

FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K
March 18, 2013
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As filed with the Securities and Exchange Commission on
March 18, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012.

or

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

For the transition period from _____ to _____.

Commission File Number 001-14951

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

(Exact name of registrant as specified in its charter)

Federally chartered instrumentality of the United States 52-1578738

(State or other jurisdiction of incorporation or organization) (I.R.S. employer identification number)

1999 K Street, N.W., 4th Floor, Washington, D.C. 20006

(Address of principal executive offices) (Zip code)

(202) 872-7700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Exchange on which registered
Class A voting common stock	New York Stock Exchange
Class C non-voting common stock	New York Stock Exchange
5.875% Non-Cumulative Preferred Stock, Series A	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class B voting common stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. §229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

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

The aggregate market value of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant was \$255,643,942 as of June 29, 2012, based upon the closing prices for the respective classes on June 29, 2012 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 1, 2013, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,223,342 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2013 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part II and Part III of this Annual Report on Form 10-K).

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PART I

Item 1. Business

GENERAL

The Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") is a stockholder-owned, federally chartered corporation that combines private capital and public sponsorship to serve a public purpose. Congress has charged Farmer Mac with the mission of providing a secondary market for a variety of loans made to borrowers in rural America. A secondary market is an economic arrangement in which the owners of financial assets, such as the originators of loans, may sell all or part of those assets or pay a fee to otherwise offset some or all of the inherent risks of holding the assets. Farmer Mac's main secondary market activities are:

- purchasing eligible loans directly from lenders;
- providing advances against eligible loans by purchasing obligations secured by those loans;
- securitizing assets and guaranteeing the payment of principal and interest on the resulting securities that represent interests in, or obligations secured by, pools of eligible loans; and
- issuing long-term standby purchase commitments ("LTSPCs") for eligible loans.

Securities guaranteed by Farmer Mac may be retained by the seller of the underlying eligible loans, retained by Farmer Mac, or sold to third party investors.

Farmer Mac was established under federal legislation first enacted in 1988 and amended as recently as 2008 – Title VIII of the Farm Credit Act of 1971 (12 U.S.C. §§ 2279aa et seq.), which is sometimes referred to as Farmer Mac's charter. Farmer Mac is known as a government-sponsored enterprise ("GSE") by virtue of the status conferred by its charter. The charter provides that Farmer Mac has the power to establish, acquire, and maintain affiliates (as defined in the charter) under applicable state law to carry out any activities that otherwise would be performed directly by the Corporation. Farmer Mac established its two existing subsidiaries, Farmer Mac II LLC and Farmer Mac Mortgage Securities Corporation, under that power.

Farmer Mac is an institution of the Farm Credit System (the "FCS"), which is composed of the banks, associations, and related entities, including Farmer Mac and its subsidiaries, regulated by the Farm Credit Administration ("FCA"), an independent agency in the executive branch of the United States government. Although Farmer Mac (including its subsidiaries) is an institution of the FCS, it is not liable for any debt or obligation of any other institution of the FCS. None of FCA, the FCS, or any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac or its subsidiaries, nor are Farmer Mac's or its subsidiaries' debts or obligations guaranteed by the full faith and credit of the United States.

Farmer Mac's two principal sources of revenue are:

- interest income earned on assets held on balance sheet, net of related funding costs and interest payments and receipts on financial derivatives (i.e., net effective spread); and
- guarantee and commitment fees received in connection with outstanding guaranteed securities and LTSPCs.

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Farmer Mac funds its purchases of eligible loans (including participation interests in eligible loans) and guaranteed securities primarily by issuing debt obligations of various maturities in the public capital markets. The proceeds of debt issuance are also used to fund liquidity investments that must comply with policies adopted by Farmer Mac's board of directors and with FCA regulations, which establish limitations on dollar amount, issuer concentration, and credit quality. Those regulations can be found at 12 C.F.R. §§ 652.1-652.45 (the "Liquidity and Investment Regulations"). Farmer Mac's regular debt issuance supports its access to the capital markets, and Farmer Mac's liquidity investment assets provide an alternative source of funds should market conditions be unfavorable. As of December 31, 2012, Farmer Mac had \$5.0 billion of discount notes and \$6.6 billion of medium-term notes outstanding. For more information about Farmer Mac's eligible loan assets and liquidity investment assets, as well as its financial performance and sources of capital and liquidity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Secondary Market

Farmer Mac's activities are intended to provide lenders with an efficient and competitive secondary market that enhances these lenders' ability to offer competitively-priced financing to rural borrowers. This secondary market is designed to increase the availability of long-term credit at stable interest rates to America's rural communities and to provide those borrowers with the benefits of capital markets pricing and product innovation. The Farmer Mac secondary market functions as a bridge between the national capital markets and the agricultural and rural credit markets by attracting new capital for financing rural borrowers. Farmer Mac's purchases of eligible loans and obligations secured by eligible loans, as well as Farmer Mac's guaranteed securities sold to third party investors, increase lenders' liquidity and lending capacity, and provide a continuous source of funding for lenders that extend credit to agricultural borrowers, rural borrowers, and rural utilities cooperatives.

Farmer Mac's LTSPCs for eligible loans, as well as Farmer Mac's guaranteed securities that are retained by the lender for loans that are securitized, result in lower regulatory capital requirements for the lender, as well as reduced borrower or commodity concentration exposure for some lenders, thereby expanding their lending capacity. By increasing the efficiency and competitiveness of rural finance, the Farmer Mac secondary market has the potential to lower the interest rates paid on loans by rural borrowers.

The current economic and regulatory environment presents Farmer Mac with opportunities to market a mix of products to rural lenders in need of capital, liquidity, long-term fixed rate products, and portfolio diversification. As part of its outreach strategy, Farmer Mac listens to current and prospective rural lenders to identify their specific needs, with an emphasis on face-to-face contact at state and national banking conferences, lender road shows, and individual lender meetings. Farmer Mac seeks to maximize the use of technology to support these business development efforts.

Lines of Business

Farmer Mac conducts its secondary market activities through three lines of business – Farm & Ranch (Farmer Mac I), USDA Guarantees (Farmer Mac II), and Rural Utilities. The loans eligible for the Farmer Mac secondary market include:

mortgage loans secured by first liens on agricultural real estate and rural housing (encompassing the Farm & Ranch line of business);

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agricultural and rural development loans guaranteed by the United States Department of Agriculture ("USDA") (encompassing the USDA Guarantees line of business); and
loans made by cooperative lenders to finance electrification and telecommunications systems in rural areas (encompassing the Rural Utilities line of business).

As of December 31, 2012, the total outstanding amount of the eligible loans included in all of Farmer Mac's lines of business was \$13.0 billion.

Farm & Ranch (Farmer Mac I)

Under the Farm & Ranch line of business, Farmer Mac purchases or commits to purchase eligible mortgage loans secured by first liens on agricultural real estate. Farmer Mac also guarantees securities representing interests in, or obligations secured by, pools of eligible mortgage loans secured by first liens on agricultural real estate. To be eligible, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation, and other specified standards that are discussed in "Business—Farmer Mac Lines of Business—Farm & Ranch." The securities guaranteed by Farmer Mac under this line of business are referred to as "Farmer Mac I Guaranteed Securities." As of December 31, 2012, outstanding loans held by Farmer Mac and loans that either backed Farmer Mac I Guaranteed Securities or were subject to LTSPCs totaled \$9.1 billion in the Farm & Ranch line of business.

USDA Guarantees (Farmer Mac II)

Under the USDA Guarantees line of business, Farmer Mac II LLC, a subsidiary of Farmer Mac, purchases the portions of certain agricultural, rural development, business and industry, and community facilities loans guaranteed by the USDA under the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.). Farmer Mac refers to these USDA-guaranteed portions of loans as "USDA Guaranteed Securities." Farmer Mac II LLC also purchases USDA Guaranteed Securities in exchange for issuing securities to third parties backed by those USDA Guaranteed Securities, which are then also guaranteed by Farmer Mac ("Farmer Mac II Guaranteed Securities"). As of December 31, 2012, outstanding USDA Guaranteed Securities and Farmer Mac II Guaranteed Securities totaled \$1.6 billion, of which \$55.9 million were Farmer Mac II Guaranteed Securities.

Rural Utilities

Farmer Mac initiated the Rural Utilities line of business in 2008 after Congress expanded Farmer Mac's authorized secondary market activities to include rural utilities loans. Farmer Mac's authorized activities under this line of business are similar to those conducted under the Farm & Ranch line of business – purchases of, and guarantees of securities ("Farmer Mac Guaranteed Securities – Rural Utilities") backed by, eligible rural utilities loans. To be eligible, loans must meet Farmer Mac's credit underwriting, and other specified standards that are discussed in "Business—Farmer Mac Lines of Business—Rural Utilities." Although Farmer Mac has the ability to provide LTSPCs in the Rural Utilities line of business, none have been issued to date. As of December 31, 2012, the aggregate outstanding principal balance of rural utilities loans held and Farmer Mac Guaranteed Securities – Rural Utilities was \$2.3 billion.

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Farmer Mac Guaranteed Securities

Farmer Mac I Guaranteed Securities, Farmer Mac II Guaranteed Securities, and Farmer Mac Guaranteed Securities – Rural Utilities are sometimes collectively referred to as "Farmer Mac Guaranteed Securities." The assets underlying Farmer Mac Guaranteed Securities include (1) loans, loan participation interests, or USDA Guaranteed Securities eligible under one of Farmer Mac's lines of business and (2) general obligations of lenders secured by pools of eligible loans. Farmer Mac guarantees the timely payment of principal and interest on the resulting Farmer Mac Guaranteed Securities. Farmer Mac may retain Farmer Mac Guaranteed Securities in its portfolio or sell them to third parties. AgVantage® is a registered trademark of Farmer Mac used to designate Farmer Mac's guarantees of securities related to general obligations of lenders that are secured by pools of eligible loans. AgVantage securities are currently issued under the Farm & Ranch and Rural Utilities lines of business.

