed mortgage-backed securities	7,077	270	-	7,347
Floating rate GSE subordinated debt	70,000	-	(20,868)	49,132
Floating rate GSE preferred stock	700	-	-	700
Total available-for-sale	946,301	366	(78,725)	867,942
Trading:				
Floating rate asset-backed securities	7,226	-	(5,264)	1,962
Fixed rate GSE preferred stock	180,231	-	(3,441)	176,790
Total trading	187,457	-	(8,705)	178,752
Total investment securities	$ 1,133,758	$ 366	$ (87,430)	$ 1,046,694

	December 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans (1)	$ 193,950	$ -	$ (15,373)	$ 178,577
Floating rate asset-backed securities	85,005	1	(3,750)	81,256
Floating rate corporate debt securities	458,428	-	(39,363)	419,065
Floating rate Government/GSE guaranteed mortgage-backed securities	338,907	270	(3,512)	335,665
Fixed rate GSE guaranteed mortgage-backed securities	7,375	188	-	7,563
Floating rate GSE subordinated debt	70,000	-	(20,811)	49,189
Floating rate GSE preferred stock	781	-	-	781
Total available-for-sale	1,154,446	459	(82,809)	1,072,096
Trading:				
Floating rate asset-backed securities	7,494	-	(5,283)	2,211
Fixed rate GSE preferred stock	180,579	-	(19,027)	161,552
Total trading	188,073	-	(24,310)	163,763
Total investment securities	$ 1,342,519	$ 459	$ (107,119)	$ 1,235,859

(1) The fair value of these securities as of December 31, 2008 are inclusive of the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its auction-rate certificates.

During first quarter 2009, Farmer Mac recorded an $81,000 other-than-temporary impairment (in addition to the $51.7 million other-than-temporary impairment recorded in 2008) related to its investment in Fannie Mae floating rate preferred stock. The carrying value of this investment was written down to its fair value of $700,000 as of March 31, 2009 and the impairment loss was recognized as "Impairment losses on available-for-sale investment securities" in the condensed consolidated statements of operations.

During first quarter 2009, Farmer Mac sold all of its remaining investment in Lehman Brothers Holdings, Inc. senior debt securities for $8.6 million, resulting in a gain of $3.2 million. During 2008, Farmer Mac had recorded a $54.5 million other-than-temporary impairment related to its investment in those Lehman Brothers securities.

As of March 31, 2009 and December 31, 2008, unrealized losses on available-for-sale investment securities were as follows:

	March 31, 2009 Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate corporate debt securities	$ -	$ -	$ 350,693	$ (46,138)
Floating rate asset-backed securities	28,991	(823)	47,327	(1,209)
Floating rate Government guaranteed auction-rate certificates	-	-	67,636	(6,464)
Floating rate Government/GSE guaranteed mortgage-backed securities	231,350	(2,549)	42,482	(674)
Floating rate GSE subordinated debt	-	-	49,132	(20,868)
Total	$ 260,341	$ (3,372)	$ 557,270	$ (75,353)

	December 31, 2008 Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate corporate debt securities	$ 19,858	$ (142)	$ 393,808	$ (39,221)
Floating rate asset-backed securities	80,605	(3,750)	-	-
Floating rate Government guaranteed auction-rate certificates	58,727	(15,373)	-	-
Floating rate Government/GSE guaranteed mortgage-backed securities	263,516	(3,138)	10,751	(374)
Floating rate GSE subordinated debt	-	-	49,189	(20,811)
Total	$ 422,706	$ (22,403)	$ 453,748	$ (60,406)

The temporary unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to March 31, 2009 and December 31, 2008, as applicable. The resulting decreases in fair values reflect an increase in the perceived risk by the financial markets related to those securities, even though there has not been significant deterioration in the credit ratings of the securities. As of March 31, 2009, all of the investment securities in an unrealized loss position were rated at least “A” by Standard & Poor’s, except one that was rated “BBB” and one that was rated “BBB-”. As of December 31, 2008, all of the investment securities in an unrealized loss position were rated at least “A”, except one that was rated “BBB+” and one that was rated “BBB-”. The unrealized losses were on 117 and 116 individual investment securities as of March 31, 2009 and December 31, 2008, respectively.

As of March 31, 2009, 57 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $75.4 million. As of December 31, 2008, 34 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $60.4 million. Securities in unrealized loss positions 12 months or more have a fair value as of March 31, 2009 that is at least 67 percent of their amortized cost basis and, on average, approximately 88 percent of their amortized cost basis. Farmer Mac believes that all these unrealized losses are recoverable within a reasonable period of time through changes in credit spreads or maturity. Accordingly, Farmer Mac has concluded that none of the unrealized losses on its available-for-sale investment securities represent other-than-temporary impairment as of March 31, 2009. Farmer Mac has the intent and ability to hold its investment securities in loss positions until either the market value recovers or the securities mature.

As of March 31, 2009, Farmer Mac did not own any held-to-maturity investments. As of March 31, 2009, Farmer Mac owned trading investment securities that mature after five years with an amortized cost of $187.5 million, a fair value of $178.8 million, and a weighted average yield of 8.07 percent. The amortized cost, fair value and weighted average yield of investments by remaining contractual maturity for available-for-sale investment securities as of March 31, 2009 are set forth below. Asset- and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets or mortgages.

