FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
November 09, 2009

As filed with the Securities and Exchange Commission on
November 9, 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 September 30, 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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Yes ¨ No x

As of November 2, 2009 the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,610,918 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)

	September 30, 2009	December 31, 2008
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 274,894	$ 278,412
Investment securities:		
Available-for-sale, at fair value	924,041	1,072,096
Trading, at fair value	97,438	163,763
Total investment securities	1,021,479	1,235,859
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	2,609,185	1,511,694
Trading, at fair value	890,976	939,550
Total Farmer Mac Guaranteed Securities	3,500,161	2,451,244
Loans:		
Loans held for sale, at lower of cost or fair value	646,420	66,680
Loans held for investment, at amortized cost	85,706	718,845
Allowance for loan losses	(4,892)	(10,929)
Total loans, net of allowance	727,234	774,596
Real estate owned, at lower of cost or fair value	10,637	606
Financial derivatives, at fair value	21,099	27,069
Interest receivable	56,206	73,058
Guarantee and commitment fees receivable	54,472	61,109
Deferred tax asset, net	15,150	87,793
Prepaid expenses and other assets	52,399	117,561
Total Assets	$ 5,733,731	$ 5,107,307
Liabilities, Mezzanine Equity and Stockholders' Equity:		
Liabilities:		
Notes payable:		
Due within one year	$ 3,155,589	$ 3,757,099
Due after one year	1,962,591	887,999
Total notes payable	5,118,180	4,645,098
Financial derivatives, at fair value	127,607	181,183
Accrued interest payable	37,388	40,470
Guarantee and commitment obligation	48,811	54,954
Accounts payable and accrued expenses	44,979	20,532
Reserve for losses	7,585	5,506
Total Liabilities	5,384,550	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, $1,000 per share, 100,000 shares authorized, 57,000 and 9,200 issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	57,000	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	8,609	8,601
Additional paid-in capital	96,547	95,572
Accumulated other comprehensive income/(loss)	18,139	(47,412)
Retained earnings/(accumulated deficit)	23,139	(52,144)
Total Stockholders' Equity	204,965	15,348
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 5,733,731	$ 5,107,307

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	$ 6,345	$ 20,395	$ 22,303	$ 97,305
Farmer Mac Guaranteed Securities	27,668	28,470	81,232	67,007
Loans	8,815	11,718	28,196	35,192
Total interest income	42,828	60,583	131,731	199,504
Total interest expense	23,031	39,260	68,593	135,885
Net interest income	19,797	21,323	63,138	63,619
Provision for loan losses	(3,098)	(731)	(939)	(731)
Net interest income after provision for loan losses	16,699	20,592	62,199	62,888
Non-interest income/(loss):				
Guarantee and commitment fees	8,168	7,281	23,486	20,574
(Losses)/gains on financial derivatives	(7,733)	(19,021)	15,506	(29,691)
Gains/(losses) on trading assets	25,047	(14,507)	56,707	(21,664)
Other-than-temporary impairment losses	(1,621)	(97,108)	(3,994)	(102,452)
Gains/(losses) on sale of available-for-sale investment securities	63	(85)	2,913	65
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	1,531	1,581	1,531
Gains on repurchase of debt	-	840	-	840
Other income	874	192	1,209	1,315
Non-interest income/(loss)	24,798	(120,877)	97,408	(129,482)
Non-interest expense:				
Compensation and employee benefits	2,896	3,748	10,493	11,327
General and administrative	2,432	4,061	8,332	8,331
Regulatory fees	512	513	1,537	1,538
Real estate owned operating costs, net	203	15	208	102
Provision/(recoveries) for losses	89	(91)	2,079	(91)
Non-interest expense	6,132	8,246	22,649	21,207
Income/(loss) before income taxes	35,365	(108,531)	136,958	(87,801)
Income tax expense/(benefit)	13,097	(2,973)	47,721	3,463
Net income/(loss)	22,268	(105,558)	89,237	(91,264)
Preferred stock dividends	(4,368)	(578)	(12,434)	(1,698)
Net income/(loss) available to common stockholders	$ 17,900	$ (106,136)	$ 76,803	$ (92,962)
Earnings/(loss) per common share and dividends:				
Basic earnings/(loss) per common share	$ 1.77	$ (10.55)	$ 7.58	$ (9.33)
Diluted earnings/(loss) per common share	$ 1.74	$ (10.55)	$ 7.54	$ (9.33)
Common stock dividends per common share	$ 0.05	$ 0.10	$ 0.15	$ 0.30

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(in thousands)	
Cash flows from operating activities:		
Net income/(loss)	$ 89,237	$ (91,264)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on loans, investments and Farmer Mac Guaranteed Securities	3,123	3,752
Amortization of debt premiums, discounts and issuance costs	10,982	66,790
Proceeds from repayment and sale of trading investment securities	644	6,507
Purchases of loans held for sale	(122,421)	(38,461)
Proceeds from repayment of loans held for sale	51,896	14,747
Net change in fair value of trading securities and financial derivatives	(104,312)	30,954
Amortization of transition adjustment on financial derivatives	124	222
Other-than-temporary impairment losses	3,994	102,452
Gains on sale of loans and Farmer Mac Guaranteed Securities	(1,581)	(1,531)
Gains on sale of available-for-sale investment securities	(2,913)	(65)
Gains on repurchase of debt	-	(840)
Total provision for losses	3,018	640
Deferred income taxes	73,629	(11,316)
Stock-based compensation expense	2,159	3,389
Decrease in interest receivable	16,852	34,238
Decrease/(increase) in guarantee and commitment fees receivable	6,637	(2,581)
Decrease/(increase) in other assets	24,287	(41,561)
Decrease in accrued interest payable	(3,082)	(17,484)
Increase in other liabilities	11,725	8,911
Net cash provided by operating activities	63,998	67,499
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(41,721)	(1,160,501)
Purchases of Farmer Mac Guaranteed Securities	(1,952,704)	(305,584)
Purchases of loans held for investment	(48,147)	(86,024)
Purchases of defaulted loans	(19,631)	(1,746)
Proceeds from repayment of available-for-sale investment securities	148,544	445,154
Proceeds from repayment of Farmer Mac Guaranteed Securities	690,741	219,341
Proceeds from repayment of loans	37,308	101,964
Proceeds from sale of available-for-sale investment securities	207,879	351,256
Proceeds from sale of Farmer Mac Guaranteed Securities	24,232	649,723
Proceeds from sale of real estate owned	31,056	-
Proceeds from sale of loans held	358,953	-
Net cash (used in)/provided by investing activities	(563,490)	213,583
Cash flows from financing activities:		
Proceeds from issuance of discount notes	40,680,191	105,086,822
Proceeds from issuance of medium-term notes	2,962,189	1,486,903
Payments to redeem discount notes	(41,077,281)	(104,926,504)
Payments to redeem medium-term notes	(2,103,000)	(1,979,660)

Tax benefit from tax deductions in excess of compensation cost recognized	-	381
Proceeds from common stock issuance	29	5,722
Purchases of common stock	-	(830)
Proceeds from preferred stock issuance	47,800	-
Dividends paid	(13,954)	(4,700)
Net cash provided by/ (used in) financing activities	495,974	(331,866)
Net decrease in cash and cash equivalents	(3,518)	(50,784)
Cash and cash equivalents at beginning of period	278,412	101,445
Cash and cash equivalents at end of period	$ 274,894	$ 50,661

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. Farmer Mac evaluated subsequent events through November 9, 2009. 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. During the three and nine months ended September 30, 2009, Farmer Mac refinanced $100 million and $500 million, respectively, of certain Farmer Mac Guaranteed Securities - Rural Utilities. For the nine months ended September 30, 2009, the cash flows related to these transactions are presented gross in the condensed consolidated statements of cash flows, whereas the six months ended June 30, 2009 reflected a net presentation. The following table sets forth information regarding certain cash and non-cash transactions for the nine months ended September 30, 2009 and 2008.

	For the Nine Months Ended September 30, 2009	September 30, 2008
	(in thousands)	
Cash paid for:		
Interest	$ 58,994	$ 88,012
Income taxes	10,500	25,069
Non-cash activity:		
Transfer of loans held for investment to real estate owned	41,086	-
Loans acquired and securitized as Farmer Mac Guaranteed Securities	17,224	79,757
Issuance of Series B redeemable preferred stock (net of deferred offering costs)	-	61,039
Reclassification of unsettled trades with the Reserve Primary Fund from Cash and cash equivalents to Prepaid expenses and other assets	-	42,489
Transfers of investment securities from available-for-sale to trading from the effect of adopting the fair value option	-	600,468
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting the fair value option	-	428,670
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to available for sale	-	493,997
Transfers of Farmer Mac I Guaranteed Securities from held-to-maturity to available for sale	-	25,458
Transfers of available-for-sale investment securities to available-for-sale Farmer Mac Guaranteed Securities - Rural Utilities	-	902,420
Transfers of trading investment securities to trading Farmer Mac Guaranteed Securities - Rural Utilities	-	459,026
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	-
Exchange of GSE preferred stock - transfer from trading to available-for-sale	90,657	-

(b) Allowance for Losses

As of September 30, 2009, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs, Farmer Mac I Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities in accordance with ASC 450-20, Loss Contingencies (formerly FASB Statement No. 5) and ASC 310-35, Receivables – Subsequent Measurement (formerly FASB Statement No. 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, or releases of allowance for losses, are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period.