Competition

Farmer Mac is the only Congressionally-chartered corporation established to provide a secondary market for agricultural mortgage loans, rural utilities loans, and USDA Guaranteed Securities. However, Farmer Mac does face indirect competition from a variety of sources. Historically, these sources have included other financial institutions that purchase, retain, or securitize the types of loans eligible for Farmer Mac's secondary market activities, including commercial and investment banks, insurance companies, and other FCS institutions. Farmer Mac also competes indirectly with originators of eligible loans who would prefer to retain the loans they originate rather than sell them into the secondary market. Farmer Mac is able to compete to acquire eligible loans due to the variety of products it offers and its ability to offer low-cost funding to its customers. This enables Farmer Mac to offer flexible financing options and products designed to meet the variety of needs faced by lending institutions related to capital requirements, liquidity, credit risk, and management of sector and geographic concentrations and borrower exposures. However, the relative competitiveness of Farmer Mac's loan rates is affected by other lending institutions that are able to subsidize their rates on the loan products with which Farmer Mac competes by price averaging with other types of loans or by low-return use of equity. Farmer Mac's ability to develop business with lending institutions is also affected by changes in the levels of available capital and liquidity of those institutions, the existence of alternative sources of funding and credit enhancement for those institutions, the rate of growth in the market for eligible loans, and demand for Farmer Mac's products.

Farmer Mac's competitive position is also affected by the willingness of originators to offer eligible loans for sale in the secondary market, as well as the types and variety of products offered by Farmer Mac's competitors to meet the needs of Farmer Mac's customer base. Farmer Mac's limits on borrower exposure and loan size, as well as the types of loans that Farmer Mac is authorized to purchase, also affect Farmer Mac's competitive position. Farmer Mac's ability to obtain low-cost funding in the debt markets is essential to its ability to maintain its competitive position with its customers. As a result, competition for debt investors with other debt-issuing institutions, such as the FCS, Federal Home Loan Banks, Fannie Mae, Freddie Mac, and highly-rated financial institutions, can impact the price and volume at which Farmer Mac issues debt and, consequently, its ability to offer savings to its customers in the form of competitive products.

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Capital and Corporate Governance

Farmer Mac's basic capital and corporate governance structure is prescribed in its charter. The charter authorizes Farmer Mac to issue two classes of voting common stock that each elects one-third of Farmer Mac's 15-person board of directors, as well as non-voting common stock. The classes of Farmer Mac's common stock that are currently outstanding and their relation to Farmer Mac's board of directors are described below.

Class A voting common stock. The charter restricts ownership of Farmer Mac's Class A voting common stock to banks, insurance companies, and other financial institutions or similar entities that are not institutions of the FCS. The charter also provides that five members of Farmer Mac's 15-member board of directors are elected by a plurality of the votes of the Class A stockholders each year. The charter limits the amount of Class A voting common stock that may be owned by one holder to no more than 33 percent of the outstanding shares of Class A voting common stock. Farmer Mac is not aware of any regulation applicable to non-FCS financial institutions that requires a minimum investment in Farmer Mac Class A voting common stock or that prescribes a maximum amount lower than the 33 percent limit set forth in the charter. Farmer Mac's Class A voting common stock is listed on the New York Stock Exchange under the symbol AGM.A.

Class B voting common stock. The charter restricts ownership of Farmer Mac's Class B voting common stock to FCS institutions and also provides that five members of Farmer Mac's 15-member board of directors are elected by a plurality of the votes of the Class B stockholders each year. The charter does not contain any restrictions on the maximum number or percentage of outstanding shares of Class B voting common stock that may be held by an eligible stockholder, and Farmer Mac is not aware of any regulation applicable to FCS institutions that requires a minimum investment in Farmer Mac Class B voting common stock or that prescribes a maximum amount. Farmer Mac's Class B voting common stock, which has a limited market and trades infrequently, is not listed or quoted on any exchange or other quotation system, and Farmer Mac is not aware of any publicly available quotations or prices for this class of common stock.

Class C non-voting common stock. The charter does not impose any ownership restrictions on Class C non-voting common stock, and shares of this class are freely transferable. Holders of the Class C common stock do not vote on the election of directors or any other matter. Farmer Mac's Class C non-voting common stock is listed on the New York Stock Exchange under the symbol AGM.

Presidential director appointments. The remaining five members of Farmer Mac's board of directors are individuals who meet the qualifications specified in the charter and are appointed by the President of the United States with the advice and consent of the United States Senate. These appointed directors serve at the pleasure of the President of the United States.

The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 45 percent of the Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Approximately 97 percent of the Class B voting common stock is held by five FCS institutions (two of which are related to each other through a parent-subsidiary relationship). Farmer Mac believes that the concentration in the Class A voting common stock is a by-product of trading activity in the stock over time and is not by design under the charter or any regulatory mandate. Farmer Mac believes that the concentration in such a small number of holders of

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Class B voting common stock is a by-product of the limited number of eligible holders of that stock and the structure of the FCS, the number of institutions of which has decreased over time as a result of mergers.

The dividend and liquidation rights of all three classes of the Corporation's common stock are the same. Dividends may be paid on Farmer Mac's common stock only when, as, and if declared by the Corporation's board of directors in its sole discretion, subject to the payment of dividends on any outstanding preferred stock issued by Farmer Mac. Upon liquidation, dissolution, or winding up of the business of Farmer Mac, after payment and provision for payment of outstanding debt of the Corporation, the holders of shares of Farmer Mac's currently outstanding series of preferred stock would be paid at par value out of assets available for distribution, plus all declared and unpaid dividends, before the holders of shares of common stock received any payment. The assets of Farmer Mac II LLC are not directly available to satisfy the claims of Farmer Mac's creditors or stockholders. Those assets will only be available to the creditors and stockholders of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. Farmer Mac II LLC's preferred stock is permanent equity of Farmer Mac II LLC and presented as "Non-controlling interest - preferred stock" within total equity on Farmer Mac's consolidated balance sheets. See "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities" for more information regarding Farmer Mac's common stock. See "Business—Farmer Mac Lines of Business—Financing—Equity Issuance" for information regarding Farmer Mac's preferred stock.

Unlike some other GSEs, specifically other FCS institutions and the Federal Home Loan Banks, Farmer Mac is not structured as a cooperative owned exclusively by member institutions and established to provide services exclusively to its members. Rather, Farmer Mac, as a publicly-traded corporation, has a broader base of stockholders, including those who do not directly participate in Farmer Mac's secondary market, and therefore, Farmer Mac seeks to fulfill its mission of serving the financing needs of agriculture and rural America in a manner that is consistent with providing a return on the investment of its stockholders.

Farmer Mac's policy is to require financial institutions to own a requisite amount of Farmer Mac common stock, based on the size and type of institution, to participate in the Farm & Ranch line of business. As a result of this requirement, coupled with the ability of holders of Class A and Class B voting common stock to elect two-thirds of Farmer Mac's board of directors, Farmer Mac regularly conducts business with "related parties," including institutions affiliated with members of Farmer Mac's board of directors and institutions that own large amounts of Farmer Mac's voting common stock. Farmer Mac has adopted a Code of Business Conduct and Ethics that governs any conflicts of interest that may arise in these transactions, and Farmer Mac's policy is to require that any transactions with related parties be conducted in the ordinary course of business, with terms and conditions comparable to those available to any other counterparty not related to Farmer Mac. For more information about related party transactions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions" and Note 3 to the consolidated financial statements.

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Regulatory Oversight

Farmer Mac's charter assigns to FCA, acting through the separate Office of Secondary Market Oversight ("OSMO") within FCA, the responsibility for the examination and the general supervision of the safe and sound performance of the powers, functions, and duties vested in Farmer Mac by the charter. The charter also authorizes FCA, acting through OSMO, to apply its general enforcement powers to Farmer Mac. Farmer Mac (including its subsidiaries) is the only entity regulated by OSMO, which was created as a separate office in recognition of the different role that Farmer Mac plays in providing a secondary market, as compared to the roles of other FCS institutions as primary lenders. The Director of OSMO is selected by, and reports to, the FCA board. The FCA board approves the policies, regulations, charters, and enforcement activities applicable to other FCS institutions, which are the only eligible holders of Farmer Mac's Class B voting common stock. FCA has no regulatory authority over the financial institutions that are the eligible holders of Farmer Mac's Class A voting common stock.

Farmer Mac's charter requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of FCA's regulatory activities, including the cost of any examination. Each year, OSMO conducts an examination of Farmer Mac to evaluate its safety and soundness, compliance with applicable laws and regulations, and mission achievement. The examination includes a review of Farmer Mac's capital adequacy, asset quality, management performance, earnings, liquidity, and sensitivity to interest rate risk. Farmer Mac is also required to file quarterly reports of condition with OSMO. In addition, as a publicly-traded corporation, Farmer Mac is required to comply with the periodic reporting requirements of the U.S. Securities and Exchange Commission (the "SEC"). For a more detailed discussion of Farmer Mac's regulatory and governmental relationships, see "—Government Regulation of Farmer Mac."

Regulatory Capital

Farmer Mac's charter establishes three capital standards for the Corporation – minimum capital, critical capital, and risk-based capital. Farmer Mac is required to comply with the higher of the minimum capital requirement and the risk-based capital requirement. For a discussion of Farmer Mac's capital requirements and its actual capital levels, and particularly FCA's role in the establishment and maintenance of those requirements and levels, see "—Government Regulation of Farmer Mac—Regulation—Capital Standards," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review—Equity," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters."

Employees and Property

As of December 31, 2012, Farmer Mac employed 64 people, located primarily at its principal executive offices at 1999 K Street, N.W., 4th Floor, Washington, D.C. 20006. Farmer Mac also maintains an office at 5408 NW 88th Street, Suite 120, Johnston, Iowa 50131. Farmer Mac's main telephone number is (202) 872-7700.

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Available Information

Farmer Mac makes available free of charge, through the "Investors" section of its internet website at www.farmermac.com, copies of materials it files with, or furnishes to, the SEC, including its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and amendments, if any, to those filings, as soon as reasonably practicable after electronically filing those materials with, or furnishing those materials to, the SEC. Please note that all references to www.farmermac.com in this Annual Report on Form 10-K are inactive textual references only. The information contained on Farmer Mac's website is not incorporated by reference into this Annual Report on Form 10-K.