	Investment Securities Available-for-Sale as of March 31, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
	(dollars in thousands)		
Due within one year	$ 105,528	$ 100,219	0.98%
Due after one year through five years	326,649	285,286	1.37%
Due after five years through ten years	141,500	140,563	2.37%
Due after ten years	372,624	341,874	2.15%
Total	$ 946,301	$ 867,942	1.78%

Note 3. Farmer Mac Guaranteed Securities

The following table sets forth information about on-balance sheet Farmer Mac Guaranteed Securities as of March 31, 2009 and December 31, 2008.

	March 31, 2009		
	Available-for-Sale	Trading	Total
Farmer Mac I	$ 63,216	$ -	$ 63,216
Farmer Mac II	588,996	476,681	1,065,677
Rural Utilities	912,695	449,066	1,361,761
Total	$ 1,564,907	$ 925,747	$ 2,490,654
Amortized cost	$ 1,556,471	$ 877,682	$ 2,434,153
Unrealized gains	22,401	48,065	70,466
Unrealized losses	(13,965)	-	(13,965)
Fair value	$ 1,564,907	$ 925,747	$ 2,490,654

	December 31, 2008		
	Available-for-Sale	Trading	Total
Farmer Mac I	$ 349,292	$ -	$ 349,292
Farmer Mac II	522,565	496,863	1,019,428
Rural Utilities	639,837	442,687	1,082,524
Total	$ 1,511,694	$ 939,550	$ 2,451,244
Amortized cost	$ 1,501,980	$ 907,506	$ 2,409,486
Unrealized gains	23,727	32,044	55,771
Unrealized losses	(14,013)	-	(14,013)
Fair value	$ 1,511,694	$ 939,550	$ 2,451,244

Farmer Mac does not currently classify any Farmer Mac Guaranteed Securities as held-to-maturity.

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of acquisition to March 31, 2009 and December 31, 2008, as applicable. As of March 31, 2009, the unrealized losses presented above are related to Farmer Mac II Guaranteed Securities, which are fully collateralized by USDA-guaranteed portions. As of December 31, 2008, the available-for-sale unrealized losses were on 9 individual securities. One of the available-for-sale Farmer Mac I Guaranteed Securities in a loss position as of December 31, 2008 had been in a loss position for more than 12 months and had an unrealized loss that was less than one percent of the amortized security cost. Accordingly, Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities represents an other-than-temporary impairment as of March 31, 2009 and December 31, 2008. Farmer Mac has the intent and ability to hold its on-balance sheet Farmer Mac Guaranteed Securities until either the market value recovers or the securities mature.

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

		March 31, 2009 (dollars in thousands)
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities	$	2,490,654
Weighted-average remaining life (in years)		3.6
Weighted-average prepayment speed (annual rate)		5.9%
Effect on fair value of a 10% adverse change	$	(637)
Effect on fair value of a 20% adverse change	$	(1,384)
Weighted-average discount rate		4.3%
Effect on fair value of a 10% adverse change	$	(33,168)
Effect on fair value of a 20% adverse change	$	(67,992)

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

The table below presents the outstanding principal balances for Farmer Mac Guaranteed Securities, loans, and LTSPCs as of March 31, 2009 and December 31, 2008.

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

	March 31, 2009	December 31, 2008
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$ 668,893	$ 781,305
Guaranteed Securities	5,835	282,185
AgVantage	53,300	53,300
Farmer Mac II		
Guaranteed Securities	1,051,185	1,013,330
Farmer Mac Guaranteed Securities - Rural Utilities	1,319,033	1,054,941
Total on-balance sheet	$ 3,098,246	$ 3,185,061
Off-balance sheet:		
Farmer Mac I:		
Guaranteed Securities	$ 1,640,652	$ 1,697,983
AgVantage	2,945,000	2,945,000
LTSPCs	2,216,564	2,224,181
Farmer Mac II		
Guaranteed Securities	31,030	30,095
Total off-balance sheet	$ 6,833,246	$ 6,897,259
Total	$ 9,931,492	$ 10,082,320

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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 these loans at their fair values in the condensed consolidated financial statements during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Fair values are determined by current collateral valuations or management's estimate of discounted collateral values, and represent the cash flows expected to be collected. Farmer Mac records, at acquisition, the difference between each loan's acquisition cost and its fair value, if any, as a charge-off to the reserve for losses. Subsequent to the purchase, such defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment. The following table presents information related to Farmer Mac's acquisition of defaulted loans for the three months ended March 31, 2009 and 2008 and the outstanding balances and carrying amounts of all such loans as of March 31, 2009 and December 31, 2008, respectively.

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
	(in thousands)	
Fair value at acquisition date	$ 5,064	$ 1,163
Contractually required payments receivable	5,074	1,326
Impairment recognized subsequent to acquisition	2,000	-

	March 31, 2009	December 31, 2008
	(in thousands)	
Outstanding balance	$ 78,571	$ 91,942
Carrying amount	57,821	69,308

Net credit losses and 90-day delinquencies as of and for the periods indicated for Farmer Mac Guaranteed Securities, loans and LTSPCs are presented in the table below. Information is not presented for loans underlying AgVantage securities or Farmer Mac II Guaranteed 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. As of March 31, 2009, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. As of March 31, 2009, Farmer Mac had not experienced any credit losses on any AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of March 31, 2009, Farmer Mac has not experienced any credit losses on any Farmer Mac II Guaranteed Securities.