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

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

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

Farmer Mac also analyzes assets in its portfolio for impairment. 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);
- 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 provides a specific allowance for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. For the remaining impaired assets without updated valuations, this analysis is performed in the aggregate in consideration of the similar risk characteristics of the assets and historical statistics.

Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held and loans underlying Farmer Mac I Guaranteed Securities, LTSPCs and Farmer Mac Guaranteed Securities – Rural Utilities.

The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three and nine months ended September 30, 2009 and 2008:

	September 30, 2009			September 30, 2008		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
			(in thousands)			
For the Three Months Ended:						
Beginning balance	$ 1,810	$ 7,496	$ 9,306	$ 1,592	$ 2,197	$ 3,789
Provision/(recovery) for losses	3,098	89	3,187	731	(91)	640
Charge-offs	(16)	-	(16)	-	-	-
Recoveries	-	-	-	6	-	6
Ending balance	$ 4,892	$ 7,585	$ 12,477	$ 2,329	$ 2,106	$ 4,435
For the Nine Months Ended:						
Beginning balance	$ 10,929	$ 5,506	$ 16,435	$ 1,690	$ 2,197	$ 3,887
Provision/(recovery) for losses	939	2,079	3,018	731	(91)	640
Charge-offs	(7,741)	-	(7,741)	(108)	-	(108)
Recoveries	765	-	765	16	-	16
Ending balance	$ 4,892	$ 7,585	$ 12,477	$ 2,329	$ 2,106	$ 4,435

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 September 30, 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 September 30, 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 September 30, 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 September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
	(in thousands)	
Allowance for loan losses	$ 4,892	$ 10,929
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	-	869
Off-balance sheet Farmer Mac I Guaranteed Securities	1,511	535
LTSPCs	6,074	4,102
Farmer Mac Guaranteed Securities - Rural Utilities	-	-
Total	$ 12,477	$ 16,435

As of September 30, 2009, Farmer Mac individually analyzed $44.5 million of its $216.4 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $171.9 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac's specific allowance for under-collateralized assets was $1.5 million as of September 30, 2009 and $8.6 million as of December 31, 2008. Farmer Mac's non-specific or general allowances were $11.0 million as of September 30, 2009 and $7.8 million as of December 31, 2008.

Farmer Mac recognized interest income of approximately $0.4 million and $2.0 million on impaired loans during the three and nine months ended September 30, 2009, respectively, compared to $1.0 million and $3.1 million, respectively, during the same periods in 2008. During the three and nine months ended September 30, 2009, Farmer Mac's average investment in impaired loans was $184.6 million and $168.0 million, respectively, compared to $46.9 million and $42.2 million, respectively, for the same periods in 2008.

(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 loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac also recognizes certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative in ASC Topic 815, Derivatives and Hedging ("ASC 815").

Farmer Mac manages the interest rate risk related to loans it has committed to acquire, but has not yet purchased and permanently funded, through the use of forward sale contracts on the debt of other government-sponsored enterprises ("GSEs"), futures contracts involving U.S. Treasury securities and interest rate swap contracts. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both U.S. Treasury rates and spreads on Farmer Mac debt. The notional amounts of these contracts are determined based on a duration-matched hedge ratio between the hedged item and the hedge instrument. Gains or losses generated by these hedge transactions should offset changes in funding costs.

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

The following tables summarize information related to Farmer Mac's financial derivatives as of September 30, 2009 and December 31, 2008:

September 30, 2009

	Notional Amount	Fair Value Asset	(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	$ 100,337	$ -	$ (2,664)	5.74%	0.45%		7.65
Pay fixed non-callable	1,190,521	-	(121,394)	5.15%	0.42%		4.94
Receive fixed callable	325,000	347	(51)	0.04%	0.56%		0.92
Receive fixed non-callable	2,601,263	20,702	(778)	0.53%	1.77%		2.04
Basis swaps	262,177	533	(3,961)	1.74%	1.09%		2.59
Agency forwards	34,551	-	(298)			99.04	
Treasury futures	800	-	(1)			118.18	
Credit valuation adjustment	-	(483)	1,540				
Total financial derivatives	$ 4,514,649	$ 21,099	$ (127,607)	1.91%	1.25%		

December 31, 2008

	Notional Amount	Fair Value Asset	(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 September 30, 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 $116.6 million. As of September 30, 2009, Farmer Mac posted assets with a fair value of $37.5 million as collateral for its derivatives in net liability positions. If Farmer Mac had breached certain provisions of the derivative contracts as of September 30, 2009, it could have been required to settle its obligations under the agreements or post additional collateral of $79.1 million.

The following table summarizes the effects of Farmer Mac's financial derivatives on the condensed consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008:

	(Losses)/Gains on Financial Derivatives			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(in thousands)			
Interest rate swaps	$ (6,409)	$ (18,652)	$ 17,971	$ (29,218)
Agency forwards	(1,223)	(470)	(2,301)	(255)
Treasury futures	(47)	148	28	63
Pay-fixed swaptions	-	61	-	61
	(7,679)	(18,913)	15,698	(29,349)
Amortization of derivatives transition adjustment	(54)	(108)	(192)	(342)
Total	$ (7,733)	$ (19,021)	$ 15,506	$ (29,691)

As of September 30, 2009 and December 31, 2008, respectively, Farmer Mac had approximately $0.1 million and $0.2 million of net after-tax unrealized losses on financial derivatives included in accumulated other comprehensive income/(loss) related to the financial derivatives transition adjustment. These amounts will be reclassified into earnings in the same period or periods during which the hedged forecasted transactions (either the payment of interest or the issuance of discount notes) affect earnings or immediately when it becomes probable that the original hedged forecasted transaction will not occur within two months of the originally specified date. Over the next 12 months, Farmer Mac estimates that $0.1 million of the amount currently reported in accumulated other comprehensive income/(loss) will be reclassified into earnings.

As of September 30, 2009, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with total notional amount of $105.2 million and a fair value of $(3.9) million, compared to $131.9 million and $(3.7) million, respectively, as of December 31, 2008. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps economically hedge most of the interest rate basis risk related to loans Farmer Mac purchases that pay a Constant Maturity Treasury based-rate and the discount notes Farmer Mac issues to fund the loan purchases. The pricing of discount notes is closely correlated to LIBOR rates. Farmer Mac recorded unrealized losses of $0.6 million and $0.2 million on those outstanding basis swaps for the three and nine months ended September 30, 2009, respectively, compared to unrealized gains of $0.2 million and unrealized losses of $0.1 million, respectively, for the same periods in 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, stock appreciation rights ("SARs") and nonvested restricted stock awards. The following schedule reconciles basic and diluted earnings/(loss) per common share ("EPS") for the three and nine months ended September 30, 2009 and 2008:

	For the Three Months Ended					
	September 30, 2009			September 30, 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	$ 17,900	10,140	$ 1.77	$ (106,136)	10,065	$ (10.55)
Effect of dilutive securities:						
Stock options, SARs and restricted stock (1)		146	(0.03)		-	-
Diluted EPS	$ 17,900	10,286	$ 1.74	$ (106,136)	10,065	$ (10.55)

(1) For the three months ended September 30, 2009 and 2008, stock options, SARs and nonvested restricted stock of 1,590,965 and 2,381,503, respectively, were outstanding but not included in the computation of diluted earnings/(loss) per share of common stock because they were anti-dilutive.

	For the Nine Months Ended					
	September 30, 2009			September 30, 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	$ 76,803	10,138	$ 7.58	$ (92,962)	9,966	$ (9.33)
Effect of dilutive securities:						
Stock options, SARs and restricted stock (1)		49	(0.04)		-	-

Diluted EPS	$	76,803	10,187	$	7.54	$	(92,962)	9,966	$	(9.33)

(1) For the nine months ended September 30, 2009 and 2008, stock options, SARs and nonvested restricted stock of 1,784,912 and 2,385,890, respectively, were outstanding but not included in the computation of diluted earnings/(loss) 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 to officers during June 2009 have an exercise price of $5.93 per share. There were no SARs granted to directors during 2009. Restricted stock was awarded to directors in June 2009 and vests fully after approximately one year. Restricted stock awarded to officers in June 2009 vests after approximately three years and only vests if certain performance conditions are met. Restricted stock awards granted to both directors and officers are not issued until full vesting occurs.

For the three and nine months ended September 30, 2009, Farmer Mac recognized $0.6 million and $2.2 million, respectively, of compensation expense related to stock options, SARs, and restricted stock awards compared to $1.1 million and $3.4 million for the same periods in 2008.