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FARMER MAC LINES OF BUSINESS

The following tables present the outstanding balances and new business volume under Farmer Mac's three lines of business – Farm & Ranch (Farmer Mac I), USDA Guarantees (Farmer Mac II), and Rural Utilities:

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

	As of December 31,	
	2012	2011
	(in thousands)	
On-balance sheet:		
Farm & Ranch:		
Loans	\$ 1,519,415	\$ 1,251,370
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	39	181
Beneficial interests owned by third party investors	160,397	696,554
Farmer Mac Guaranteed Securities - AgVantage	3,339,200	2,741,000
USDA Guarantees:		
USDA Guaranteed Securities	1,559,683	1,435,679
Farmer Mac Guaranteed Securities	26,238	35,410
Rural Utilities:		
Loans	663,097	529,227
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	368,848	386,800
Farmer Mac Guaranteed Securities - AgVantage	1,298,506	1,410,800
Total on-balance sheet	\$ 8,935,423	\$ 8,487,021
Off-balance sheet:		
Farm & Ranch:		
Farmer Mac Guaranteed Securities - AgVantage	\$ 970,000	\$ 970,000
LTSPCs	2,156,068	1,776,051
Farmer Mac Guaranteed Securities	911,370	621,871
USDA Guarantees:		
Farmer Mac Guaranteed Securities	29,658	42,088
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	12,669	16,271
Total off-balance sheet	\$ 4,079,765	\$ 3,426,281
Total	\$ 13,015,188	\$ 11,913,302

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Farmer Mac Loan Purchases, Guarantees, and LTSPCs

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Farm & Ranch:			
Loans	\$570,346	\$495,455	\$382,669
LTSPCs	744,110	471,994	263,741
Farmer Mac Guaranteed Securities - AgVantage	601,000	1,801,500	900,000
USDA Guarantees:			
USDA Guaranteed Securities	479,324	404,445	437,751
Farmer Mac Guaranteed Securities	5,327	3,268	20,124
Rural Utilities:			
Loans	166,117	203,789	313,028
Farmer Mac Guaranteed Securities - AgVantage	383,406	2,796	652,924
Total purchases, guarantees, and commitments	\$2,949,630	\$3,383,247	\$2,970,237

For additional financial information about Farmer Mac's lines of business, each of which is a reportable operating segment of Farmer Mac, see Note 14 to the consolidated financial statements. The following sections describe Farmer Mac's activities under each line of business.

Farm & Ranch (Farmer Mac I)

Under the Farm & Ranch line of business, Farmer Mac assumes the credit risk on agricultural real estate and rural housing mortgage loans by (1) purchasing and retaining eligible mortgage loans, (2) guaranteeing the timely payment of principal and interest on securities representing interests in, or obligations secured by, pools of eligible mortgage loans, or (3) providing LTSPCs to acquire designated eligible mortgage loans. Farmer Mac is compensated for these activities through net effective spread on loans and Farmer Mac Guaranteed Securities held on balance sheet, guarantee fees earned on Farmer Mac Guaranteed Securities, and commitment fees earned on loans in LTSPCs.

Loan Eligibility

To be eligible for the Farm & Ranch line of business, a loan is required to:

- be secured by a fee simple mortgage or a long-term leasehold mortgage, with status as a first lien on agricultural real estate or rural housing (as defined below) located within the United States;
- be an obligation of a citizen or national of the United States, an alien lawfully admitted for permanent residence in the United States, or a private corporation or partnership that is majority-owned by U.S. citizens, nationals, or legal resident aliens;
- be an obligation of a person, corporation, or partnership having training or farming experience that is sufficient to ensure a reasonable likelihood that the loan will be repaid according to its terms; and
- meet the credit underwriting, collateral valuation, documentation, and other specified standards for the Farm & Ranch line of business. See "—Underwriting and Collateral Valuation (Appraisal) Standards" and "—Approved Lenders" for a description of these standards.

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Eligible agricultural real estate consists of one or more parcels of land, which may be improved by permanently affixed buildings or other structures, that:

- is used for the production of one or more agricultural commodities or products; and
- either consists of a minimum of five acres or generates minimum annual receipts of \$5,000.

Farmer Mac's charter authorizes a maximum loan size (adjusted annually for inflation) for an eligible Farm & Ranch loan secured by more than 1,000 acres of agricultural real estate. That maximum loan size was \$10.1 million as of December 31, 2012 and increased to \$11.0 million as of January 1, 2013. Although the charter does not prescribe a maximum loan size or a total borrower exposure for an eligible Farm & Ranch loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac currently limits the size of those loans to:

\$30.0 million for transactions involving direct exposure to credit risk on loans (e.g., loan purchases, LTSPC transactions, and non-AgVantage Farmer Mac I Guaranteed Securities, which are not backed by a general obligation of a lender); and

\$75.0 million in AgVantage transactions, which involve the general obligation of a lender that is in turn secured by eligible loans, resulting in indirect exposure to credit risk on those loans.

Farmer Mac includes the rural housing loans in its portfolio in its Farm & Ranch line of business. For the rural housing portion of this line of business, an eligible loan must be secured by a mortgage on a one- to four-family, owner-occupied, moderately priced principal residence located in a community with a population of 2,500 or fewer. The current maximum purchase price or current appraised value for a dwelling, excluding the land to which the dwelling is affixed, that secures a rural housing loan is \$269,807. That limit is adjusted annually based on changes in home values during the previous year. In addition to the dwelling itself, an eligible rural housing loan can be secured by land associated with the dwelling having an appraised value of no more than 50 percent of the total appraised value of the combined property. Rural housing loans do not represent a significant part of Farmer Mac's business, with a total of \$3.8 million of those loans in Farmer Mac's portfolio as of December 31, 2012.

Summary of Farm & Ranch Transactions

During the year ended December 31, 2012, Farmer Mac purchased or placed under guarantees or LTSPCs \$1.9 billion of newly originated or current seasoned loans under the Farm & Ranch line of business. As of December 31, 2012, loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs in this line of business totaled \$9.1 billion.

During 2012, Farmer Mac purchased eligible loans from 159 entities (the top ten institutions generated 53.9 percent of the purchase volume) and placed loans under LTSPCs with 33 entities. During 2011, Farmer Mac purchased eligible loans from 111 entities (the top ten institutions generated 66.4 percent of the purchase volume) and placed loans under LTSPCs with 22 entities. During 2010, Farmer Mac purchased eligible loans from 72 entities (the top ten institutions generated 77.5 percent of the purchase volume) and placed loans under LTSPCs with 16 entities.

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The following table summarizes loans purchased or newly placed under guarantees or LTSPCs under the Farm & Ranch line of business for each of the years ended December 31, 2012, 2011, and 2010:

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Loans	\$570,346	\$495,455	\$382,669
LTSPCs	744,110	471,994	263,741
Farmer Mac Guaranteed Securities - AgVantage	601,000	1,801,500	900,000
Total	\$1,915,456	\$2,768,949	\$1,546,410

The following table presents the outstanding balances of Farm & Ranch loans held, loans held in trusts, and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs as of the dates indicated:

	As of December 31,	
	2012	2011
	(in thousands)	
On-balance sheet:		
Loans	\$1,519,415	\$1,251,370
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	39	181
Beneficial interests owned by third party investors	160,397	696,554
Farmer Mac Guaranteed Securities - AgVantage	3,339,200	2,741,000
Total on-balance sheet	\$5,019,051	\$4,689,105
Off-balance sheet:		
Farmer Mac Guaranteed Securities - AgVantage	\$970,000	\$970,000
LTSPCs	2,156,068	1,776,051
Farmer Mac Guaranteed Securities	911,370	621,871
Total off-balance sheet	\$4,037,438	\$3,367,922
Total	\$9,056,489	\$8,057,027

Loan Purchases

Farmer Mac offers loan products designed to increase the secondary market liquidity of agricultural real estate mortgage loans and the lending capacity of financial institutions that originate those loans. Farmer Mac enters into mandatory delivery commitments to purchase loans and offers rates for those commitments daily. Farmer Mac also purchases portfolios of newly originated and seasoned loans that are current in payment on a negotiated basis. Farmer Mac purchases both fixed and adjustable rate loans that have a variety of maturities and often include balloon payments. Loans purchased may include provisions that require a yield maintenance payment or some other form of prepayment penalty in the event a borrower prepays a loan (depending upon the level of interest rates at the time of prepayment). Of the \$570.3 million of loans purchased in the Farm & Ranch line of business during 2012, 57 percent included balloon payments and none included yield maintenance prepayment protection. By comparison, of the \$495.5 million of loans purchased in the Farm & Ranch line of business during 2011, 61 percent included balloon payments and less than 1 percent included yield maintenance prepayment protection.

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Guarantees and Commitments

Farmer Mac offers two credit enhancement alternatives to direct loan purchases through the Farm & Ranch line of business that allow approved lenders the ability to retain the cash flow benefits of their loans and increase their liquidity and lending capacity: (1) LTSPCs and (2) Farmer Mac I Guaranteed Securities. Prior to the adoption of accounting guidance on consolidation on January 1, 2010, both types of transactions resulted in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business. Effective January 1, 2010, securitization trusts where Farmer Mac is the primary beneficiary, as described in Note 2(q) to the consolidated financial statements, are consolidated on-balance sheet and the Farmer Mac I Guaranteed Securities are presented as "Loans held for investment in consolidated trusts." LTSPCs and securitization trusts where Farmer Mac is not the primary beneficiary still result in the creation of off-balance sheet obligations for Farmer Mac. Historically, the only securitization trusts where Farmer Mac has not determined itself to be the primary beneficiary have been trusts containing 100 percent participation interests in loans that comprised an LTSPC pool prior to securitization, and in which the participating institution is not a related party to Farmer Mac. In performing its purchase and guarantee obligations related to LTSPCs and Farmer Mac I Guaranteed Securities, payments made on the underlying loans or participation interests, and in the event of default under the terms of those assets, liquidation of the related collateral, are intended to protect Farmer Mac against losses.

Both types of transactions permit a lender to nominate from its portfolio an identified pool of loans, subject to review by Farmer Mac for conformance with its standards for farm and ranch loans. In both types of transactions, the lender effectively transfers the credit risk on those loans upon Farmer Mac's approval of the eligible loans because, through its guarantee or commitment to purchase, Farmer Mac assumes the ultimate credit risk of borrower defaults on the underlying loans and, in the case of AgVantage securities, issuer default on the underlying obligations that are backed by eligible loans. That transfer of risk reduces the lender's credit and concentration risk exposures and, consequently, its regulatory capital requirements and its loss reserve requirements. The loans and participation interests underlying LTSPCs and Farmer Mac I Guaranteed Securities may include some with payment, maturity, and interest rate characteristics that differ from the loan products that Farmer Mac offers for purchase on a daily basis, but all are subject to the applicable standards described in "—Underwriting and Collateral Valuation (Appraisal) Standards." See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans."