	90-Day Delinquencies (1)			Net Credit Losses (2) For the Three Months Ended	
	As of March 31, 2009	As of December 31, 2008	As of March 31, 2008	March 31, 2009	March 31, 2008
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$ 80,964	$ 65,060	$ 6,989	$ 1,235	$ 39
Total on-balance sheet	$ 80,964	$ 65,060	$ 6,989	$ 1,235	$ 39
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$ 5,270	$ 2,060	$ 3,985	$ -	$ -
Guaranteed Securities	-	-	-	-	-
Total off-balance sheet	$ 5,270	$ 2,060	$ 3,985	$ -	$ -
Total	$ 86,234	$ 67,120	$ 10,974	$ 1,235	$ 39

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

Note 4. Comprehensive Income/(Loss)

Comprehensive income/(loss) represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised primarily of net income and unrealized gains and losses on securities available-for-sale, net of related taxes. The following table sets forth Farmer Mac's comprehensive income/(loss) for the three months ended March 31, 2009 and 2008:

For the Three Months Ended	
March 31, 2009	March 31, 2008
(in thousands)	

Net income/(loss)	$	37,454	$	(7,697)
Available-for-sale securities, net of tax:				
Net unrealized holding gains/(losses) (1)		1,764		(15,435)
Financial derivatives, net of tax:				
Reclassification for amortization of SFAS 133 transition adjustment (2)		39		72
Other comprehensive income/(loss), net of tax		1,803		(15,363)
Comprehensive income/(loss)	$	39,257	$	(23,060)

(1) Unrealized holding gains/(losses) on available-for-sale securities is shown net of income tax (expense)/benefit of $(0.9) million and $8.3 million for the three months ended March 31, 2009 and 2008, respectively.

(2) Amortization of SFAS 133 transition adjustment is shown net of income tax expense of $21,000 and $39,000 for the three months ended March 31, 2009 and 2008, respectively.

The following table presents Farmer Mac's accumulated other comprehensive loss as of March 31, 2009 and December 31, 2008 and changes in the components of accumulated other comprehensive loss for the three months ended March 31, 2009 and the year ended December 31, 2008.

	March 31, 2009	December 31, 2008
	(in thousands)	
Available-for-sale securities:		
Beginning balance	$ (47,214)	$ (2,320)
Reclassification adjustment to retained earnings for SFAS 159 adoption, net of tax	-	(11,237)
Adjusted beginning balance	(47,214)	(13,557)
Net unrealized gains/(losses), net of tax	1,764	(33,657)
Ending balance	$ (45,450)	$ (47,214)
Financial derivatives:		
Beginning balance	$ (198)	$ (473)
Amortization of SFAS 133 transition adjustment on financial derivatives, net of tax	39	275
Ending balance	$ (159)	$ (198)
Accumulated other comprehensive loss, net of tax	$ (45,609)	$ (47,412)

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

Overview

Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through each of the Farmer Mac I, Farmer Mac II and Rural Utilities programs; and (2) LTSPCs, which are available only through the Farmer Mac I and Rural Utilities programs. Both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business. Farmer Mac accounts for these transactions and other financial guarantees in accordance with FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). In accordance with FIN 45, 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, including prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are derived using a Monte Carlo simulation model. The guarantee obligation and corresponding asset are subsequently amortized into guarantee and commitment fee income in relation to the decline in the unpaid principal balance on the underlying agricultural real estate mortgage and rural utilities loans.

Off-Balance Sheet Farmer Mac Guaranteed Securities

Eligible loans and other eligible assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. During first quarter 2009, Farmer Mac transferred $17.1 million of agricultural mortgage loans held on balance sheet into a trust as part of a securitization transaction in which guaranteed agricultural mortgage-backed securities were sold to Zions First National Bank, a related party. The following table summarizes cash flows received from and paid to trusts used for securitizations:

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
	(in thousands)	
Proceeds from new securitizations	$ 17,124	$ 577
Guarantee fees received	3,609	3,547
Servicing advances	4	-
Repayment of servicing advances	2	1

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, 2009 and December 31, 2008, 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, 2009	December 31, 2008
	(in thousands)	
Farmer Mac I Guaranteed Securities	$ 1,640,652	$ 1,697,983
AgVantage	2,945,000	2,945,000
Farmer Mac II Guaranteed Securities	31,030	30,095
Total off-balance sheet Farmer Mac I and II	$ 4,616,682	$ 4,673,078

For those securities issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated $34.0 million as of March 31, 2009 and $37.1 million as of December 31, 2008. As of March 31, 2009, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.8 years.

Long-Term Standby Purchase Commitments (LTSPCs)

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

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was $2.2 billion as of both March 31, 2009 and December 31, 2008.

As of March 31, 2009, the weighted-average remaining maturity of all loans underlying LTSPCs was 15.2 years. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated $17.8 million as of March 31, 2009 and $17.9 million as of December 31, 2008.