The following tables summarize activity related to stock options, SARs and nonvested restricted share awards for the three and nine months ended September 30, 2009 and 2008:

	September 30, 2009			September 30, 2008		
	Stock Options and SARs		Weighted-Average Exercise Price	Stock Options and SARs		Weighted-Average Exercise Price
For the Three Months Ended:						
Outstanding, beginning of period	1,755,965	$	23.06	2,381,503	$	26.24
Granted	-		-	-		-
Exercised	-		-	(106,331)		21.99
Canceled	(1,500)		22.94	(12,667)		28.50
Outstanding, end of period	1,754,465	$	23.06	2,262,505	$	26.43
For the Nine Months Ended:						
Outstanding, beginning of period	2,237,711	$	25.54	2,218,199	$	25.48
Granted	165,000		5.93	339,770		28.92
Exercised	-		-	(264,297)		21.43
Canceled	(648,246)		27.27	(31,167)		28.67
Outstanding, end of period	1,754,465	$	23.06	2,262,505	$	26.43
Stock Options and SARs exercisable at the end of the period	1,398,262	$	25.17	1,520,944	$	25.32

	September 30, 2009			September 30, 2008		
	Nonvested Restricted Stock		Weighted-Average Grant-date Fair Value	Nonvested Restricted Stock		Weighted-Average Grant-date Fair Value
For the Three Months Ended:						
Outstanding, beginning of period	200,548	$	5.93	-	$	-
Granted	-		-	-		-
Canceled	-		-	-		-
Outstanding, end of period	200,548	$	5.93	-	$	-
For the Nine Months Ended:						
Outstanding, beginning of period	-	$	-	-	$	-
Granted	200,548		5.93	-		-
Canceled	-		-	-		-
Outstanding, end of period	200,548	$	5.93	-	$	-

The cancellations of stock options during the first nine months of 2009 and 2008 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 stock options or SARs exercised during the first nine months of 2009 and 264,297 shares were exercised during the first nine months of 2008.

The following tables summarize information regarding stock options, SARs and nonvested restricted stock outstanding as of September 30, 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	255,000	9.4 years	30,000	9.0 years	220,500	9.5 years
10.00 - 14.99	-	-	-	-	-	-
15.00 - 19.99	81,722	4.5 years	81,722	4.5 years	81,722	4.5 years
20.00 - 24.99	550,588	4.6 years	550,588	4.6 years	550,588	4.6 years
25.00 - 29.99	653,487	5.1 years	530,288	4.5 years	642,634	5.0 years
30.00 - 34.99	213,668	2.4 years	205,664	2.2 years	211,267	2.3 years
	1,754,465		1,398,262		1,706,711	

	Outstanding		Expected to Vest	
Weighted-Average Grant-Date Fair Value	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life
$ 5.93	200,548	1.4 years	180,493	1.4 years

The weighted-average grant date fair value of options and SARs granted during the nine months ended 2009 and 2008 was $4.12 and $11.33 per share, respectively. The weighted-average grant date fair value of shares of restricted stock granted during the nine months ended 2009 was $5.93 per share. No shares of restricted stock were granted in 2008. The fair values for SARs and stock options were estimated using the Black-Scholes option pricing model based on the following assumptions:

	SARs and Stock Options	
	2009	2008
Risk-free interest rate	1.5%	2.5%
Expected years until exercise	7 years	6 years
Expected stock volatility	104.3%	43.2%

(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 the guidelines in ASC Topic 820 (“ASC 820”), Fair Value Measurements and Disclosures (formerly FASB Statement No. 157). ASC 820 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 the guidance in ASC 820 related to non-recurring fair value measurements of 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 the guidelines in ASC Topic 825 (“ASC 825”), Financial Instruments (formerly FASB Statement No. 159). ASC 825 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 June 2009, the FASB issued FASB Statement No. 166, Accounting for Transfers of Financial Assets (“FAS 166”) and FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) (“FAS 167”). These statements address amendments to ASC Topic 860 (“ASC 860”), Transfers and Servicing (formerly FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities), and to ASC Topic 810 (“ASC 810”), Consolidations (formerly FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities). The two FASB statements are effective for fiscal years beginning after November 15, 2009. The statements, amending ASC 860 and ASC 810, remove the concept of a qualifying special-purpose entity (“QSPE”) from ASC 860 and remove the exception from applying ASC 810 to QSPEs. Although Farmer Mac is currently evaluating the impact of these new accounting standards, Farmer Mac believes the adoption of FAS 166 and FAS 167 will result in the consolidation of assets and liabilities onto Farmer Mac’s balance sheet in connection with trusts that currently qualify for the QSPE exception. Additionally, interest income and interest expense related to the consolidated assets and liabilities of the trusts will be reflected in the statement of operations. Farmer Mac expects the adoption of FAS 166 and FAS 167 to require the consolidation of additional assets and liabilities on its balance sheet, resulting in an increase in its statutory minimum capital requirement; however, Farmer Mac believes its current capital is adequate to remain in compliance with regulatory capital requirements, absorb the additional capital required upon adoption, and provide sufficient excess capital above the statutory minimum capital requirement for its business needs.

In June 2009, the FASB issued FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States (the GAAP hierarchy). This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this guidance did not have a material impact on Farmer Mac's financial condition, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, Measuring Liabilities at Fair Value ("ASU 2009-05"), within ASC 820. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques that maximize the use of relevant observable inputs. The ASU is effective for the first interim or annual reporting period beginning after issuance, which will be fourth quarter 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.

Note 2. Investments

The following tables present the amortized cost and estimated fair values of Farmer Mac's investments as of September 30, 2009 and December 31, 2008.

	September 30, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 74,100	$ -	$ (1,365)	$ 72,735
Floating rate asset-backed securities	67,352	140	(41)	67,451
Floating rate corporate debt securities	292,807	9	(2,708)	290,108
Floating rate Government/GSE guaranteed mortgage-backed securities	328,395	798	(1,067)	328,126
Fixed rate GSE guaranteed mortgage-backed securities	6,451	328	-	6,779
Floating rate GSE subordinated debt	70,000	-	(9,684)	60,316
Fixed rate GSE preferred stock	90,622	7,904	-	98,526
Total available-for-sale	929,727	9,179	(14,865)	924,041
Trading:				
Floating rate asset-backed securities	6,850	-	(5,002)	1,848
Fixed rate GSE preferred stock	89,816	5,774	-	95,590
Total trading	96,666	5,774	(5,002)	97,438
Total investment securities	$ 1,026,393	$ 14,953	$ (19,867)	$ 1,021,479

	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 includes the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its auction-rate certificates.

During the three and nine months ended September 30, 2009, Farmer Mac recognized in earnings other-than-temporary impairment charges of $1.6 million and $2.7 million, respectively, compared to $97.1 million and $102.5 million, respectively, for the same periods during 2008. During third quarter 2009, Farmer Mac recorded an other-than-temporary impairment loss of $1.6 million related to its $49.9 million investment in HSBC Finance corporate debt securities. Farmer Mac recognized the entire difference between the amortized cost basis of these securities and their fair values in earnings since management intended to sell the securities as of September 30, 2009. During the second quarter 2009, Farmer Mac recorded an other-than-temporary impairment loss of $1.0 million related to its investment in CIT Group Inc. corporate debt securities. During third quarter 2008, Farmer Mac recorded an other-than-temporary impairment loss of $44.7 million related to its investment in Fannie Mae floating rate preferred stock and $52.4 million related to its investment in Lehman Brothers Holding Inc. senior debt securities. These losses were due to credit deterioration and were recognized as “Other-than-temporary impairment losses” in the condensed consolidated statements of operations.

During the three months ended September 30, 2009, Farmer Mac received proceeds of $54.8 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $1.0 million and gross realized losses of $0.9 million. During the nine months ended September 30, 2009, Farmer Mac received proceeds of $207.9 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $4.1 million and gross realized losses of $1.2 million.

During the three months ended September 30, 2008, Farmer Mac received proceeds of $63.0 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $1,000 and gross realized losses of $0.1 million. During the nine months ended September 30, 2008, Farmer Mac received proceeds of $351.3 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.3 million and gross realized losses of $0.2 million.

As of September 30, 2009 and December 31, 2008, unrealized losses on available-for-sale investment securities were as follows:

	September 30, 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	$ -	$ -	$ 202,680	$ (2,708)
Floating rate asset-backed securities	-	-	19,549	(41)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	72,735	(1,365)
Floating rate Government/GSE guaranteed mortgage-backed securities	95,303	(421)	56,505	(646)
Floating rate GSE subordinated debt	-	-	60,316	(9,684)
Total	$ 95,303	$ (421)	$ 411,785	$ (14,444)

	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 auction-rate certificates backed by Government guaranteed student loans	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 September 30, 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. As of September 30, 2009, all of the investment securities in an unrealized loss position were rated at least "A" by Standard & Poor's. 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 90 and 116 individual investment securities as of September 30, 2009 and December 31, 2008, respectively.

As of September 30, 2009, 71 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $14.4 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 September 30, 2009 that is, on average, approximately 97 percent of their amortized cost basis. Farmer Mac believes that all these unrealized losses are recoverable within a reasonable period of time through changes in credit spreads or maturity and expects to recover the amortized cost basis of these securities. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities represent other-than-temporary impairment as of September 30, 2009. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

As of September 30, 2009, Farmer Mac did not own any held-to-maturity investments. As of September 30, 2009, Farmer Mac owned trading investment securities that mature after five years with an amortized cost of $96.7 million, a fair value of $97.4 million, and a weighted- average yield of 8.32 percent. The amortized cost, fair value and weighted-average yield of investments by remaining contractual maturity for available-for-sale investment securities as of September 30, 2009 are set forth below. Asset-backed and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets or mortgages.

	Investment Securities Available-for-Sale as of September 30, 2009		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$ 69,296	$ 69,264	0.50%
Due after one year through five years	255,316	252,617	0.73%
Due after five years through ten years	126,964	126,941	2.30%
Due after ten years	478,151	475,219	3.32%
Total	$ 929,727	$ 924,041	2.26%

Note 3. Farmer Mac Guaranteed Securities

The following table sets forth information about on-balance sheet Farmer Mac Guaranteed Securities as of September 30, 2009 and December 31, 2008.