LTSPCs. An LTSPC commits Farmer Mac to a future purchase of one or more loans from an identified pool of eligible loans that met Farmer Mac's standards at the time the transaction was entered into and Farmer Mac assumed the credit risk on the loans. The LTSPC structure, which is not a guarantee of loans or securities, permits the lender to retain the loan pool in its portfolio until such time, if ever, as the lender elects to deliver some or all of the loans in the pool to Farmer Mac for purchase under the LTSPC. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives commitment fees payable monthly in arrears in an amount approximating what would have been the guarantee fees if the transaction were structured as Farmer Mac I Guaranteed Securities. Farmer Mac offers different options under LTSPC arrangements to meet the credit and liquidity needs of its counterparties. Some LTSPCs provide that the underlying loans can be converted into Farmer Mac I Guaranteed Securities at the option of the seller with no conversion fee paid to Farmer Mac. Some LTSPCs contain risk sharing arrangements that provide for the lender to absorb up to a specified amount (typically between one and three percent of the original principal balance of the loan pool) of any losses incurred on the loans in the pool. As of December 31, 2012 and 2011, approximately 3.0 percent and 2.6

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percent, respectively, of total Farmer Mac I Guaranteed Securities and LTSPCs contained risk sharing arrangements.

Farmer Mac purchases loans subject to an LTSPC at:

par if the loans become delinquent for either 90 days or 120 days (depending on the agreement) or are in material non-monetary default, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds; or

a mark-to-market price or in exchange for Farmer Mac I Guaranteed Securities (if the loans are not delinquent), in accordance with the terms of the applicable agreement.

In 2012, Farmer Mac entered into \$744.1 million of LTSPCs, compared to \$472.0 million in 2011. In 2012, LTSPCs remained the preferred credit enhancement alternative for new off-balance sheet transactions, and they continue to be a significant portion of the Farm & Ranch line of business. During 2011 and 2012, there were no conversions of LTSPCs into Farmer Mac I Guaranteed Securities. As of December 31, 2012, Farmer Mac's outstanding LTSPCs covered 4,365 mortgage loans with an aggregate principal balance of \$2.2 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

Farmer Mac I Guaranteed Securities. In Farmer Mac I Guaranteed Securities transactions, Farmer Mac guarantees securities representing interests in, or obligations secured by, eligible farm and ranch loans or participation interests in those loans held by a trust or other entity. Farmer Mac guarantees the timely payment of interest and principal on the securities, which are either retained by Farmer Mac or sold to third parties. For those securities sold to third parties, the eligible loans or participation interests are often acquired from lenders in exchange for the Farmer Mac I Guaranteed Securities backed by those assets. As consideration for its assumption of the credit risk on the assets underlying the Farmer Mac I Guaranteed Securities, Farmer Mac receives guarantee fees based on the outstanding principal balance of the related securities. The Farmer Mac I Guaranteed Securities representing the general obligations of issuers secured by eligible loans are referred to as AgVantage securities. See "—AgVantage Securities."

Farmer Mac is obligated under its guarantee on the securities to make timely payments to investors of principal (including balloon payments) and interest based on the scheduled payments on the underlying loans or obligations, regardless of whether Farmer Mac or the related trust has actually received those scheduled payments. Farmer Mac's guarantee fees typically are collected out of installment payments made on the underlying loans or obligations until those loans or obligations have been repaid, purchased out of the trust, or otherwise liquidated (generally as a result of default). The aggregate amount of guarantee fees received on Farmer Mac I Guaranteed Securities depends upon the amount of those securities outstanding and on the applicable guarantee fee rate, which Farmer Mac's charter caps at 50 basis points (0.50 percent) per year. The amount of non-AgVantage Farmer Mac I Guaranteed Securities outstanding is influenced by the repayment rates on the underlying loans and by the rate at which Farmer Mac issues new Farmer Mac I Guaranteed Securities, including as a result of conversions from LTSPCs. In general, when the level of interest rates declines significantly below the interest rates on loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to increase. Conversely, when interest rates rise above the interest rates on the loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to decrease. In addition to changes in interest rates, the timing of principal payments on Farmer Mac I Guaranteed Securities also is influenced by a variety of economic, demographic, and other considerations, such as yield maintenance provisions that may be associated with

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the underlying loans. For more information about yield maintenance provisions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk."

Of the \$13.0 billion outstanding principal balance of program assets included in Farmer Mac's three lines of business as of December 31, 2012, \$5.4 billion were in the form of Farmer Mac I Guaranteed Securities. As of December 31, 2012, the outstanding Farmer Mac I Guaranteed Securities consisted of:

\$4.3 billion of Farmer Mac I Guaranteed Securities structured as AgVantage securities, which represent a general obligation of the issuing institution secured by a pledge of eligible loan assets in excess of the principal amount of the securities but do not represent a direct interest in the cash flows of the pledged collateral. See "—AgVantage Securities."

\$1.1 billion of Farmer Mac I Guaranteed Securities created from the deposit of eligible loan assets into securitization trusts that issue "pass-through" certificates representing interests in the underlying assets. This type of securitization structure may involve the deposit of either whole loans or loan participation interests into the trust.

As of December 31, 2012, Farmer Mac had outstanding non-AgVantage Farmer Mac I Guaranteed Securities of \$160.4 million that represent interests in whole loans and \$911.4 million that represent interests in loan participations as a result of conversions from LTSPCs. Both types of transactions involve the deposit of eligible assets into securitization trusts along with all of the rights under related agreements that provide for, among other things, remedies for any breaches of representations and warranties made by the lender and the servicing of the underlying assets. In each of these transactions, the related trust has issued securities that represent interests in the assets of the trust and that Farmer Mac guarantees as to the timely payment of principal and interest.

For Farmer Mac I Guaranteed Securities that result from the conversion of LTSPCs, a 100 percent participation in the cash flows associated with each loan formerly subject to the LTSPC, rather than the whole loan, is deposited into the securitization trust. These transactions involve loan participations for reasons unique to the counterparties that have elected these conversions, all of whom are members of the FCS. Loans made by FCS institutions to farmers and ranchers have, by statute, specified loan and collateral actions to which borrowers are entitled, known as "borrower rights." Farmer Mac does not have the ability to offer all of the prescribed borrower rights without the involvement of another FCS counterparty. In recognition of this and Farmer Mac's desire not to disrupt the borrower's relationship with the originating FCS lender and expectations about how the loan will be serviced, Farmer Mac developed the participation interest securitization structure for FCS loans with borrower rights. The deposit of participation interests into securitization trusts permits the legal ownership of the related loan to remain with the FCS counterparty, together with the servicing and borrower rights related to the loan. Farmer Mac, in its role as trustee, generally has the right to give or withhold consent to the exercise of remedies as to each related loan. The FCS servicers in these transactions are also the holders of the related Farmer Mac I Guaranteed Securities, which have the same economic benefit to the holder from a cash flow perspective as a securitization of whole loans. See "—Servicing" for more information about the servicing of loans underlying Farmer Mac I Guaranteed Securities.

For the years ended December 31, 2012 and 2011, Farmer Mac sold non-AgVantage Farmer Mac I Guaranteed Securities in the amounts of \$38.1 million and \$25.7 million, respectively. No gains or losses resulted from these sales in either 2012 or 2011. During 2011 and 2012, there were no conversions of

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LTSPCs into Farmer Mac I Guaranteed Securities. As of December 31, 2012, Farmer Mac's outstanding non-AgVantage Farmer Mac I Guaranteed Securities, which may or may not be consolidated on-balance sheet depending on the primary beneficiary determination described above, were backed by 4,821 mortgage loans with an aggregate principal balance of \$1.1 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume." See "—AgVantage Securities" for information about Farmer Mac's AgVantage transactions, which are a form of Farmer Mac Guaranteed Securities.

AgVantage Securities

Each AgVantage security is a general obligation of an institution approved by Farmer Mac, and that obligation is also secured by a pool of eligible loans under one of Farmer Mac's lines of business. Farmer Mac guarantees those securities as to the timely payment of principal and interest and may retain AgVantage securities in its portfolio or sell them to third parties in the capital markets as Farmer Mac Guaranteed Securities. For information on AgVantage Securities secured by rural utilities loans, see "—Rural Utilities—Summary of Rural Utilities Transactions."

Before approving an institution as an issuer in a Farmer Mac I AgVantage transaction in the Farm & Ranch line of business, Farmer Mac assesses the institution's agricultural real estate mortgage loan performance as well as the institution's creditworthiness. Farmer Mac continues to monitor the counterparty risk assessment on an ongoing basis after the AgVantage security is issued.

In addition to being a general obligation of the issuing institution, each Farmer Mac I AgVantage security must be secured by eligible agricultural real estate mortgage loans in an amount at least equal to the outstanding principal amount of the security. In the Farm & Ranch line of business, Farmer Mac currently requires the general obligation to be overcollateralized, either by more eligible loans or any of the following types of assets:

- cash;
- securities issued by the U.S. Treasury or guaranteed by an agency or instrumentality of the United States; or
- other highly-rated securities.

The required collateralization level for a Farmer Mac I AgVantage security currently ranges from 103 percent to 120 percent, with higher collateralization levels generally required for securities issued by institutions without long-term debt ratings from a nationally recognized statistical rating organization ("NRSRO"). The required collateralization level is established at the time of issuance and does not change during the life of the AgVantage security. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Institutional."

In all AgVantage transactions, Farmer Mac can require the issuer to remove from the pool of pledged collateral any loan that becomes more than 30 days delinquent in the payment of principal or interest and to substitute an eligible loan that is current in payment to maintain the minimum required collateralization level. As of December 31, 2012, Farmer Mac had not experienced any credit losses, nor had it been called upon to make a guarantee payment to third parties, on any of its AgVantage securities.