Note 6. Stockholders' Equity and Mezzanine Equity

Common Stock

Farmer Mac has three classes of common stock outstanding:

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

From fourth quarter 2004 through fourth quarter 2008, Farmer Mac paid a quarterly dividend of $0.10 per share on all classes of the Corporation's common stock. On March 11, 2009, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock payable on April 3, 2009. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Preferred Stock

Farmer Mac has had three series of preferred stock outstanding:

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

- Series C, which was newly issued during fourth quarter 2008, is a component of Stockholders' Equity on the condensed consolidated balance sheets.

During first quarter 2009, Farmer Mac sold 10,800 shares of its Series C Preferred Stock to National Rural Cooperative Finance Corporation ("National Rural") pursuant to a program under which any participant who uses Farmer Mac for a credit enhancement or purchase transaction in excess of $20.0 million is required to purchase an equity interest in Farmer Mac in the form of shares of Series C, thereby enabling Farmer Mac to raise additional capital to support its mission of providing liquidity and lending capacity to agricultural and rural utilities lenders. Farmer Mac sold the 10,800 shares of Series C without registration under the Securities Act of 1933, as amended, in reliance upon the exemption provided by Section 3(a)(2), for an aggregate purchase price of $10.8 million or $1,000 per share. There were 20,000 shares of Series C Preferred Stock outstanding as of March 31, 2009, all held by National Rural.

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

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to, and as of March 31, 2009 was in compliance with, its three statutory and regulatory capital requirements:

- Minimum capital – Farmer Mac's minimum capital level is equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, including Farmer Mac Guaranteed Securities and LTSPCs;
- Critical capital – Farmer Mac's critical capital level is equal to 50 percent of the minimum capital requirement at that time; and
- Risk-based capital – the Farm Credit Administration ("FCA") has established a risk-based capital stress test for Farmer Mac.

As of March 31, 2009, Farmer Mac's minimum and critical capital requirements were $182.9 million and $91.4 million, respectively, and Farmer Mac's core capital level was $250.3 million, $67.4 million above the minimum capital requirement and $158.9 million above the critical capital requirement. As of December 31, 2008, Farmer Mac's minimum and critical capital requirements were $193.5 million and $96.7 million, respectively, and its actual core capital level was $207.0 million, $13.5 million above the minimum capital requirement and $110.2 million above the critical capital requirement.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of March 31, 2009 was $40.0 million and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $271.5 million exceeded that requirement by approximately $231.5 million.

Note 7. Fair Value Disclosures

Fair Value Measurement

Effective January 1, 2008, Farmer Mac adopted SFAS 157 which defines fair value, establishes a hierarchy for ranking fair value measurements, and expands disclosures about fair value measurements. SFAS 157 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 (also referred to as an exit price).

In determining fair value, Farmer Mac uses various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy established in SFAS 157 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 the 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, duration, 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 use in pricing the asset or liability at the measurement date.

The fair value hierarchy established in SFAS 157 ranks the quality and reliability of the information used to determine fair values. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard describes the following three levels used to classify fair value measurements:

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

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

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

Recurring Fair Value Measurements and Classification

Available-for-Sale and Trading Investment Securities

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

For investment securities which 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 inactive if the following conditions exist: (1) there are few transactions for the financial instruments; (2) the prices in the market are not current; (3) the price quotes vary significantly either over time or among independent pricing services or dealers; or (4) there is a limited availability of public market information. Farmer Mac classifies these fair value measurements as Level 3.

Due to the lack of an active market for Farmer Mac’s investments in ARCs and GSE preferred stock issued by CoBank, ACB and AgFirst Farm Credit Bank with current par values of $74.1 million, $88.5 million and $88.0 million, respectively, Farmer Mac transferred these securities from Level 2 to Level 3 during 2008. Farmer Mac’s transfers in and out of Level 3 are as of the beginning of the reporting period on a quarterly basis. During first quarter 2009, Farmer Mac changed the inputs to its discounted cash flow model used to estimate the fair value of its investments in thinly traded GSE preferred stock. The benchmark securities previously used to derive credit spreads for estimates of fair value as of September 30, 2008 and December 31, 2008 were preferred stock issued by large national financial institutions. The preferred stock securities of these large financial institutions experienced significant volatility during first quarter 2009 due to changes in the credit quality of the issuers and the market expectations regarding projected cash flows for the securities. The change in the market expectations of projected future cash flows for those securities was inconsistent with the Farm Credit System preferred stock owned by Farmer Mac. Had Farmer Mac estimated the fair value of the Farm Credit System preferred stock as of December 31, 2008 using the new methodology in place as of March 31, 2009, the fair values of those securities would have been $175.0 million, an increase of approximately $13.4 million from the estimated fair value of $161.6 million as of December 31, 2008.

Available-for-Sale and Trading Farmer Mac Guaranteed Securities

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

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 mortgage-backed securities and the debt of other GSEs. Farmer Mac estimates the fair value of these financial instruments based upon the counterparty valuations. Farmer Mac internally values its derivative portfolio using a discounted cash flow valuation technique and obtains a secondary valuation for certain interest rate swaps to corroborate the counterparty valuations. Farmer Mac also regularly reviews the counterparty valuations as part of the collateral exchange process. Farmer Mac classifies these fair value measurements as Level 2.