	September 30, 2009		
	Available-for-Sale	Trading	Total
Farmer Mac I	$ 57,811	$ -	$ 57,811
Farmer Mac II	696,029	436,853	1,132,882
Rural Utilities	1,855,345	454,123	2,309,468
Total	$ 2,609,185	$ 890,976	$ 3,500,161
Amortized cost	$ 2,575,478	$ 828,190	$ 3,403,668
Unrealized gains	44,827	62,786	107,613
Unrealized losses	(11,120)	-	(11,120)
Fair value	$ 2,609,185	$ 890,976	$ 3,500,161

	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

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of acquisition to September 30, 2009 and December 31, 2008, as applicable. As of September 30, 2009, the unrealized losses presented above are related to Farmer Mac II Guaranteed Securities, which are USDA-guaranteed portions backed by the full faith and credit of the United States. 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 September 30, 2009 and December 31, 2008. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

The table below presents a sensitivity analysis for the Corporation's on-balance sheet Farmer Mac Guaranteed Securities as of September 30, 2009.

	September 30, 2009 (dollars in thousands)
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities	$ 3,500,161
Weighted-average remaining life (in years)	3.6
Weighted-average prepayment speed (annual rate)	4.3%
Effect on fair value of a 10% adverse change	$ (894)
Effect on fair value of a 20% adverse change	$ (1,727)
Weighted-average discount rate	2.9%
Effect on fair value of a 10% adverse change	$ (22,857)
Effect on fair value of a 20% adverse change	$ (46,058)

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 September 30, 2009 and December 31, 2008.

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

	September 30, 2009	December 31, 2008
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$ 704,235	$ 781,305
Guaranteed Securities	5,314	282,185
AgVantage	48,800	53,300
Farmer Mac II:		
Guaranteed Securities	1,107,270	1,013,330
Rural Utilities:		
Loans	28,644	-
Guaranteed Securities	2,237,948	1,054,941
Total on-balance sheet	$ 4,132,211	$ 3,185,061
Off-balance sheet:		
Farmer Mac I:		
Guaranteed Securities	$ 1,524,590	$ 1,697,983
AgVantage	2,945,000	2,945,000
LTSPCs	2,135,445	2,224,181
Farmer Mac II:		
Guaranteed Securities	34,300	30,095
Total off-balance sheet	$ 6,639,335	$ 6,897,259
Total	$ 10,771,546	$ 10,082,320

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 and nine months ended September 30, 2009 and 2008 and the outstanding balances and carrying amounts of all such loans as of September 30, 2009 and December 31, 2008, respectively.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(in thousands)			
Fair value at acquisition date	$ 14,029	$ 557	$ 19,666	$ 1,746
Contractually required payments receivable	14,029	597	19,675	1,950
Impairment recognized subsequent to acquisition	16	-	7,741	-

	September 30, 2009	December 31, 2008
	(in thousands)	
Outstanding balance	$ 49,040	$ 91,942
Carrying amount	37,154	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 September 30, 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 September 30, 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 September 30, 2009, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities.

	90-Day Delinquencies (1)			Net Credit Losses (2)	
	As of September 30, 2009	As of December 31, 2008	As of September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$ 47,288	$ 65,060	$ 9,327	$ 6,976	$ 92
Total on-balance sheet	$ 47,288	$ 65,060	$ 9,327	$ 6,976	$ 92
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$ 12,150	$ 2,060	$ 2,154	$ -	$ -
Guaranteed Securities	-	-	-	-	-
Total off-balance sheet	$ 12,150	$ 2,060	$ 2,154	$ -	$ -
Total	$ 59,438	$ 67,120	$ 11,481	$ 6,976	$ 92

(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 for the three and nine months ended September 30, 2009 and 2008:

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
	(in thousands)			
Net income/(loss)	$ 22,268	$ (105,558)	$ 89,237	$ (91,264)
Available-for-sale securities, net of tax:				
Net unrealized holding gains/(losses)	30,237	(57,247)	64,178	(64,086)
Reclassification adjustment for realized losses	414	33,097	1,249	36,473
Net change from available-for-sale securities (1)	30,651	(24,150)	65,427	(27,613)
Financial derivatives, net of tax:				
Reclassification for amortization of financial derivatives transition adjustment (2)	34	66	124	222
Other comprehensive income/(loss), net of tax	30,685	(24,084)	65,551	(27,391)
Comprehensive income/(loss)	$ 52,953	$ (129,642)	$ 154,788	$ (118,655)

(1) Unrealized gains/(losses) on available-for-sale securities is shown net of income tax (expense)/benefit of ($16.5) million and $13.0 million for the three months ended September 30, 2009 and 2008, respectively, and ($35.2) million and $14.9 million for the nine months ended September 30, 2009 and 2008, respectively.

(2) Amortization of derivatives transition adjustment is shown net of income tax expense of $19,000 and $36,000 for the three months ended September 30, 2009 and 2008, respectively, and $67,000 and $119,000 for the nine months ended September 30, 2009 and 2008, respectively.

The following table presents Farmer Mac's accumulated other comprehensive income/(loss) as of September 30, 2009 and December 31, 2008 and changes in the components of accumulated other comprehensive income/(loss) for the nine months ended September 30, 2009 and the year ended December 31, 2008.

	September 30, 2009		December 31, 2008	
	(in thousands)			
Available-for-sale securities:				
Beginning balance	$	(47,214)	$	(2,320)
Reclassification adjustment to retained earnings for fair value option adoption, net of tax		-		(11,237)
Adjusted beginning balance		(47,214)		(13,557)
Net unrealized gains/(losses), net of tax		65,427		(33,657)
Ending balance	$	18,213	$	(47,214)
Financial derivatives:				
Beginning balance	$	(198)	$	(473)
Amortization of financial derivatives transition adjustment, net of tax		124		275
Ending balance	$	(74)	$	(198)
Accumulated other comprehensive income/(loss), net of tax	$	18,139	$	(47,412)

As of April 1, 2009, Farmer Mac held no debt securities for which an other-than-temporary impairment was previously recognized. Accordingly, a cumulative effect of adoption adjustment was not recognized upon adoption in second quarter 2009 of the other-than-temporary impairment guidance in ASC 320-10-65-1 (formerly FASB Staff Position FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments).

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 relevant guidance in ASC Topic 460 ("ASC 460"), Guarantees (formerly FASB Interpretation No. 45). In accordance with ASC 460, 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. Proceeds from new securitizations during the nine months ended September 30, 2009 and 2008 were $17.2 million and $79.8 million, respectively. The decrease year over year was driven by the third quarter 2008 transfer of $77.3 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 a related party. During first quarter 2009, $17.1 million of agricultural mortgage loans held on balance sheet were transferred 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 Nine Months Ended	
	September 30, 2009	September 30, 2008
	(in thousands)	
Proceeds from new securitizations	$ 17,224	$ 79,757
Guarantee fees received	9,673	9,433
Purchases of assets from the trusts	841	648
Servicing advances	11	7
Repayment of servicing advances	10	2

The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of September 30, 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

	September 30, 2009	December 31, 2008
	(in thousands)	
Farmer Mac I Guaranteed Securities	$ 1,524,590	$ 1,697,983
AgVantage	2,945,000	2,945,000
Farmer Mac II Guaranteed Securities	34,300	30,095
Total off-balance sheet Farmer Mac I and II	$ 4,503,890	$ 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 $31.6 million as of September 30, 2009 and $37.1 million as of December 31, 2008. As of September 30, 2009, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.4 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 $2.1 billion as of September 30, 2009 and $2.2 billion as of December 31, 2008.

As of September 30, 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 $17.2 million as of September 30, 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. On June 3, 2009, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock payable on June 30, 2009. On August 6, 2009, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock payable on September 30, 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 two series of preferred stock outstanding:

- 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 and during 2009, is a component of Stockholders' Equity on the condensed consolidated balance sheets.

During the three and nine months ended September 30, 2009, Farmer Mac sold 17,000 and 47,800 shares, respectively, 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 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 $17.0 million or $1,000 per share, and $47.8 million or $1,000 per share, respectively, for the three and nine months ended September 30, 2009. There were 57,000 shares of Series C Preferred Stock outstanding as of September 30, 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 September 30, 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 September 30, 2009, Farmer Mac's minimum and critical capital requirements were $204.7 million and $102.3 million, respectively, and Farmer Mac's core capital (common and preferred stock outstanding plus additional paid-in-capital and retained earnings) level was $331.0 million, $126.3 million above the minimum capital requirement and $228.7 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 September 30, 2009 was $37.7 million and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $343.5 million exceeded that requirement by approximately $305.8 million.

Note 7. Fair Value Disclosures

Fair Value Measurement

Effective January 1, 2008, Farmer Mac adopted ASC 820 which defines fair value, establishes a hierarchy for ranking fair value measurements, and expands disclosures about fair value measurements. ASC 820 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 ASC 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. When available, the fair value of Farmer Mac's financial instruments is based on quoted market prices, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information obtained from third parties is internally validated for reasonableness prior to use in the condensed consolidated financial statements.

When observable market prices are not readily available, Farmer Mac estimates 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 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 nonrecurring 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 auction-rate certificates ("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 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.