As of December 31, 2012 and 2011, the outstanding principal amount of Farmer Mac I AgVantage securities held by Farmer Mac was \$3.3 billion and \$2.7 billion, respectively. As of both December 31,

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2012 and 2011, the aggregate outstanding principal amount of off-balance sheet AgVantage securities in the Farm & Ranch line of business totaled \$970.0 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume" and "—Risk Management—Credit Risk – Institutional.

Underwriting and Collateral Valuation (Appraisal) Standards

As required by Farmer Mac's charter, Farmer Mac has established underwriting, security appraisal, and repayment standards for eligible loans taking into account the nature, risk profile, and other differences between different categories of qualified loans. The charter prescribes that the following minimum standards must be applied to agricultural real estate mortgage loans in the Farm & Ranch line of business:

- provide that no loan with a loan-to-value ratio ("LTV") in excess of 80 percent may be eligible;
- require each borrower to demonstrate sufficient cash flow to adequately service the loan;
- require sufficient documentation standards;
- protect the integrity of the appraisal process for any loan; and
- confirm that the borrower is or will be actively engaged in agricultural production.

In addition, agricultural mortgage loans on which Farmer Mac assumes direct credit exposure, such as loans purchased, subject to an LTSPC, or underlying non-AgVantage Farmer Mac I Guaranteed Securities, are also typically required to meet the underwriting standards established by Farmer Mac and set forth below. Agricultural mortgage loans on which Farmer Mac assumes indirect credit risk, such as loans that secure AgVantage securities, are required to meet the minimum standards set forth in the charter.

Farmer Mac uses experienced internal agricultural credit underwriters, independent contractors, and loan servicers along with external agricultural loan servicing and collateral valuation contractors to perform those respective functions on farm and ranch loans. Farmer Mac believes that the combined expertise of its own internal staff and those third-party service providers with which the Corporation has contracted, provides the Corporation with adequate resources for performing the necessary underwriting, collateral valuation, and servicing functions.

Underwriting. To manage its credit risk and to provide guidance for the management, administration, and conduct of underwriting to all participating and potential Farm & Ranch lenders, Farmer Mac has adopted credit underwriting standards that vary by loan type and loan product. Farmer Mac developed these standards based on industry norms for similar mortgage loans and designed them to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac for having assumed the credit risk on those loans. Furthermore, Farmer Mac requires Farm & Ranch lenders to make representations and warranties regarding the conformity of eligible mortgage loans to these standards and any other requirements that Farmer Mac may impose from time to time. Farmer Mac has the ability to require repurchase of the loan upon a material breach of these representations and warranties.

Farmer Mac's credit underwriting standards for non-AgVantage farm and ranch loans require that the original LTV of any loan not exceed 70 percent (or 60 percent in the case of certain Midwestern states in which property values have experienced recent escalation), with the exception that a loan secured by a livestock facility and supported by a contract with an integrator may have an original LTV of up to 80 percent. Rural housing loans and agricultural real estate mortgage loans secured primarily by owner-occupied residences may also have original LTVs of up to 75 percent. The original LTV of a loan is calculated by dividing the loan's principal balance at the time of guarantee, purchase, or commitment by

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the lower of the appraised value or the purchase price at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase, or commitment.

In the case of newly-originated farm and ranch loans, Farmer Mac's credit underwriting standards include:

- total debt service coverage ratio, including farm and non-farm income, of not less than 1.25;
- debt-to-asset ratio of 50 percent or less; and
- ratio of current assets to current liabilities of not less than 1.25.

Farmer Mac evaluates and adjusts these standards on an ongoing basis based on current and anticipated market conditions, while adhering closely to its core underwriting standards for repayment capacity, working capital (current ratio), and leverage (debt-to-asset ratio). Farmer Mac also implements interest rate shock tests for adjustable rate farm and ranch loans with initial reset periods of less than five years. Prior to and during the first half of 2012, one of Farmer Mac's underwriting standards for farm and ranch loans was a cash flow debt service coverage ratio on the property securing the loan (property debt coverage ratio) of not less than 1. Based on recent increases in agricultural land values and the fact that many borrowers have income sources and/or income-generating properties other than the property securing the loan in Farmer Mac's portfolio, Farmer Mac believes that a borrower's total debt service coverage ratio and level of working capital are both better indicators of the borrower's ultimate repayment capacity than the borrower's property debt coverage ratio. As a result, in 2012 Farmer Mac eliminated property debt coverage ratio as a separate underwriting standard, and increased the current assets to current liabilities ratio requirement from 1 to 1.25.

Farmer Mac includes its facility loans, such as dairy and ethanol facilities, in its Farm & Ranch line of business. Farmer Mac defines a facility loan as a loan secured by agricultural real estate with building improvements (other than a residence) that contribute more than 60 percent of the appraised value of the property. The credit underwriting standards for facility loans are the same as for farm and ranch loans but more stringent for the total debt service coverage ratio, including farm and non-farm income, of not less than 1.35.

Loans not exceeding \$1 million that are secured by eligible collateral with original LTVs not greater than 55 percent made to borrowers with high credit scores and adequate financial resources may be accepted without further underwriting tests being applied.

In addition, Farmer Mac's underwriting standards provide for the acceptance of a loan that, in the judgment of the Farmer Mac underwriter, is a sound loan with a high probability of repayment in accordance with its terms even though the loan does not meet one or more of the underwriting ratios usually required for loans of that type. In those cases, Farmer Mac permits approval of a loan if it:

- has compensating strengths, which means it exceeds minimum requirements for one or more of the underwriting standards to a degree that compensates for noncompliance with one or more other standards; and
- is made to a producer of particular agricultural commodities or products in a segment of agriculture in which such compensating strengths are typical of the financial condition of sound borrowers in that segment.

Despite these underwriting approvals based on compensating strengths, no loan will be approved if it does not at least meet all of the minimum standards prescribed by Farmer Mac's charter.

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Farmer Mac's use of compensating strengths is not intended to provide a basis for waiving or lessening the requirement that eligible mortgage loans under the Farm & Ranch line of business be of consistently high quality. In fact, loans approved on the basis of compensating strengths are fully underwritten and have not demonstrated a significantly different rate of default, or loss following default, than loans that were approved on the basis of conformance with all applicable underwriting ratios. During 2012, \$670.7 million (52.1 percent) of the loans purchased or loans added under LTSPCs were approved based upon compensating strengths (\$3.7 million of which had original LTVs of greater than 70 percent). As of December 31, 2012, a total of \$2.4 billion (50.0 percent) of the outstanding balance of loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) were approved based upon compensating strengths (\$141.4 million of which had original LTVs of greater than 70 percent).

In the case of a seasoned loan, Farmer Mac considers sustained historical performance to be a reliable alternative indicator of a borrower's ability to pay the loan according to its terms. In the Farm & Ranch line of business, a seasoned loan generally will be deemed an eligible loan if:

- it has been outstanding for at least five years and has an LTV of 60 percent or less;
- there have been no payments more than 30 days past due during the previous three years; and
- there have been no material restructurings or modifications for credit reasons during the previous five years.

A seasoned loan that has been outstanding for more than one year but less than five years must substantially comply with the applicable underwriting standards for newly originated loans as of the date the loan was originated by the lender. The loan must also have a payment history that shows no payment more than 30 days past due during the three-year period immediately before the date the loan is either purchased by Farmer Mac or made subject to an LTSPC. Farmer Mac does not require that each loan's compliance with the underwriting standards be re-evaluated after Farmer Mac purchases the loan or approves it for inclusion in a pool that backs a guaranteed security or an LTSPC pool.

Farmer Mac performs due diligence before purchasing, guaranteeing securities backed by, or committing to purchase seasoned loans, including:

- evaluating loan database information to determine conformity to the criteria set forth in the preceding paragraphs;
- confirming that loan file data conform to database information;
- validating supporting credit information in the loan files; and
- reviewing loan documentation and collateral valuations.

Farmer Mac performs these and other due diligence procedures using methods that consider the size, age, leverage, industry sector, and nature of the collateral for the loans.

Agricultural real estate mortgage loans secured primarily by owner-occupied residences and rural housing loans are underwritten to industry norms for conforming loans secured by primary residences, with fully verified repayment capacity and assets and liabilities. Applicants' credit scores are obtained and used in the underwriting process.

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Required documentation for all loans in the Farm & Ranch line of business includes a first lien mortgage or deed of trust, a written promissory note, and assurance of Farmer Mac's lien position through either a title insurance policy or title opinion from an experienced real estate attorney in geographic areas where title insurance is not the industry practice.

As Farmer Mac develops new credit products, it establishes underwriting guidelines for them. Those guidelines result in industry-specific measures that meet or exceed the statutory underwriting standards and provide Farmer Mac the flexibility to deliver the benefits of a secondary market to farmers, ranchers, and rural homeowners in diverse sectors of the rural economy.

Collateral Valuation Standards. Farmer Mac has adopted collateral valuation standards for newly originated loans purchased or underlying Farmer Mac I Guaranteed Securities or LTSPCs. Those standards require, among other things, that a current valuation be performed, or has been performed within the preceding 12 months, independently of the credit decision-making process. Farmer Mac generally requires appraisals to conform to the Uniform Standards of Professional Appraisal Practice ("USPAP") promulgated by the Appraisal Standards Board. For AgVantage securities in the Farm & Ranch line of business, Farmer Mac requires either appraisals that conform to the USPAP or similar collateral valuation methods based upon Farmer Mac's evaluation of the lender's collateral valuation protocols and history.

Farmer Mac's collateral valuation standards require that the valuation function be conducted or administered by an individual, meeting specific qualification and competence criteria, who:

- is not associated, except by the engagement for the collateral valuation, with the credit underwriters making the loan decision, though the appraiser or evaluator and the credit underwriter may be directly or indirectly employed by a common employer;
- receives no financial or professional benefit of any kind by virtue of the report content, valuation, or credit decision made, or based on the valuation report; and
- has no present or contemplated future direct or indirect interest in the property serving or to serve as collateral.

Farmer Mac's collateral valuation standards require uniform reporting of reliable and credible opinions of the market value based on analyses of comparable property sales, including consideration of the property's income-producing capacity and, if relevant, the market's response to the cost of improvements, as well as information regarding market trends. For seasoned loans, Farmer Mac obtains collateral valuation updates as considered necessary in its assessment of collateral risk determined in the due diligence process. If a current or updated collateral valuation is required for a seasoned loan, the collateral valuation standards described above would apply.