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

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

Nonrecurring Fair Value Measurements and Classification

Loans Held for Sale

Loans held for sale are reported at the lower of cost or fair value in the condensed consolidated balance sheets. Farmer Mac internally models the fair value of loans by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. The fair values of these instruments are classified as Level 3 measurements. As of March 31, 2009 and December 31, 2008, Farmer Mac's loans held for sale were reported at cost.

Real Estate Owned Properties

Real estate owned (REO) properties are reported at the lower of cost or market in the condensed consolidated balance sheets. Farmer Mac initially records REO properties at fair value less costs to sell and subsequently carries them at the lower of cost or fair value less costs to sell. As of both March 31, 2009 and December 31, 2008, Farmer Mac's REO properties were reported at cost.

Fair Value Classification and Transfers

As of March 31, 2009, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $2.7 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., Level 3). These financial instruments measured as Level 3 represented 57 percent of total assets and 74 percent of financial instruments measured at fair value as of March 31, 2009.

As of December 31, 2008, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $2.8 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., Level 3). These financial instruments measured as Level 3 represented 55 percent of total assets and 72 percent of financial instruments measured at fair value as of December 31, 2008.

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, 2009 and December 31, 2008, respectively, and indicates 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, 2009

	Level 1	Level 2	Level 3	Total
Recurring:		(in thousands)		
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ -	$ 67,636	$ 67,636
Floating rate asset-backed securities	-	76,318	-	76,318
Floating rate corporate debt securities	-	350,693	-	350,693
Floating rate Government/GSE guaranteed mortgage-backed securities	-	316,116	-	316,116
Fixed rate GSE guaranteed mortgage-backed securities	-	7,347	-	7,347
Floating rate GSE subordinated debt	-	49,132	-	49,132
Floating rate GSE preferred stock	-	700	-	700
Total available-for-sale	-	800,306	67,636	867,942
Trading:				
Floating rate asset-backed securities	-	-	1,962	1,962
Fixed rate GSE preferred stock	-	-	176,790	176,790
Total trading	-	-	178,752	178,752
Total investment securities	-	800,306	246,388	1,046,694
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	63,216	63,216
Farmer Mac II	-	-	588,996	588,996
Rural Utilities	-	-	912,695	912,695
Total available-for-sale	-	-	1,564,907	1,564,907
Trading:				
Farmer Mac II	-	-	476,681	476,681
Rural Utilities	-	-	449,066	449,066
Total trading	-	-	925,747	925,747
Total Farmer Mac Guaranteed Securities	-	-	2,490,654	2,490,654
Financial Derivatives	-	24,545	-	24,545
Total Assets at fair value	$ -	$ 824,851	$ 2,737,042	$ 3,561,893
Liabilities:				
Financial Derivatives	$ 6	$ 159,424	$ 4,236	$ 163,666
Total Liabilities at fair value	$ 6	$ 159,424	$ 4,236	$ 163,666

Assets and Liabilities Measured at Fair Value as of December 31, 2008

Recurring:	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans (1)	$ -	$ -	$ 178,577	$ 178,577
Floating rate asset-backed securities	-	81,256	-	81,256
Floating rate corporate debt securities	-	419,065	-	419,065
Floating rate Government/GSE guaranteed mortgage-backed securities	-	335,665	-	335,665
Fixed rate GSE guaranteed mortgage-backed securities	-	7,563	-	7,563
Floating rate GSE subordinated debt	-	49,189	-	49,189
Floating rate GSE preferred stock	-	781	-	781
Total available-for-sale	-	893,519	178,577	1,072,096
Trading:				
Floating rate asset-backed securities	-	-	2,211	2,211
Fixed rate GSE preferred stock	-	-	161,552	161,552
Total trading	-	-	163,763	163,763
Total investment securities	-	893,519	342,340	1,235,859
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	349,292	349,292
Farmer Mac II	-	-	522,565	522,565
Rural Utilities	-	-	639,837	639,837
Total available-for-sale	-	-	1,511,694	1,511,694
Trading:				
Farmer Mac II	-	-	496,863	496,863
Rural Utilities	-	-	442,687	442,687
Total trading	-	-	939,550	939,550
Total Farmer Mac Guaranteed Securities	-	-	2,451,244	2,451,244
Financial Derivatives	28	27,041	-	27,069
Total Assets at fair value	$ 28	$ 920,560	$ 2,793,584	$ 3,714,172
Liabilities:				
Financial Derivatives	$ -	$ 177,464	$ 3,719	$ 181,183
Total Liabilities at fair value	$ -	$ 177,464	$ 3,719	$ 181,183

(1) Includes the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its ARC holdings.

The following tables present additional information about assets and liabilities measured at fair value on a recurring and nonrecurring basis for which Farmer Mac has used significant Level 3 inputs to determine fair value for the three months ended March 31, 2009 and March 31, 2008, respectively.