During second quarter 2009, Farmer Mac transferred its investment in the subordinated debt of CoBank with a par value of $70.0 million from Level 2 to Level 3 for purposes of estimating its fair value. Farmer Mac determined that the third party pricing service used to estimate fair value for this security as a Level 2 investment, in second quarter 2009, provided a price that, while representative of a recent market trade, was not reflective of an orderly transaction. In accordance with the relevant guidance in ASC 820, Farmer Mac used its internally-developed models as an alternative valuation technique to estimate fair value as a Level 3 investment.

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 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 September 30, 2009, the consideration of credit risk, Farmer Mac's and the counterparties', resulted in an adjustment to the valuations of Farmer Mac's derivative portfolio of $1.1 million. As of December 31, 2008, the consideration of credit risk, Farmer Mac's and 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.

Real Estate Owned Properties

Farmer Mac initially records real estate owned ("REO") properties at fair value less costs to sell and subsequently records them at the lower of carrying value or fair value less costs to sell. The fair value of REO is determined by third-party appraisals when available. When third-party appraisals are not available, fair value is estimated based on factors such as prices for similar properties in similar geographical areas and/or assessment through observation of such properties. Farmer Mac classifies the REO fair values as Level 3 measurements.

Fair Value Classification and Transfers

As of September 30, 2009, Farmer Mac's assets and liabilities recorded at fair value included financial instruments and non-financial assets valued at $3.9 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., Level 3). These assets and liabilities measured as Level 3 represented 68 percent of total assets and 82 percent of total assets and liabilities measured at fair value as of September 30, 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 September 30, 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 September 30, 2009

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ -	$ 72,735	$ 72,735
Floating rate asset-backed securities	-	67,451	-	67,451
Floating rate corporate debt securities	-	290,108	-	290,108
Floating rate Government/GSE guaranteed mortgage-backed securities	-	328,126	-	328,126
Fixed rate GSE guaranteed mortgage-backed securities	-	6,779	-	6,779
Floating rate GSE subordinated debt	-	-	60,316	60,316
Fixed rate GSE preferred stock	-	-	98,526	98,526
Total available-for-sale	-	692,464	231,577	924,041
Trading:				
Floating rate asset-backed securities	-	-	1,848	1,848
Fixed rate GSE preferred stock	-	-	95,590	95,590
Total trading	-	-	97,438	97,438
Total investment securities	-	692,464	329,015	1,021,479
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	57,811	57,811
Farmer Mac II	-	-	696,029	696,029
Rural Utilities	-	-	1,855,345	1,855,345
Total available-for-sale	-	-	2,609,185	2,609,185
Trading:				
Farmer Mac II	-	-	436,853	436,853
Rural Utilities	-	-	454,123	454,123
Total trading	-	-	890,976	890,976
Total Farmer Mac Guaranteed Securities	-	-	3,500,161	3,500,161
Financial Derivatives	-	21,099	-	21,099
Total Assets at fair value	$ -	$ 713,563	$ 3,829,176	$ 4,542,739
Liabilities:				
Financial Derivatives	$ 1	$ 123,671	$ 3,935	$ 127,607
Total Liabilities at fair value	$ 1	$ 123,671	$ 3,935	$ 127,607

Nonrecurring:				
Assets:				
Loans held for sale	$ -	$ -	$ 28,329	$ 28,329
REO	-	-	10,177	10,177
Total Assets at fair value	$ -	$ -	$ 38,506	$ 38,506

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

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans (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.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended September 30, 2009

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 68,716	$ -	$ -	$ 4,019	$ -	$ 72,735
Floating rate GSE subordinated debt	54,187	-	-	6,129	-	60,316
Fixed rate GSE preferred stock	-	(35)	-	7,904	90,657	98,526
Total available-for-sale	122,903	(35)	-	18,052	90,657	231,577
Trading:						
Floating rate asset-backed securities(1)	1,937	(172)	83	-	-	1,848
Fixed rate GSE preferred stock(2)	183,500	(309)	3,056	-	(90,657)	95,590
Total trading	185,437	(481)	3,139	-	(90,657)	97,438
Total investment securities	308,340	(516)	3,139	18,052	-	329,015
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	55,632	1,493	-	686	-	57,811
Farmer Mac II	644,572	42,323	-	9,134	-	696,029
Rural Utilities	1,424,077	425,000	-	6,268	-	1,855,345
Total available-for-sale	2,124,281	468,816	-	16,088	-	2,609,185
Trading:						
Farmer Mac II(3)	447,957	(19,978)	8,874	-	-	436,853
Rural Utilities(1)	447,174	(6,085)	13,034	-	-	454,123
Total trading	895,131	(26,063)	21,908	-	-	890,976
Total Farmer Mac Guaranteed Securities	3,019,412	442,753	21,908	16,088	-	3,500,161
Total Assets at fair value	$ 3,327,752	$ 442,237	$ 25,047	$ 34,140	$ -	$ 3,829,176
Liabilities:						
Financial Derivatives(4)	$ (3,350)	$ -	$ (585)	$ -	$ -	$ (3,935)
Total Liabilities at fair value	$ (3,350)	$ -	$ (585)	$ -	$ -	$ (3,935)
Nonrecurring:						

Assets:												
Loans held for sale	$	-	$	-	$	(315)	$	-	$	28,644	$	28,329
REO		43,260		(31,609)		-		-		(1,474)		10,177
Total Assets at fair value	$	43,260	$	(31,609)	$	(315)	$	-	$	27,170	$	38,506

(1) Unrealized gains are attributable to assets still held as of September 30, 2009 and are recorded in gains/(losses) on trading assets.
(2) Includes unrealized gains of $3.5 million for assets still held as of September 30, 2009 that are recorded in gains/(losses) on trading assets.
(3) Includes unrealized gains of approximately $9.5 million attributable to assets still held as of September 30, 2009 that are recorded in gains/(losses) on trading assets.
(4) Unrealized losses are attributable to liabilities still held as of September 30, 2009 and are recorded in (losses)/gains on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended September 30, 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	Ending Balance
	(in thousands)					
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 209,360	$ (17,525)	$ -	$ 175	$ -	$ 192,010
Total available-for-sale securities	209,360	(17,525)	-	175	-	192,010
Trading:						
Floating rate asset-backed securities(1)	7,414	(143)	(2,914)	-	-	4,357
Fixed rate GSE preferred stock(1)	-	(338)	(12,073)	-	179,100	166,689
Total trading investment securities	7,414	(481)	(14,987)	-	179,100	171,046
Total investment securities	216,774	(18,006)	(14,987)	175	179,100	363,056
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	391,904	(64,387)	-	2,203	24,992	354,712
Farmer Mac II	-	-	-	419	493,578	493,997
Rural Utilities	901,639	(500,000)	-	(154)	-	401,485
Total available-for-sale	1,293,543	(564,387)	-	2,468	518,570	1,250,194
Trading:						
Farmer Mac II(2)	450,562	26,218	100	-	-	476,880
Rural Utilities(1)	441,685	(5,735)	381	-	-	436,331
Total trading	892,247	20,483	481	-	-	913,211
Total Farmer Mac Guaranteed Securities	2,185,790	(543,904)	481	2,468	518,570	2,163,405
Total Assets at fair value	$ 2,402,564	$ (561,910)	$ (14,506)	$ 2,643	$ 697,670	$ 2,526,461
Liabilities:						
Financial Derivatives(3)	$ (1,457)	$ -	$ 248	$ -	$ -	$ (1,209)
Total Liabilities at fair value	$ (1,457)	$ -	$ 248	$ -	$ -	$ (1,209)
Nonrecurring:						
Loans held for sale	$ 142,695	$ (79,534)	$ 41	$ -	$ -	$ 63,202

(1) Unrealized gains/(losses) are attributable to assets still held as of September 30, 2008 and are recorded in gains/(losses) on trading assets.

(2)

Includes unrealized gains of approximately $455,000 attributable to assets still held as of September 30, 2008 that are recorded in gains/(losses) on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of September 30, 2008 and are recorded in (losses)/gains on financial derivatives.

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 nine months ended September 30, 2009 and September 30, 2008, respectively.

Level 3 Assets and Liabilities Measured at Fair Value for the Nine Months Ended September 30, 2009

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 178,577	$ (119,850)	$ -	$ 14,008	$ -	$ 72,735
Floating rate GSE subordinated debt	-	-	-	11,184	49,132	60,316
Fixed rate GSE preferred stock	-	(35)	-	7,904	90,657	98,526
Total available-for-sale investment securities	178,577	(119,885)	-	33,096	139,789	231,577
Trading:						
Floating rate asset-backed securities(1)	2,211	(645)	282	-	-	1,848
Fixed rate GSE preferred stock(2)	161,552	(990)	25,685	-	(90,657)	95,590
Total trading	163,763	(1,635)	25,967	-	(90,657)	97,438
Total investment securities	342,340	(121,520)	25,967	33,096	49,132	329,015
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	349,292	(2,188)	-	(1,281)	(288,012)	57,811
Farmer Mac II	522,565	160,574	-	12,890	-	696,029
Rural Utilities	639,837	1,195,000	-	20,508	-	1,855,345
Total available-for-sale	1,511,694	1,353,386	-	32,117	(288,012)	2,609,185
Trading:						
Farmer Mac II(3)	496,863	(67,320)	7,310	-	-	436,853
Rural Utilities(1)	442,687	(11,994)	23,430	-	-	454,123
Total trading	939,550	(79,314)	30,740	-	-	890,976
Total Farmer Mac Guaranteed Securities	2,451,244	1,274,072	30,740	32,117	(288,012)	3,500,161
Total Assets at fair value	$ 2,793,584	$ 1,152,552	$ 56,707	$ 65,213	$ (238,880)	$ 3,829,176
Liabilities:						
Financial Derivatives(4)	$ (3,719)	$ -	$ (216)	$ -	$ -	$ (3,935)
	$ (3,719)	$ -	$ (216)	$ -	$ -	$ (3,935)