Portfolio Diversification

It is Farmer Mac's policy to diversify its portfolio of loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs, both geographically and by agricultural commodity/product. Farmer Mac directs its marketing efforts toward agricultural lenders throughout the nation to achieve commodity/product and geographic diversification in its exposure to credit risk. Farmer Mac evaluates its credit exposure in particular geographic regions and commodities/products relative to the total principal amount of all outstanding loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

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Farmer Mac is not obligated to assume credit risk on every loan that meets its underwriting and collateral valuation standards submitted by an eligible participant. Farmer Mac may consider other factors, such as its overall portfolio diversification, commodity and farming forecasts, and risk management objectives, in deciding whether or not to accept a loan as part of the Farm & Ranch line of business. For example, if industry forecasts indicate possible weakness in a geographic area or agricultural commodity or product, Farmer Mac may decide not to purchase or commit to purchase an affected loan as part of managing its overall portfolio exposure to areas of possible heightened risk exposure. Because Farmer Mac effectively assumes the credit risk on all loans under an LTSPC, Farmer Mac's commodity/product and geographic diversification disclosures reflect all loans under LTSPCs and any loans that have been purchased out of LTSPC pools. For information about the diversification of Farmer Mac's existing portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans" and Note 8 to the consolidated financial statements.

Approved Lenders

As of December 31, 2012, Farmer Mac had 536 approved lenders eligible to participate in Farmer Mac's Farm & Ranch line of business, ranging from single-office to multi-branch institutions, spanning community banks, FCS institutions, mortgage companies, commercial banks, and insurance companies, compared to 415 eligible approved lenders as of December 31, 2011. In addition to participating directly in the Farm & Ranch line of business, some of the approved lenders facilitate indirect participation by other lenders by managing correspondent networks of lenders from which the approved lenders purchase loans to sell to Farmer Mac. As of December 31, 2012, of the 536 approved lenders eligible to participate, 182 lenders had been active participants in the Farm & Ranch line of business during the previous 12 months by either selling or pooling for purchase commitment at least one loan to Farmer Mac.

To be considered for approval as a participant in the Farm & Ranch line of business, a lender must meet criteria that Farmer Mac establishes. Those criteria include the following requirements:

- own a requisite amount of Farmer Mac common stock according to a schedule prescribed for the size and type of institution;
- have, in the judgment of Farmer Mac, the ability and experience to make or purchase and sell eligible farm and ranch loans and service those loans in accordance with Farmer Mac's requirements either through its own staff or through contractors and originators;
- maintain a minimum adjusted net worth; and
- enter into a Seller/Servicer Agreement, which requires compliance with the terms of the Farmer Mac Seller/Servicer Guide, including providing representations and warranties regarding the eligibility of the loans and accuracy of loan data provided to Farmer Mac.

Servicing

Farmer Mac generally does not directly service the loans included in the Farm & Ranch line of business, although in some cases Farmer Mac may assume direct servicing for defaulted loans. Farmer Mac serves in the role of master servicer for farm and ranch loans held by Farmer Mac and for whole loans underlying Farmer Mac I Guaranteed Securities (other than AgVantage securities). In that capacity, Farmer Mac contracts with other institutions, known as a central servicers, to undertake the majority of the servicing responsibilities for the loans in accordance with Farmer Mac's specified servicing requirements. For these loans, the central servicer is typically not the same entity as the lender that sold the loans to Farmer Mac,

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and the originating lenders may retain some direct borrower contacts, referred to as field servicing functions. Field servicers may enter into contracts with Farmer Mac's central servicers that specify the retained servicing functions.

Loans related to the participation interests underlying Farmer Mac I Guaranteed Securities that result from the conversion of LTSPCs are serviced for the benefit of Farmer Mac, as trustee and guarantor, by the FCS institution that participated the loans to Farmer Mac. The servicer of those loans is usually also the holder of the related Farmer Mac I Guaranteed Securities. In those transactions, the FCS servicer is required to service the loans related to the securitized participation interests in a commercially reasonable manner and in substantial compliance with Farmer Mac's servicing requirements for farm and ranch loans. Those servicers are also required to give effect to all statutory borrower rights applicable to the loans and have shared power with Farmer Mac for some servicing actions to ensure this. The loans related to the Farmer Mac I Guaranteed Securities that result from the conversion loans formerly subject to an LTSPC are the only loans included in the Farm & Ranch line of business that are subject to a shared power servicing provision.

Loans underlying LTSPCs and AgVantage securities are serviced by the holders of those loans in accordance with those lenders' servicing procedures, which are reviewed and approved by Farmer Mac before entering into those transactions.

In summary, the substance of all servicing for loans in the Farm & Ranch line of business is performed in a manner consistent with Farmer Mac's servicing requirements, with some special servicing requirements for the assets underlying Farmer Mac I Guaranteed Securities resulting from LTSPC conversions to accommodate the borrower rights regime unique to loans originated by FCS institutions.

USDA Guarantees (Farmer Mac II)

General

Farmer Mac initiated its USDA Guarantees line of business in 1991 after Congress revised Farmer Mac's charter to provide that:

USDA-guaranteed portions of loans (which Farmer Mac refers to as "USDA Guaranteed Securities") guaranteed under the Consolidated Farm and Rural Development Act (7 U.S.C. § 1921 et seq.) are statutorily included in the definition of loans eligible for Farmer Mac's secondary market programs;

USDA Guaranteed Securities are exempted from the credit underwriting, collateral valuation, documentation, and other standards that other loans must meet to be eligible for Farmer Mac's secondary market, and are exempted from any diversification and internal credit enhancement that may be required of pools of other eligible loans; and Farmer Mac is authorized to pool and issue Farmer Mac Guaranteed Securities backed by USDA Guaranteed Securities.

Prior to January 2010, all USDA Guaranteed Securities held by Farmer Mac were held in the form of Farmer Mac II Guaranteed Securities. Since January 2010, nearly all purchases of USDA Guaranteed Securities have been made by Farmer Mac II LLC, a subsidiary of Farmer Mac, which operates substantially all of the business related to the USDA Guarantees line of business. Farmer Mac operates only that part of the business that involves the issuance of Farmer Mac II Guaranteed Securities to

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investors other than Farmer Mac or Farmer Mac II LLC. Although Farmer Mac II LLC may issue securities in these transactions, Farmer Mac II LLC does not guarantee any USDA Securities it holds or any Farmer Mac II Guaranteed Securities issued by Farmer Mac or Farmer Mac II LLC.

Summary of USDA Guarantees Transactions

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac II Guaranteed Securities backed by USDA Guaranteed Securities. Farmer Mac does not guarantee the repayment of the USDA Guaranteed Securities themselves. In January 2010, Farmer Mac contributed substantially all of the assets comprising the USDA Guarantees line of business, in excess of \$1.1 billion, to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA Guaranteed Securities and also included \$35.0 million of Farmer Mac II Guaranteed Securities. Farmer Mac did not and will not guarantee the timely payment of principal and interest on the \$1.1 billion of contributed USDA Guaranteed Securities. The contributed USDA Guaranteed Securities had previously been presented as "Farmer Mac Guaranteed Securities" on the consolidated balance sheets of Farmer Mac and are now presented as "USDA Guaranteed Securities" on the consolidated balance sheets. The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied.

During the years ended December 31, 2012 and 2011, Farmer Mac II LLC purchased approximately \$479.3 million and \$404.4 million, respectively, of USDA Guaranteed Securities, all of which were retained on-balance sheet and are presented as "USDA Guaranteed Securities" in the consolidated financial statements. During the years ended December 31, 2012, 2011, and 2010, Farmer Mac purchased \$5.3 million, \$3.3 million and \$22.1 million, respectively, of USDA Guaranteed Securities. All of the USDA Guaranteed Securities purchased by Farmer Mac in 2012, 2011, and 2010 (which exclude those purchased directly by Farmer Mac II LLC) were securitized and sold to lenders or other investors in the form of Farmer Mac II Guaranteed Securities. During 2012, 2011, and 2010, Farmer Mac and Farmer Mac II LLC conducted USDA Guarantees transactions with 225, 193, and 197 entities, respectively.

As of December 31, 2012 and 2011, \$1.6 billion and \$1.5 billion, respectively, of Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities were outstanding. The following table presents activity in the USDA Guarantees line of business for each of the years indicated:

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Purchased and retained	\$479,324	\$404,445	\$435,744
Purchased and sold	5,327	3,268	22,131
Total	\$484,651	\$407,713	\$457,875

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The following table presents the outstanding balance of USDA Guaranteed Securities and Farmer Mac II Guaranteed Securities as of the dates indicated:

	As of December 31, 2012 (in thousands)	2011
On-balance sheet:		
USDA Guaranteed Securities	\$1,559,683	\$1,435,679
Farmer Mac Guaranteed Securities	26,238	35,410
Off-balance sheet:		
Farmer Mac Guaranteed Securities	29,658	42,088
Total	\$1,615,579	\$1,513,177

As of December 31, 2012, Farmer Mac had experienced no credit losses on any of its Farmer Mac II Guaranteed Securities or USDA Guaranteed Securities.

United States Department of Agriculture Guaranteed Loan Programs

The USDA, acting through its various agencies, currently administers the federal rural credit programs first developed in the mid-1930s. The USDA makes direct loans and guarantees portions of loans made and serviced by USDA-qualified lenders for various purposes. The USDA's guarantee is supported by the full faith and credit of the United States. The USDA guarantees up to 95 percent of the principal amount of guaranteed loans. Through its USDA Guarantees line of business, Farmer Mac is one of several competing purchasers of USDA Guaranteed Securities representing the USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities loans, and other loans. The guaranteed portions of these loans are fully guaranteed as to principal and interest by the USDA.

USDA Guarantees. Each USDA guarantee is a full faith and credit obligation of the United States and becomes enforceable if a lender fails to repurchase the portion of the loan that is guaranteed by the USDA from its owner within 30 days after written demand from the owner when:

- the borrower under the guaranteed loan is in default not less than 60 days in the payment of any principal or interest due on the USDA-guaranteed portion of the loan; or
- the lender has failed to remit to the owner the payment made by the borrower on the USDA-guaranteed portion of the loan or any related loan subsidy within 30 days after the lender's receipt of the payment.