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

Recurring:	Beginning Balance	Purchases, Sales, Issuances and Settlements, Net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 178,577	$ (119,850)	$ -	$ 8,909	$ -	$ 67,636
Trading:						
Floating rate asset-backed securities(1)	2,211	(268)	19	-	-	1,962
Fixed rate GSE preferred stock(1)	161,552	(348)	15,586	-	-	176,790
Total trading	163,763	(616)	15,605	-	-	178,752
Total investment securities	342,340	(120,466)	15,605	8,909	-	246,388
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I (2)	349,292	2,889	-	(953)	(288,012)	63,216
Farmer Mac II	522,565	61,491	-	4,940	-	588,996
Rural Utilities	639,837	270,000	-	2,858	-	912,695
Total available-for-sale	1,511,694	334,380	-	6,845	(288,012)	1,564,907
Trading:						
Farmer Mac II (3)	496,863	(23,914)	3,732	-	-	476,681
Rural Utilities(1)	442,687	(5,909)	12,288	-	-	449,066
Total trading	939,550	(29,823)	16,020	-	-	925,747
Total Farmer Mac Guaranteed Securities	2,451,244	304,557	16,020	6,845	(288,012)	2,490,654
Total Assets at fair value	$ 2,793,584	$ 184,091	$ 31,625	$ 15,754	$ (288,012)	$ 2,737,042
Liabilities:						
Financial Derivatives (4)	$ (3,719)	$ -	$ (517)	$ -	$ -	$ (4,236)
Total Liabilities at fair value	$ (3,719)	$ -	$ (517)	$ -	$ -	$ (4,236)

(1) Unrealized gains are attributable to assets still held as of March 31, 2009 and are recorded in gains on trading assets.

(2) Includes, as a result of the release of Farmer Mac's guarantee, the reclassification of certain Farmer Mac Guaranteed Securities to loans held for sale. As of March 31, 2009, loans held for sale are reported at cost on the condensed consolidated balance sheets.

(3) Includes unrealized gains of approximately $3.4 million attributable to assets still held as of March 31, 2009 that are recorded in gains on trading assets.

(4) Unrealized losses are attributable to liabilities still held as of March 31, 2009 and are recorded in gains/(losses) on financial derivatives.

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Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2008

	Beginning Balance	Purchases, Sales, Issuances and Settlements, Net	Realized and Unrealized Gains/ (Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out of Level 3	Ending Balance
	(in thousands)					
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ 99,931	$ -	$ (2,115)	$ 131,544	$ 229,360
Floating rate corporate debt securities	-	400,000	-	(669)	-	399,331
Fixed rate corporate debt securities	500,138	-	-	2,951	-	503,089
Total available-for-sale investment securities	500,138	499,931	-	167	131,544	1,131,780
Trading:						
Floating rate asset-backed securities (1)	8,179	(423)	(577)	-	-	7,179
Fixed rate mortgage-backed securities (1)	415,813	29,367	13,846	-	-	459,026
Total trading investment securities	423,992	28,944	13,269	-	-	466,205
Total investment securities	924,130	528,875	13,269	167	131,544	1,597,985
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	338,958	(19,753)	-	6,067	-	325,272
Trading:						
Farmer Mac II (2)	428,670	10,982	5,550	-	-	445,202
Total Farmer Mac Guaranteed Securities	767,628	(8,771)	5,550	6,067	-	770,474
Total Assets at Fair Value	$ 1,691,758	$ 520,104	$ 18,819	$ 6,234	$ 131,544	$ 2,368,459
Liabilities:						
Financial Derivatives (3)	$ (1,106)	$ -	$ (2,401)	$ -	$ -	$ (3,507)
Total Liabilities at Fair Value	$ (1,106)	$ -	$ (2,401)	$ -	$ -	$ (3,507)

(1)

Unrealized gains/(losses) are attributable to assets still held as of March 31, 2008 and are recorded in gains on trading assets.

(2) Includes unrealized gains of approximately $5.6 million attributable to assets still held as of March 31, 2008 that are recorded in gains on trading assets.

(3) Unrealized losses are attributable to liabilities still held as of March 31, 2008 and are recorded in gains/(losses) on financial derivatives.

Fair Value Option

SFAS 159 permits entities to make a one-time irrevocable election to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. One of the FASB's stated objectives of SFAS 159 was to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

On January 1, 2008, with the adoption of SFAS 159, Farmer Mac elected to measure $600.5 million of investment securities and $427.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Upon adoption, Farmer Mac recorded a cumulative effect of adoption adjustment of $12.1 million, net of tax, as an increase to the beginning balance of retained earnings. During 2008, Farmer Mac elected to measure an additional $113.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Farmer Mac selected all of these assets for the fair value option under SFAS 159 because they were funded or hedged principally with financial derivatives and, therefore, it was expected that the changes in fair value of the assets would provide partial economic and financial reporting offsets to the related financial derivatives. During first quarter 2009, Farmer Mac did not elect the fair value option under SFAS 159 for any assets or liabilities.

Impact of Adopting SFAS 159 to Retained Earnings as of January 1, 2008

	Carrying Value as of January 1, 2008 Prior to Adoption of Fair Value Option	Transition Gain	Fair Value as of January 1, 2008 After Adoption of Fair Value Option
		(in thousands)	
Available-for-sale Investment Securities:			
Fixed rate GSE preferred stock (1)	$ 184,655	$ 2,783	$ 184,655
Fixed rate mortgage-backed securities (1)	415,813	14,504	415,813
Held-to-maturity Farmer Mac Guaranteed Securities:			
Farmer Mac II Guaranteed Securities	427,330	1,340	428,670
Pre-tax cumulative effect of adoption		18,627	
Tax effect		6,519	
Cumulative effect of adoption to beginning retained earnings		$ 12,108	

(1) Farmer Mac adopted the fair value option for certain securities classified within its investment portfolio previously classified as available-for-sale. These securities are presented in the condensed consolidated balance sheet at fair value in accordance with Statement of Financial Accounting Standards No. 115,Accounting for Certain Investments in Debt and Equity Securities and the amount of the transition gain was recognized in accumulated other comprehensive loss prior to the adoption of SFAS 159.