Total Liabilities at fair value												
Nonrecurring:												
Assets:												
Loans held for sale	$	-	$	-	$	(315)	$	-	$	28,644	$	28,329
REO		-		(31,609)		-		-		41,786		10,177
Total Assets at fair value	$	-	$	(31,609)	$	(315)	$	-	$	70,430	$	38,506

(1) Unrealized gains are attributable to assets still held as of September 30, 2009 and are recorded in gains/(losses) on trading assets.
(2) Includes unrealized gains of $15.6 million for assets still held as of September 30, 2009 that are recorded in gains/(losses) on trading assets.
(3) Includes unrealized gains of approximately $8.6 million attributable to assets still held as of September 30, 2009 that are recorded in gains/(losses) on trading assets.
(4) Unrealized losses are attributable to liabilities still held as of September 30, 2009 and are recorded in (losses)/gains on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Nine Months Ended September 30, 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	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ 62,406	$ -	$ (1,940)	$ 131,544	$ 192,010
Floating rate corporate debt securities	-	400,000	-	(669)	(399,331)	-
Fixed rate corporate securities	500,138	-	-	2,951	(503,089)	-
Total available-for-sale securities	500,138	462,406	-	342	(770,876)	192,010
Trading:						
Floating rate asset-backed securities(1)	8,179	(771)	(3,051)	-	-	4,357
Fixed rate mortgage-backed securities	415,813	29,367	13,846	-	(459,026)	-
Fixed rate GSE preferred stock(1)	-	(338)	(12,073)	-	179,100	166,689
Total trading	423,992	28,258	(1,278)	-	(279,926)	171,046
Total investment securities	924,130	490,664	(1,278)	342	(1,050,802)	363,056
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	338,958	(15,161)	-	5,923	24,992	354,712
Farmer Mac II	-	-	-	419	493,578	493,997
Rural Utilities	-	(500,000)	-	(935)	902,420	401,485
Total available-for-sale	338,958	(515,161)	-	5,407	1,420,990	1,250,194
Trading:						
Farmer Mac II(2)	428,670	46,715	1,495	-	-	476,880
Rural Utilities(1)	-	(5,735)	(16,960)	-	459,026	436,331
Total trading	428,670	40,980	(15,465)	-	459,026	913,211
Total Farmer Mac Guaranteed Securities	767,628	(474,181)	(15,465)	5,407	1,880,016	2,163,405
Total Assets at fair value	$ 1,691,758	$ 16,483	$ (16,743)	$ 5,749	$ 829,214	$ 2,526,461
Liabilities:						
Financial Derivatives(3)	$ (1,106)	$ -	$ (103)	$ -	$ -	$ (1,209)
Total Liabilities at fair value	$ (1,106)	$ -	$ (103)	$ -	$ -	$ (1,209)

Nonrecurring:						
Loans held for sale	$ -	$ (79,534)	$ (20)	$ -	$ 142,756	$ 63,202

(1) Unrealized losses are attributable to assets still held as of September 30, 2008 and are recorded in gains/(losses) on trading assets.
(2) Includes unrealized gains of approximately $2.3 million attributable to assets still held as of September 30, 2008 that are recorded in gains/(losses) on trading assets.
(3) Unrealized losses are attributable to liabilities still held as of September 30, 2008 and are recorded in (losses)/gains on financial derivatives.

Fair Value Option

ASC 825 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 this guidance 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 ASC 825, 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 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 the nine months of 2009, Farmer Mac did not elect the fair value option for any assets or liabilities.

Impact of Adopting Fair Value Option 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 (1):			
Fixed rate GSE preferred stock	$ 184,655	$ 2,783	$ 184,655
Fixed rate mortgage-backed securities	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 ASC Topic 320, Investments - Debt and Equity Securities, ("ASC 320"), and the amount of transition gain was recognized in accumulated other comprehensive income/loss prior to the adoption of ASC 825.

For the three months and nine months ended September 30, 2009, Farmer Mac recorded net gains on trading assets of $25.0 million and $56.4 million, respectively, for changes in fair values of the assets selected for the fair value option, compared to net losses on trading assets of $11.6 million and $18.6 million for the same periods ended September 30, 2008. These gains/(losses) are recognized as "Gains/(losses) on trading assets" in the condensed consolidated statements of operations.

Disclosures about Fair Value of Financial Instruments

The following table sets forth the estimated fair values and the carrying values for financial assets, liabilities and guarantees and commitments as of September 30, 2009 and December 31, 2008 in accordance with ASC 825-10-50-10 to 50-19 (formerly FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments):

	September 30, 2009		December 31, 2008	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 274,894	$ 274,894	$ 278,412	$ 278,412
Investment securities	1,021,479	1,021,479	1,235,859	1,235,859
Farmer Mac Guaranteed Securities	3,500,161	3,500,161	2,451,244	2,451,244
Loans	743,699	727,234	789,613	774,596
Financial derivatives	21,099	21,099	27,069	27,069
Interest receivable	56,206	56,206	73,058	73,058
Guarantee and commitment fees receivable:				
LTSPCs	16,646	18,322	20,434	19,232
Farmer Mac Guaranteed Securities	31,503	36,150	36,071	41,877
Financial liabilities:				
Notes payable:				
Due within one year	3,159,434	3,155,589	3,773,430	3,757,099
Due after one year	2,031,031	1,962,591	944,490	887,999
Financial derivatives	127,607	127,607	181,183	181,183
Accrued interest payable	37,388	37,388	40,470	40,470
Guarantee and commitment obligation:				
LTSPCs	15,486	17,162	19,058	17,856
Farmer Mac Guaranteed Securities	27,002	31,649	31,291	37,098

The carrying value of cash and cash equivalents, certain short-term investment securities, interest receivable and accrued interest payable is a reasonable estimate of their approximate fair value. Farmer Mac estimates the fair value of its loans, guarantee and commitment fees receivable/obligation and notes payable 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. 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.

Different market assumptions and estimation methodologies could significantly affect estimated fair value amounts.

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 and at a cost 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;
- legislative or regulatory developments that could affect Farmer Mac;
- 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;
- 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 severity and duration of current economic and financial conditions generally and within the agricultural and rural utilities sectors in particular;
- developments in the financial markets, including possible investor, analyst and rating agency reactions to events involving GSEs, including Farmer Mac; and
- the willingness of investors to invest in Farmer Mac Guaranteed Securities.

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 condensed 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.

During second quarter 2009, Farmer Mac amended its critical accounting policy relating to other-than-temporary impairments upon the adoption of ASC 320-10-35-33 (formerly FASB Staff Position FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments). This guidance amended the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The existing recognition and measurement guidance related to other-than-temporary impairments of equity securities was not amended.

If the fair value of a security is less than its amortized cost basis as of the balance sheet date, Farmer Mac assesses whether the impairment is temporary or other-than-temporary. Other-than-temporary impairment occurs when the fair value of an available-for-sale debt security is below its amortized cost, and it is determined that management (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. In these cases, the entire difference between the amortized cost basis of the security and the fair value as of the balance sheet date is recognized as other-than-temporary impairment in earnings.

If management does not intend to sell the security and it is not more likely than not that it will be required to sell the security before anticipated recovery, Farmer Mac determines whether a credit loss exists. Many factors considered in this determination involve significant judgment, including recent events specific to the issuer or the related industry, changes in external credit ratings, the severity and duration of the impairment, recoveries or additional declines in fair value subsequent to the balance sheet date, and other relevant information related to the collectability of the security. If Farmer Mac determines that the present value of the cash flows likely to be collected from the security is greater than the amortized cost basis of the security, the impairment is deemed to be temporary. Conversely, if the present value of the expected cash flows is less than the amortized cost basis of the security, a credit loss has occurred and the security is deemed to be other-than-temporarily impaired and the amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income, net of applicable taxes.

For a discussion of Farmer Mac's critical accounting policies related to the allowance for losses and fair value measurement 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 available to common stockholders for third quarter 2009 was $17.9 million or $1.74 per diluted common share, compared to a net loss of $106.1 million or $10.55 per diluted common share for third quarter 2008. Net income available to common stockholders for the nine months ended September 30, 2009 was $76.8 million or $7.54 per diluted common share, compared to a net loss of $93.0 million or $9.33 per diluted common share for the nine months ended September 30, 2008. Farmer Mac's results for both the three and nine month periods ended September 30, 2008 were severely adversely impacted by losses on investment securities that were subsequently liquidated during 2009. Subsequent to those events and a change in management, Farmer Mac revised its investment portfolio guidelines and revamped its funding strategies with the intent to reduce Farmer Mac's exposure to adverse financial market volatility and to preserve and rebuild capital. Farmer Mac's excess capital above its statutory minimum capital requirement, which had fallen to as low as $13.5 million as of December 31, 2008, was $126.3 million as of September 30, 2009.