If the lender does not repurchase the USDA-guaranteed portion as provided above, the USDA is required to purchase the unpaid principal balance of the USDA-guaranteed portion together with accrued interest (including any loan subsidy) to the date of purchase, less the servicing fee, within 30 days after written demand upon the USDA by the owner. While the USDA guarantee will not cover the note interest to the owner on USDA-guaranteed portions accruing after 90 days from the date of the original demand letter of the owner to the lender requesting repurchase, Farmer Mac has established procedures to require prompt demand on the USDA to purchase USDA-guaranteed portions that have not been repurchased by the lender.

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If, in the opinion of the lender (with the concurrence of the USDA) or in the opinion of the USDA, repurchase of the USDA-guaranteed portion is necessary to service the related guaranteed loan adequately, the owner is required to sell the USDA-guaranteed portion to the lender or USDA for an amount equal to the unpaid principal balance and accrued interest (including any loan subsidy) on such USDA-guaranteed portion less the lender's servicing fee. Federal regulations prohibit the lender from repurchasing USDA-guaranteed portions for arbitrage purposes.

Lenders. Any lender authorized by the USDA to obtain a USDA guarantee on a loan may participate in Farmer Mac's USDA Guarantees line of business. During 2012, 225 lenders, consisting mostly of community and regional banks, sold USDA Guaranteed Securities to Farmer Mac, compared to 193 lenders that did so during 2011.

Loan Servicing. The lender on each guaranteed loan is required by regulation to retain the unguaranteed portion of the guaranteed loan, to service the entire underlying guaranteed loan, including the USDA-guaranteed portion, and to remain mortgagee and/or secured party of record. The USDA-guaranteed portion and the unguaranteed portion of the loan are to be secured by the same security with equal lien priority. The USDA-guaranteed portion of a loan cannot be paid later than, or in any way be subordinated to, the related unguaranteed portion.

Rural Utilities

General

In May 2008, Congress expanded Farmer Mac's authority to permit purchases of, and guarantees of securities backed by, rural electric and telephone loans made by cooperative lenders to borrowers who have received or are eligible to receive loans under the Rural Electrification Act of 1936 ("REA"). The REA is administered by the Rural Utilities Service ("RUS"), an agency of the USDA. None of Farmer Mac's business to date under the Rural Utilities line of business has involved telecommunications loans. Farmer Mac's Rural Utilities line of business encompasses purchases of eligible rural utilities loans and guarantees of Farmer Mac Guaranteed Securities – Rural Utilities backed by such loans. Although Farmer Mac could issue LTSPCs for pools of eligible rural utilities loans, no LTSPCs have been issued to date under the Rural Utilities line of business.

Summary of Rural Utilities Transactions

During the year ended December 31, 2012, Farmer Mac added \$0.5 billion of new Rural Utilities business, compared to \$0.2 billion and \$1.0 billion for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2012 and 2011, the aggregate outstanding principal balance of rural utilities loans held and of Farmer Mac Guaranteed Securities – Rural Utilities was \$2.3 billion.

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The following table summarizes new Rural Utilities business activity for each of the years ended December 31, 2012, 2011, and 2010:

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
On-balance sheet:			
Loans	\$ 166,117	\$ 203,789	\$ 313,028
Farmer Mac Guaranteed Securities - AgVantage	383,406	—	650,000
Off-balance sheet:			
Farmer Mac Guaranteed Securities - AgVantage	—	2,796	2,924
Total	\$ 549,523	\$ 206,585	\$ 965,952

The following table presents the outstanding balances of rural utilities loans held and of Farmer Mac Guaranteed Securities – Rural Utilities as of the dates indicated:

	As of December 31,	
	2012	2011
	(in thousands)	
On-balance sheet:		
Loans	\$ 663,097	\$ 529,227
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	368,848	386,800
Farmer Mac Guaranteed Securities - AgVantage	1,298,506	1,410,800
Total on-balance sheet	\$ 2,330,451	\$ 2,326,827
Off-balance sheet:		
Farmer Mac Guaranteed Securities - AgVantage	12,669	16,271
Total	\$ 2,343,120	\$ 2,343,098

As of December 31, 2012, all of the Farmer Mac Guaranteed Securities – Rural Utilities consisted of securities representing either (1) direct interests in eligible rural electric loans or (2) general obligations of the National Rural Utilities Cooperative Finance Corporation ("CFC") secured by eligible rural electric loans. As of December 31, 2012, CFC held 8 percent of Farmer Mac's outstanding Class A voting common stock (5 percent of total voting shares) and 100 percent of Farmer Mac's outstanding Series C Non-Voting Cumulative Preferred Stock ("Series C Preferred Stock"), which was redeemed in its entirety in January 2013 with the proceeds of Farmer Mac's issuance of 2.4 million shares of non-cumulative preferred stock, of which CFC purchased at issuance 1.2 million shares.

Loan Eligibility

To be eligible for Farmer Mac's Rural Utilities line of business, a rural utilities loan (or an interest in such a loan) is required to:

- be for an electric or telephone facility by a cooperative lender to a borrower that has received or is eligible to receive a loan under the REA;
- be performing and not more than 30 days delinquent; and
- meet Farmer Mac's underwriting standards described in more detail below.

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Underwriting

Farmer Mac's charter does not specify minimum underwriting criteria for eligible rural utilities loans under the Rural Utilities line of business. To manage its credit risk, to mitigate the risk of loss from borrower defaults, and to provide guidance for the management, administration, and conduct of underwriting to participants in the Rural Utilities line of business, Farmer Mac has adopted credit underwriting standards that vary by loan type, based on whether loans are made to electric distribution cooperatives or electric generation and transmission ("G&T") cooperatives, and by loan product. These standards are based on industry norms for similar rural utilities loans and are designed to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac depending on whether direct or indirect credit exposure is assumed on the loan. Farmer Mac reviews lenders' credit submissions and analyzes borrowers' audited financial statements and financial and operating reports filed with RUS and the Federal Energy Regulatory Commission to confirm that loans meet Farmer Mac's underwriting standards for rural utilities loans. Furthermore, Farmer Mac requires sellers of rural utilities loans to make representations and warranties regarding the conformity of eligible loans to these standards and any other requirements that Farmer Mac may impose from time to time. Farmer Mac has the ability to require repurchase of the loan upon a material breach of these representations and warranties.

Farmer Mac has developed different underwriting standards for rural utilities loans that depend on whether direct or indirect credit exposure is assumed on a loan and whether the borrower is an electric distribution cooperative or a G&T cooperative. Farmer Mac's credit underwriting standards for all rural utilities loans on which it assumes direct credit exposure (i.e., with no general obligation of a lender involved in the transaction) require:

- each electric or telephone cooperative to have received or be eligible to receive a loan under the REA;
- each borrower to demonstrate sufficient cash flow to adequately service the loan; and
- each borrower's leverage position to be adequate based on industry standards.

In the case of a newly-originated loan to a distribution cooperative on which Farmer Mac assumes direct credit exposure, the borrower typically must, among other criteria set forth in Farmer Mac's credit underwriting standards, meet the following ratios (based on the average of the most recent three years):

- the ratio of long-term debt to "net utility plant" does not exceed 90 percent;
- the modified debt service coverage ratio equals or exceeds 1.35; and
- the ratio of equity to total assets equals or exceeds 20 percent.

The "net utility plant" means the real and tangible personal property of a rural utilities borrower constituting the long-term assets of property, plant, and equipment (PPE), less depreciation, computed in accordance with applicable accounting requirements.

In the case of a newly-originated loan to a G&T cooperative on which Farmer Mac assumes direct credit exposure, the borrower typically must, among other criteria set forth in Farmer Mac's credit underwriting standards, meet the following ratios (based on the average of the most recent three years):

- the equity to total assets ratio equals or exceeds 10 percent;
- the modified debt service coverage ratio equals or exceeds 1.15;

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• the debt to EBITDA (earnings before income taxes, depreciation and amortization) ratio does not exceed 12; and
• the aggregate members' equity to total capitalization ratio equals or exceeds 25 percent.

Farmer Mac's credit underwriting standards for all AgVantage transactions under the Rural Utilities line of business, in which Farmer Mac has indirect credit exposure on loans securing the general obligation of a lender, require:

• the credit rating of the counterparty issuing the general obligation to be at least investment grade as determined by an NRSRO, or equivalent as determined by Farmer Mac analysis;
• the collateral to be comprised of loans, or interests in loans, for electric or telephone facilities by a cooperative lender to a borrower that has received or is eligible to receive a loan under the REA;
• the collateral to be performing and not more than 30 days delinquent; and
• the collateralization (consisting of current, performing loans) to be maintained at the contractually prescribed level, in an amount at least equal to the outstanding principal amount of the security.

In addition, the same underwriting standards that apply to loans made to distribution cooperatives on which Farmer Mac assumes direct credit exposure also apply to loans made to distribution cooperatives that secure the general obligation of the lender in AgVantage transactions (based on the average of the most recent three years):

• the ratio of long-term debt to net utility plant does not exceed 90 percent;
• the modified debt service coverage ratio equals or exceeds 1.35; and
• the ratio of equity to total assets equals or exceeds 20 percent.

For loans made to G&T cooperatives that secure the general obligation of the lender in AgVantage transactions, the G&T cooperative must either (1) have a rating from an NRSRO of BBB- (or equivalent) or better or (2) meet the following underwriting standards (based on the average of the most recent three years):

• the aggregate members' equity to total capitalization ratio equals or exceeds 25 percent;
• the modified debt service coverage ratio equals or exceeds 1.10; and
• the equity to total assets ratio equals or exceeds 10 percent.

The due diligence Farmer Mac performs before purchasing, or guaranteeing securities backed by rural utilities loans includes:

• evaluating loan database information to determine conformity to Farmer Mac's underwriting standards;
• confirming that loan file data conforms to database information;
• validating supporting credit information in the loan files; and
• reviewing loan documentation.

Farmer Mac is not obligated to assume credit risk on every rural utilities loan that meets its underwriting and collateral valuation standards submitted to Farmer Mac. Farmer Mac may consider other factors, such as portfolio diversification, in deciding whether or not to accept the loans.