For first quarter 2009 and first quarter 2008, Farmer Mac recorded net gains on trading assets of $31.6 million and $10.7 million, respectively, for changes in fair values of the assets selected for the fair value option. These gains are recognized as “Gains on trading assets” in the condensed consolidated statements of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information is consolidated to include the accounts of Farmer Mac and its wholly-owned subsidiary, Farmer Mac Mortgage Securities Corporation.

This discussion and analysis of financial condition and results of operations should be read together with: (1) the interim unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report; and (2) Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC on March 16, 2009.

The discussion below is not necessarily indicative of future results.

Special Note Regarding Forward-Looking Statements

Some statements made in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 pertaining to management's current expectations as to Farmer Mac's future financial results, business prospects and business developments. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and typically are accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends," "should" and similar phrases. The following management's discussion and analysis includes forward-looking statements addressing Farmer Mac's:

- prospects for earnings;
- prospects for growth in loan purchase, guarantee, securitization and LTSPC volume;
- trends in net interest income;
- trends in portfolio credit quality, delinquencies and provisions for losses;
- trends in expenses;
- trends in non-program investments;
- prospects for asset impairments and allowance for losses;
- changes in capital position; and
- other business and financial matters.

Management's expectations for Farmer Mac's future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under "Risk Factors" in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 16, 2009, as well as uncertainties regarding:

- the ability of Farmer Mac to increase its capital in an amount sufficient to enable it to continue to operate profitably and provide a secondary market for agricultural mortgage and rural utilities loans;
- the availability of reasonable rates and terms of debt financing to Farmer Mac;
- fluctuations in the fair value of assets held by Farmer Mac, particularly in volatile markets;

- the rate and direction of development of the secondary market for agricultural mortgage and rural utilities loans, including lender interest in Farmer Mac credit products and the Farmer Mac secondary market;
- the general rate of growth in agricultural mortgage and rural utilities indebtedness;
- borrower preferences for fixed rate agricultural mortgage indebtedness;
- legislative or regulatory developments that could affect Farmer Mac;
- increases in general and administrative expenses attributable to changes in the business and regulatory environment, including the hiring of additional personnel with expertise in key functional areas;
- the willingness of investors to invest in Farmer Mac Guaranteed Securities;
- the severity and duration of current economic and financial conditions; and
- developments in the financial markets, including possible investor, analyst and rating agency reactions to events involving GSEs, including Farmer Mac.

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this report. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC.

Critical Accounting Policies and Estimates

The preparation of Farmer Mac's consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policies that are both important to the portrayal of Farmer Mac's financial condition and results of operations and require complex, subjective judgments are the accounting policies for: (1) the allowance for losses, (2) fair value measurement, and (3) other-than-temporary impairment.

For a discussion of Farmer Mac's critical accounting policies and the related use of estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related notes for the periods presented, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 16, 2009.

Results of Operations

Overview. Farmer Mac's net income to common stockholders for first quarter 2009 was $33.5 million or $3.31 per diluted common share, compared to a net loss of $8.3 million or $0.84 per diluted common share for first quarter 2008.

During first quarter 2009, Farmer Mac's guarantee and commitment fees associated with its core business increased, as the average level of guarantees and commitments outstanding during the quarter was higher than the level for first quarter 2008. For first quarter 2009, guarantee and commitment fees were $7.4 million, compared to $6.6 million for first quarter 2008. Farmer Mac also maintained access to the capital markets at favorable rates throughout 2008 and to date in 2009, and the Corporation's short-term borrowing costs continued at more advantageous than historical levels. For first quarter 2009, net interest income including income and expense related to financial derivatives was $12.9 million, compared to $15.9 million for first quarter 2008. Given the volatility in the debt markets, the federal government's effective guarantee of certain corporate debt and questions concerning the status of all GSEs, it is uncertain whether Farmer Mac's advantageous short-term borrowing costs will continue and, if so, for how long.

Farmer Mac's overall delinquencies and non-performing assets increased during first quarter 2009 due primarily to continued adverse developments in Farmer Mac's ethanol portfolio. As of March 31, 2009, Farmer Mac's ethanol portfolio, which includes loans subject to LTSPCs, consisted of loan participations with a cumulative principal balance of $293.3 million with exposure to 29 different plants in 11 states. As of that date, Farmer Mac also had $38.3 million of undisbursed commitments with respect to ethanol loans. During first quarter 2009, Farmer Mac recorded provisions for losses of $6.1 million and charge-offs of $2.0 million, both primarily related to ethanol loans, compared to no provisions for losses and charge-offs of $39,000 during first quarter 2008. The allowance for losses was $21.3 million as of March 31, 2009 and $16.4 million as of December 31, 2008. Other than the ethanol portfolio, the loans underlying the Corporation's guarantees and commitments continued to perform well during first quarter 2009, with delinquencies on non-ethanol loans remaining near historically low levels, consistent with the strength of the U.S. agricultural economy over the past several years. However, based on the potential decline in the profitability of certain agricultural industries, Farmer Mac expects that delinquencies are likely to increase during the remainder of 2009 and beyond, although any such delinquencies are expected to remain within manageable levels. See "—Results of Operations—Outlook" and "—Risk Management—Credit Risk – Loans" for more detail about the outlook for certain agricultu industries.