Farmer Mac's non-performing assets were $84.8 million (1.94 percent) as of September 30, 2009, compared to $97.1 million as of June 30, 2009 (2.17 percent). This decrease was due to the third quarter sale of three of Farmer Mac's four ethanol facilities that had been classified as REO as of June 30, 2009 (the fourth facility was sold in October 2009). REO properties are included in Farmer Mac's non-performing assets but not in 90-day delinquencies. Farmer Mac's 90-day delinquencies increased from $42.3 million (0.95 percent) as of June 30, 2009 to $59.4 million (1.36 percent) as of September 30, 2009.

As of September 30, 2009, Farmer Mac's ethanol exposure, which includes loans, loans subject to LTSPCs and REO, was $275.8 million, with exposure to 29 different plants, and an additional $35.8 million of undisbursed commitments. Other than the undisbursed commitments, Farmer Mac is not seeking to add more ethanol loan exposure to its portfolio. See "—Risk Management—Credit Risk – Loans" for more detail about Farmer Mac's ethanol portfolio.

During third quarter 2009, Farmer Mac recorded a provision to its allowance for losses of $3.2 million, compared to a provision of $0.6 million during third quarter 2008. For the nine months ended September 30, 2009, offsetting provisions and releases related to the allowance for losses resulted in net provisions of $3.0 million, compared to net provisions of $0.6 million for the nine months ended September 30, 2008. As of September 30, 2009, the total allowance for losses was $12.5 million, compared to $16.4 million as of December 31, 2008.

Farmer Mac's non-performing assets were down slightly from higher levels reported earlier during the year. Those reductions are in part a result of the reclassification of certain ethanol loans from "in bankruptcy" during second quarter 2009 to REO and having been sold with subsequent loans to the purchasers classified as current as of September 30, 2009. Much of the remainder of the portfolio continues to benefit from the cumulative strong performance of the U.S. agricultural economy over the past several years, which has enabled most agricultural producers in stressed industries to manage current economic pressures and meet their obligations on mortgage loans. 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 and related credit losses are expected to remain within Farmer Mac's historical experience but likely greater than the historical average. See "—Results of Operations—Outlook" and "—Risk Management—Credit Risk – Loans" for more detail about the outlook for ce agricultural industries.

Changes in the fair values of financial derivatives and trading assets have historically contributed significant volatility to Farmer Mac's periodic earnings. Consistent with that trend, Farmer Mac's third quarter loss on financial derivatives was $7.7 million, compared to a loss of $19.0 million during third quarter 2008. For the nine months ended September 30, 2009, the gain on financial derivatives was $15.5 million, compared to a loss of $29.7 million for the nine months ended September 30, 2008. Fair value gains on trading assets totaled $25.0 million for third quarter 2009, compared to losses of $14.5 million for third quarter 2008. For the nine months ended September 30, 2009, the gains on trading assets totaled $56.7 million, compared to losses of $21.7 million for the nine months ended September 30, 2008. While these volatile changes in fair values may at times produce significant income, as has been the case in 2009, they may also produce significant losses, as has been the case in previous reporting periods. Future changes in those values cannot be reliably predicted; however, as of September 30, 2009 the cumulative fair value after-tax losses recorded on financial derivatives was $69.2 million. Over time, Farmer Mac will realize in earnings the net effect of the cash settlements on its interest rate swap contracts, which may on its own produce either income or expense, but is expected to generate positive effective net spread when combined with the interest earned and paid on the assets and liabilities Farmer Mac holds on its balance sheet. This positive effective net spread will continue to build retained earnings and capital over time. Although the unrealized fair value fluctuations experienced throughout the term of the financial derivatives will temporarily impact earnings and capital, those fluctuations will have no permanent effect upon maturity.

During third quarter 2009, Farmer Mac recorded an other-than-temporary impairment loss of $1.6 million to write down the Corporation's $49.9 million investment in the unsecured debt of HSBC Finance to its fair value of $48.3 million as of September 30, 2009. Subsequent to September 30, 2009, Farmer Mac sold $20.0 million of the HSBC Finance debt for $19.5 million. That sale resulted in a loss of $0.5 million on Farmer Mac's initial investment, but a gain of $0.1 million during fourth quarter 2009 because the sale proceeds exceeded the carrying value that reflected the other-than-temporary impairment loss recorded during third quarter 2009. To mitigate the credit exposure related to Farmer Mac's remaining $28.9 million investment in HSBC Finance debt, during fourth quarter 2009 Farmer Mac entered into a credit default swap covering the balance. The credit default swap protects Farmer Mac against any future default by HSBC Finance and provides an offset to further fluctuations in the fair value of the remaining investment.

Farmer Mac's year-to-date 2009 results benefited from two first quarter 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 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.

To assist in the comparison of results to prior periods, the table below summarizes many of the items discussed above as they relate to Farmer Mac's results of operations for the three and nine month periods ended September 30, 2009 and 2008 and reconciles those items as separate components of net income available to common stockholders, distinct from the recurring items during the periods presented.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(in thousands)			
Recurring items:				
Guarantee and commitment fees	$ 8,168	$ 7,281	$ 23,486	$ 20,574
Net interest income including realized gains/(losses) on financial derivatives	10,737	11,455	31,038	43,332
Other income	874	192	1,209	1,315
Credit related charges	(3,390)	(655)	(3,226)	(742)
Operating costs	(5,840)	(8,322)	(20,362)	(21,196)
Related tax expense	(3,176)	(3,137)	(9,963)	(13,984)
Preferred stock dividends	(4,368)	(578)	(12,434)	(1,698)
Subtotal	3,005	6,236	9,748	27,601
Items resulting from fair value fluctuations:				
Fair value changes in financial derivatives	1,327	(9,153)	47,606	(9,404)
Fair value changes in trading assets	25,047	(14,507)	56,707	(21,664)
Related tax (expense)/benefit	(9,231)	8,281	(36,510)	10,874
Subtotal	17,143	(15,379)	67,803	(20,194)
Other items:				
Other-than-temporary impairment losses	(1,621)	(97,108)	(3,994)	(102,452)
Gains on asset sales and debt repurchases	63	2,286	4,494	2,436
Related tax expense	(690)	(2,171)	(1,248)	(353)
Subtotal	(2,248)	(96,993)	(748)	(100,369)
Net income available to common stockholders	$ 17,900	$ (106,136)	$ 76,803	$ (92,962)

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

Net Interest Income. For third quarter 2009, net interest income was $19.8 million, compared to $21.3 million for third quarter 2008. For the nine months ended September 30, 2009, net interest income was $63.1 million, compared to $63.6 million for the nine months ended September 30, 2008. During 2009, Farmer Mac has maintained uninterrupted access to the capital markets at favorable rates, though the Corporation's short-term borrowing costs relative to LIBOR returned to historical levels during third quarter 2009. Toward the end of 2008 and into 2009, Farmer Mac reduced the size of its liquidity investment portfolio as it positioned the portfolio to preserve capital and reduce risk. The reduced level of investment has decreased the net interest income earned from that portfolio compared to earlier periods. The net interest yield was 169 basis points for the nine months ended September 30, 2009, compared to 150 basis points for the nine months ended September 30, 2008.

The following table provides information regarding interest-earning assets and funding for the nine months ended September 30, 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 nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The lower average rate on loans and Farmer Mac Guaranteed Securities during the nine months ended September 30, 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 Nine Months Ended					
	September 30, 2009			September 30, 2008		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	(dollars in thousands)					
Interest-earning assets:						
Cash and investments	$ 1,457,216	$ 22,303	2.04%	$ 3,218,258	$ 97,305	4.03%
Loans and Farmer Mac Guaranteed Securities	3,527,656	109,428	4.14%	2,430,259	102,199	5.61%
Total interest-earning assets	4,984,872	131,731	3.52%	5,648,517	199,504	4.71%
Funding:						
Notes payable due within one year	3,109,850	20,306	0.87%	3,824,478	81,287	2.83%
Notes payable due after one year	1,662,863	48,287	3.87%	1,589,692	54,598	4.58%
Total interest-bearing liabilities	4,772,713	68,593	1.92%	5,414,170	135,885	3.35%
Net non-interest-bearing funding	212,159	-		234,347	-	
Total funding	$ 4,984,872	68,593	1.83%	$ 5,648,517	135,885	3.21%
Net interest income/yield		$ 63,138	1.69%		$ 63,619	1.50%

The following table sets forth information regarding the changes in the components of Farmer Mac's net interest income for the periods indicated. For each category, information is provided on changes attributable to changes in volume (change in volume multiplied by old rate) and changes in rate (change in rate multiplied by old volume). Combined rate/volume variances, the third element of the calculation, are allocated based on their relative size. The decreases in income due to changes in rate reflect the reset of variable-rate investments and adjustable-rate mortgages to lower rates and the acquisition of new lower-yielding investments, loans and Farmer Mac Guaranteed Securities, as described above. The decreases in expense reflect the decreased cost of funding due to lower interest rates in the debt markets.

	For the Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008 Increase/(Decrease) Due to		
	Rate	Volume	Total
		(in thousands)	
Income from interest-earning assets:			
Cash and investments	$ (35,577)	$ (39,425)	$ (75,002)
Loans and Farmer Mac Guaranteed Securities	(31,262)	38,491	7,229
Total	(66,839)	(934)	(67,773)
Expense from interest-bearing liabilities	(52,686)	(14,606)	(67,292)
Change in net interest income	$ (14,153)	$ 13,672	$ (481)

Farmer Mac's net interest yield excludes income and expense related to financial derivatives and includes yield maintenance payments received upon the early payoff of certain borrower's loans. The following paragraphs describe the effects of these items on the net interest yield and the table below presents them as adjustments to reconcile to the net effective spread Farmer Mac earns on the difference between its interest-earning assets and its net funding costs, including payments for income and expense related to financial derivatives.

Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. Accordingly, the Corporation records the income or expense related to financial derivatives as gains and losses on financial derivatives. For the three months ended September 30, 2009, this resulted in an increase of the net interest yield of $7.8 million (61 basis points), compared to an increase of the net interest yield of $8.8 million (63 basis points) for the three months ended September 30, 2008. For the nine months ended September 30, 2009, this resulted in an increase of the net interest yield of $28.4 million (76 basis points), compared to an increase of the net interest yield of $18.9 million (45 basis points) for the nine months ended September 30, 2008.

Farmer Mac's net interest income and net interest yields for the three months ended September 30, 2009 and 2008 included the benefits of yield maintenance payments of $0.1 million (0 basis points) and $0.2 million (2 basis points), respectively. The net interest yields for the nine months ended September 30, 2009 and 2008 included the benefits of yield maintenance payments of $0.4 million (1 basis point) and $3.2 million (7 basis points), respectively. Yield maintenance payments represent the present value of expected future interest income streams and accelerate the recognition of interest income from the related loans. As these figures demonstrate, the amounts of these payments, which are largely the result of borrower refinancing, were greatly reduced in 2009 compared to 2008. Because the timing and size of these payments vary greatly, variations do not necessarily indicate positive or negative trends to gauge future financial results.

The following table presents the net effective spread between Farmer Mac's interest-earning assets and its net funding costs. This spread is measured by including income or expense related to financial derivatives and subtracting yield maintenance payments.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2009		September 30, 2008		September 30, 2009		September 30, 2008	
	Dollars	Yield	Dollars	Yield	Dollars	Yield	Dollars	Yield
	(dollars in thousands)							
Net interest income/yield	$ 19,797	1.54%	$ 21,323	1.52%	$ 63,138	1.69%	$ 63,619	1.50%
Expense related to financial derivatives	(7,834)	-0.61%	(8,795)	-0.63%	(28,358)	-0.76%	(18,915)	-0.45%
Yield maintenance payments	(50)	0.00%	(249)	-0.02%	(423)	-0.01%	(3,161)	-0.07%
Net spread	$ 11,913	0.93%	$ 12,279	0.87%	$ 34,357	0.92%	$ 41,543	0.98%

Provision for Loan Losses. During the three and nine months ended September 30, 2009, Farmer Mac recorded provisions to its allowance for loan losses of $3.1 million and $0.9 million, respectively, compared to provisions of $0.7 million in each of the same periods in 2008. As of September 30, 2009, Farmer Mac's total allowance for loan losses was $4.9 million, compared to $10.9 million as of December 31, 2008. See "—Risk Management—Credit Risk – Loans."

Provision for Losses. During the three and nine months ended September 30, 2009, Farmer Mac recorded provisions for losses of $0.1 million and $2.1 million, respectively, for losses related to its guarantee activities and LTSPCs, compared to releases of reserves for losses of $0.1 million in each of the same periods in 2008. As of September 30, 2009, Farmer Mac's reserve for losses was $7.6 million, compared to $5.5 million as of December 31, 2008.

Guarantee and Commitment Fees. Guarantee and commitment fees, which compensate Farmer Mac for assuming the credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs, were $8.2 million for third quarter 2009 and $23.5 million for the nine months ended September 30, 2009, compared to $7.3 million and $20.6 million, respectively, for the same periods in 2008. As noted above, Farmer Mac's guarantee and commitment fees increased in 2009 because of increases in both the average fees charged and the average level of guarantees and commitments outstanding. In both cases, the increases are attributable to the rural utilities business added since June 30, 2008.

Gains and Losses on Financial Derivatives. Farmer Mac accounts for its financial derivatives as undesignated financial derivatives and does not apply hedge accounting available under ASC Topic 815 ("ASC 815"), Derivatives and Hedging (formerly FASB Statement No. 133). The net effect of gains and losses on financial derivatives for the three and nine months ended September 30, 2009 was a net loss of $7.7 million and a net gain of $15.5 million, respectively, compared to net losses of $19.0 million and $29.7 million, respectively, for the same periods in 2008. The components of gains and losses on financial derivatives for the three and nine months ended September 30, 2009 and 2008 are summarized in the following table:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(in thousands)			
Realized:				
Expense related to financial derivatives	$ (7,834)	$ (8,795)	$ (28,358)	$ (18,915)
Losses due to terminations or net settlements	(1,172)	(965)	(3,550)	(1,030)
Unrealized gains/(losses) due to fair value changes	1,327	(9,153)	47,606	(9,404)
Amortization of financial derivatives transition adjustment	(54)	(108)	(192)	(342)
(Losses)/gains on financial derivatives	$ (7,733)	$ (19,021)	$ 15,506	$ (29,691)

The accrual of periodic cash settlements for interest paid or received from Farmer Mac's interest rate swap contracts is shown as expense related to financial derivatives in the table above. Payments or receipts to terminate derivative positions or net cash settle forward sales contracts on mortgage-backed securities and the debt of other GSEs and U.S. Treasury futures are included in losses due to terminations or net settlements. Changes in the fair value of Farmer Mac's open derivative positions are captured in unrealized gains/(losses) due to fair value changes and are primarily the result of fluctuations in market interest rates. The amortization of the financial derivatives transition adjustment reflects the reclassification into earnings of the unrealized losses on financial derivatives included in accumulated other comprehensive income/(loss) as a result of the adoption of ASC 815. The remaining financial derivatives transition adjustment of $0.1 million 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.

Gains and Losses on Trading Assets. During the three and nine months ended September 30, 2009, Farmer Mac recognized gains on trading assets of $25.0 million and $56.7 million, respectively, compared to losses of $14.5 million and $21.7 million, respectively, for the same periods in 2008. The gains recognized during third quarter 2009 are primarily the result of increases in the fair values of Farmer Mac II Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities of $8.9 million and $13.0 million, respectively. Gains on trading assets are discussed further in Note 7 to the condensed consolidated financial statements. 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.

Gains and Losses on Sale of Available-for-Sale Investment Securities. During the three and nine months ended September 30, 2009, Farmer Mac realized gains of $0.1 million and $2.9 million, respectively, from the sale of securities from its available-for-sale portfolio, compared to losses of $0.1 million and gains of $0.1 million, respectively, for the same periods in 2008. The gain in 2009 was primarily attributable to Farmer Mac's sale of all of its remaining investment in Lehman Brothers Holdings, Inc. senior debt securities as to which the Corporation had recorded $54.5 million in other-than-temporary impairment losses during 2008.

General and Administrative Expenses. General and administrative expenses, including legal, independent audit, and consulting fees, were $2.4 million for third quarter 2009 and $8.3 million for the nine months ended September 30, 2009, compared to $4.1 million and $8.3 million, respectively, for the same periods in 2008. The higher level of expenses in third quarter 2008 resulted from advisory fees related to the issuance of preferred stock and legal and other advisory fees related to corporate governance matters.

Regulatory Fees. Regulatory fees for the three and nine months ended September 30, 2009 were $0.5 million and $1.5 million, respectively, compared to $0.5 million and $1.5 million, respectively, for the same periods in 2008. FCA has advised Farmer Mac that its estimated fees for the federal fiscal year ending September 30, 2010 will be $2.3 million, compared to $2.1 million for the federal fiscal year ended September 30, 2009. After the end of a federal government fiscal year, FCA may revise its prior year estimated assessments to reflect actual costs incurred, and has issued both additional assessments and refunds in the past.

Income Tax Expense/Benefit. Income tax expense totaled $13.1 million and $47.7 million for the three and nine months ended September 30, 2009, respectively, compared to an income tax benefit of $3.0 million and income tax expense of $3.5 million, respectively, for the same periods in 2008. Farmer Mac's effective tax rates for the three and nine months ended September 30, 2009 were approximately 37.0 percent and 34.8 percent, respectively, compared to approximately 2.7 percent and (3.9) percent, respectively, for the same periods in 2008.

Business Volume. During third quarter 2009, Farmer Mac added $707.6 million of new program volume in the form of:

- purchases of $40.7 million of Farmer Mac I loans;
- the placement of $37.1 million of Farmer Mac I loans under LTSPCs;
- purchases of $76.1 million of Farmer Mac II USDA-guaranteed portions of loans;
- purchases of $28.7 million of Rural Utilities loans; and
- purchases of $525.0 million of Farmer Mac Guaranteed Securities – Rural Utilities.

This new business volume was partially offset by principal paydowns on outstanding loans and loans underlying Farmer Mac Guaranteed Securities and LTSPCs. Farmer Mac's outstanding program volume was $10.8 billion as of September 30, 2009.

The following table sets forth Farmer Mac's loan purchase, guarantee, and commitment activities for newly originated and current seasoned loans during the periods indicated:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(in thousands)			
Loan purchase and guarantee and commitment activity:				
Farmer Mac I:				
Loans	$ 40,732	$ 33,179	$ 108,446	$ 124,485
LTSPCs	37,083	239,170	125,520	408,923
AgVantage	-	475,000	-	475,000
Farmer Mac II Guaranteed Securities	76,119	83,672	251,496	216,486
Rural Utilities:				
Loans	28,644	-	28,644	-
Guaranteed Securities	525,000	-		