Farmer Mac's first quarter 2009 results benefited from two transactions. The first was the conversion of certain Farmer Mac Guaranteed Securities into loans and the subsequent sale of a pool of loans consisting of a portion of the loans previously underlying those securities and other loans previously classified on the balance sheet as loans. The total principal balance of loans sold was $354.5 million. The sale resulted in a gain of $1.6 million and a recovery of previously charged off losses of $0.8 million. The primary purpose of the sale was to eliminate the need to hold capital in support of the loans under Farmer Mac's statutory minimum capital requirements, thereby reducing Farmer Mac's overall statutory minimum capital requirement by approximately $9.7 million. The second transaction was the sale of Lehman Brothers Holdings Inc. senior debt securities that had been written down to $5.4 million as of December 31, 2008. The sale of the securities during first quarter 2009 for $8.6 million resulted in a $3.2 million recovery of previously written off losses. That recovery was recorded as "Gains on sale of available-for-sale investment securities" on the condensed consolidated statements of operations.

Farmer Mac's results also included gains due to increases in the fair values of financial derivatives and assets classified as trading securities. The first quarter gain on financial derivatives of $1.7 million compared to a loss of $41.7 million during first quarter 2008. The $1.7 million first quarter 2009 gain included $13.2 million for expenses related to payments on interest rate swaps and payments to settle forward contracts. Those expenses were more than offset by the increase in the fair value of financial derivatives of $15.0 million. That $15.0 million gain compares to a $39.0 million loss during first quarter 2008. Gains on trading assets totaled $31.6 million for first quarter 2009, compared to gains of $10.1 million for first quarter 2008. These changes in fair value for financial derivatives and trading assets have historically contributed significant volatility to Farmer Mac's periodic earnings. While such changes may at times produce significant income, as was the case in first quarter 2009, they may also produce significant losses, as has been the case in other previous reporting periods. Future changes in those values cannot be reliably predicted; however, as of March 31, 2009 the cumulative fair value after-tax losses recorded on financial derivatives was $90.4 million. As those financial derivatives approach maturity over approximately the next 5 years, those negative fair values will be restored to earnings and capital.

To assist in the comparison of results to prior periods, the table below summarizes many of the significant items discussed above as they relate to Farmer Mac's results of operations for the three month periods ended March 31, 2009 and 2008 and reconciles those items as separate components of net income/(loss) available to common stockholders, distinct from the recurring items during the periods presented.

	For the Three Months Ended March 31, 2009	March 31, 2008
	(in thousands)	
Recurring Items:		
Guarantee and commitment fees	$ 7,410	$ 6,634
Net interest income including realized gains on financial derivatives	10,159	15,217
Other income	234	460
Credit related charges	(6,074)	(49)
Operating costs	(7,452)	(6,191)
Related tax expense	(986)	(4,991)
Preferred stock dividends	(3,936)	(560)
Subtotal	(645)	10,520
Items resulting from fair value fluctuations:		
Fair values changes in financial derivatives	14,992	(38,999)
Fair value changes in trading assets	31,625	10,111
Related tax (expense)/benefit	(16,316)	10,110
Subtotal	30,301	(18,778)
Unusual items:		
Impairment losses on available-for-sale investment securities	(81)	-
Gains on asset sales	4,731	1
Related tax expense	(788)	-
Subtotal	3,862	1
Net income/(loss) available to common stockholders	$ 33,518	$ (8,257)

Set forth below is a more detailed discussion of Farmer Mac's results of operations.

Net Interest Income. Net interest income was $23.4 million for first quarter 2009, compared to $17.9 million for first quarter 2008. The net interest yield was 187 basis points for the three months ended March 31, 2009, compared to 131 basis points for the three months ended March 31, 2008.

The following table provides information regarding interest-earning assets and funding for the three months ended March 31, 2009 and 2008. The balance of non-accruing loans is included in the average balance of interest-earning loans and Farmer Mac Guaranteed Securities presented, though the related income is accounted for on the cash basis. Therefore, as the balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. The average rate earned on cash and investments reflects lower short-term market rates during the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The lower average rate on loans and Farmer Mac Guaranteed Securities during the three months ended March 31, 2009 reflects the decline in market rates reflected in the rates on loans acquired or reset during the past year. The lower average rate on Farmer Mac's notes payable due within one year is consistent with general trends in average short-term rates during the periods presented. The downward trend in the average rate on notes payable due after one year reflects the retirement of older debt and the issuance of new debt at lower market rates during the latter part of 2008 and 2009.

	For the Three Months Ended					
	March 31, 2009			March 31, 2008		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	(dollars in thousands)					
Interest-earning assets:						
Cash and investments	$ 1,665,594	$ 8,909	2.14%	$ 3,428,911	$ 41,508	4.84%
Loans and Farmer Mac Guaranteed Securities	3,355,026	38,244	4.56%	2,028,091	30,601	6.04%
Total interest-earning assets	5,020,620	47,153	3.76%	5,457,002	72,109	5.29%
Funding:						