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Collateral

It is customary in loans to distribution cooperatives and G&T cooperatives for the lender to take a security interest in substantially all of the borrower's assets. In cases in which Farmer Mac purchases a rural utilities loan with a pledge of all assets and a lender also has a lien on all assets, Farmer Mac verifies that a lien accommodation results in either a shared first lien or a first lien in favor of Farmer Mac. In cases where debt indentures are utilized, Farmer Mac determines if available collateral is adequate to support the loan program and Farmer Mac's investment. As of December 31, 2012, all of the rural utilities loans held by Farmer Mac consisted of loans with a pledge of all assets. Farmer Mac also has indirect credit exposure on rural utilities loans that are pledged to secure AgVantage securities. Some of those loans are unsecured or secured by less than all of the borrower's assets. The agreements governing Farmer Mac's Rural Utilities AgVantage securities provide that these loans may not comprise more than 20 percent of the aggregate rural utilities loans securing these AgVantage securities.

Servicing

Farmer Mac generally does not directly service the rural utilities loans held in its portfolio or the loans underlying Farmer Mac Guaranteed Securities – Rural Utilities. Those loans are serviced by a servicer designated by Farmer Mac. Rural utilities loans pledged to secure AgVantage securities are serviced by the issuer of the AgVantage securities in accordance with the institution's servicing procedures, which are reviewed and approved by Farmer Mac before entering into those transactions. CFC, a related party to Farmer Mac by virtue of CFC's stock ownership in Farmer Mac, and sole issuer of AgVantage securities secured by rural utilities loans, currently services all of the rural utilities loans in Farmer Mac's portfolio.

Approved Lenders

The statutory authorities that authorize Farmer Mac to create a secondary market for rural utilities loans require eligible loans be made by a lender organized as a cooperative. Currently, the only two rural utilities lenders that are cooperatives are CFC and CoBank, ACB ("CoBank"), an institution of the FCS. As of December 31, 2012, these cooperatives had approximately \$19.0 billion in loans outstanding to distribution cooperatives and \$7.0 billion in loans outstanding to G&T cooperatives. To date, CFC is the only lender to have participated in Farmer Mac's Rural Utilities line of business.

Portfolio Diversification

CFC and CoBank each lends throughout the entire United States. Farmer Mac analyzes the geographic distribution of loans to cooperatives and considers regional concentration levels in connection with its business activities under the Rural Utilities program. As of December 31, 2012, Farmer Mac had direct credit exposure on 796 loans to electric cooperatives constituting \$1.0 billion across 37 states.

Farmer Mac's charter does not prescribe a maximum loan size for an eligible rural utilities loan, but Farmer Mac currently has a \$30.0 million limit in place for cumulative direct credit exposure on those loans (e.g., purchases of loans or securities representing interests in loans) to any one borrower or related borrowers. For indirect credit exposures on rural utilities loans (e.g., AgVantage transactions), Farmer Mac's current limit is \$75.0 million for cumulative loan exposure to any one borrower or related borrowers, with the amount of any direct exposure to a borrower also counting toward the \$75.0 million

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limit. As of December 31, 2012, Farmer Mac's direct credit exposure to rural utilities loans consisted of \$1.0 billion in loans to distribution cooperatives and \$24.9 million in loans to G&T cooperatives.

Funding of Guarantee and LTSPC Obligations

The principal sources of funding for the payment of Farmer Mac's obligations under its guarantees and LTSPCs are the fees for its guarantees and commitments, net effective spread, proceeds of debt issuances, loan repayments, and maturities of AgVantage securities. Farmer Mac satisfies its obligations under LTSPCs and its guarantees by purchasing defaulted loans out of LTSPCs and from the related trusts for Farmer Mac Guaranteed Securities. Farmer Mac typically recovers a significant portion of the value of defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties, or foreclosure and sale of the property securing the loans. Ultimate credit losses arising from Farmer Mac's guarantees and commitments are reflected in the Corporation's charge-offs against its allowance for losses, gains and losses on the sale of real estate owned ("REO"), which consists of real estate acquired through foreclosure, and fair value adjustments of REOs held. During 2012, Farmer Mac had net credit losses of \$1.7 million, compared to \$0.2 million during 2011, primarily due to an increase in the level of charge-offs in 2012.

Farmer Mac's charter requires Farmer Mac to maintain in its accounts a portion of the guarantee fees it receives from its guarantee activities. That amount must be exhausted before Farmer Mac may issue obligations to the U.S. Treasury against the \$1.5 billion that Farmer Mac is statutorily authorized to borrow from the U.S. Treasury to fulfill its guarantee obligations. That borrowing authority is not intended to be a routine funding source and has never been used. As of December 31, 2012, the amount maintained as a reserve against losses arising from Farmer Mac's guarantee activities was \$98.6 million. Farmer Mac's total outstanding guarantees and LTSPCs exceed the cumulative amount (1) held as an allowance for losses, (2) the amount maintained as a reserve against losses, and (3) the amount Farmer Mac may borrow from the U.S. Treasury; however, Farmer Mac does not expect its future payment obligations under its guarantees and LTSPCs to exceed amounts available to satisfy those obligations, including access to the underlying collateral in the event of default. For information about Farmer Mac's allowance for losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans" and Note 2(j) and Note 8 to the consolidated financial statements. For a more detailed discussion of Farmer Mac's borrowing authority from the U.S. Treasury, see "Business—Farmer Mac's Authority to Borrow from the U.S. Treasury."

Financing

Debt Issuance

Farmer Mac's statutory charter (12 U.S.C. § 2279aa-6(e)) authorizes Farmer Mac to issue debt obligations to purchase eligible loans, USDA Guaranteed Securities, and Farmer Mac Guaranteed Securities, and to maintain reasonable amounts for business operations, including adequate liquidity. Farmer Mac funds its purchases of eligible loan assets and liquidity investment assets primarily by issuing debt obligations of various maturities in the public capital markets. Farmer Mac also issues debt obligations to obtain funds to finance its transaction costs, guarantee payments, and LTSPC purchase obligations. Farmer Mac's debt obligations include discount notes and fixed and floating rate medium-term notes, including callable notes.

The interest and principal on Farmer Mac's debt obligations are not guaranteed by, and do not constitute debts or obligations of, FCA or the United States or any agency or instrumentality of the United States

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other than Farmer Mac. Farmer Mac is an institution of the FCS, but is not liable for any debt or obligation of any other institution of the FCS. Likewise, neither the FCS nor any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac. Income to the purchaser of a Farmer Mac discount note or medium-term note is not exempt under federal law from federal, state, or local taxation. Farmer Mac's discount notes and medium-term notes are not currently rated by an NRSRO.

Farmer Mac's board of directors has authorized the issuance of up to \$15.0 billion of discount notes and medium-term notes (of which \$11.6 billion was outstanding as of December 31, 2012), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing needs. The board of directors increased that authorization from \$12.0 billion to \$15.0 billion in December 2012. Farmer Mac invests the proceeds of its debt issuances in loan purchases, Farmer Mac Guaranteed Securities, and liquidity investment assets in accordance with policies established by its board of directors that comply with FCA's Liquidity and Investment Regulations, which establish limitations on dollar amount, issuer concentration, and credit quality. Farmer Mac's regular debt issuance supports its access to the capital markets, and Farmer Mac's liquidity investment assets provide an alternative source of funds should market conditions be unfavorable. Farmer Mac's current policies authorize liquidity investments in:

- obligations of or guaranteed by the United States;
- obligations of GSEs;
- municipal securities;
- international and multilateral development bank obligations;
- money market instruments;
- diversified investment funds;
- asset-backed securities;
- corporate debt securities; and
- mortgage securities.

For more information about Farmer Mac's outstanding investments and indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review" and Note 4 and Note 7 to the consolidated financial statements.

Equity Issuance

Farmer Mac's charter authorizes the Corporation to issue voting common stock, non-voting common stock, and non-voting preferred stock. Only banks, other financial entities, insurance companies, and institutions of the FCS eligible to participate in one or more of Farmer Mac's lines of business may hold voting common stock. No holder of Class A voting common stock may directly or indirectly be a beneficial owner of more than 33 percent of the outstanding shares of Class A voting common stock. There are no restrictions on the maximum number or percentage of outstanding shares of Class B voting common stock that may be held by an eligible stockholder. No ownership restrictions apply to Class C non-voting common stock or preferred stock, and they are freely transferable.

The dividend rights of all three classes of Farmer Mac's common stock are the same, and dividends may be paid on common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to the payment of dividends on outstanding preferred stock. Upon liquidation, dissolution, or winding up of the business of Farmer Mac, after payment and provision for payment of outstanding debt of the Corporation, the holders of shares of preferred stock would be paid at par value out

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of assets available for distribution, plus all declared and unpaid dividends, before the holders of shares of common stock received any payment. The assets of Farmer Mac II LLC are not directly available to satisfy the claims of Farmer Mac's creditors or stockholders. Those assets will only be available to the creditors and stockholders of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied.

Common Stock

As of December 31, 2012, the following shares of Farmer Mac common stock were outstanding:

4,030,780 shares of Class A voting common stock;
500,301 shares of Class B voting common stock; and
9,171,343 shares of Class C non-voting common stock.

Farmer Mac may obtain additional capital from future issuances of voting and non-voting common stock and non-voting preferred stock. Farmer Mac did not repurchase any common stock during 2012 or 2011.

The following table presents the dividends declared on Farmer Mac's common stock during and subsequent to 2012:

Date Dividend Declared	Per Share Amount	For Holders Of Record As Of	Date Paid
February 2, 2012	\$0.10	March 15, 2012	March 30, 2012
June 7, 2012	0.10	June 18, 2012	June 29, 2012
August 6, 2012	0.10	September 14, 2012	September 28, 2012
December 6, 2012	0.10	December 17, 2012	December 31, 2012
February 6, 2013	0.12	March 15, 2013	*

* The dividend declared on February 6, 2013 is scheduled to be paid on March 29, 2013.

Farmer Mac's ability to declare and pay common stock dividends could be restricted if it were to fail to comply with its regulatory capital requirements. See Note 9 to the consolidated financial statements and "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement Levels."

Preferred Stock

As of December 31, 2012 and 2011, Farmer Mac had 57,578 outstanding shares of Series C Preferred Stock. On January 17, 2013, Farmer Mac redeemed and retired all of the outstanding Series C Preferred Stock from the proceeds received from the issuance of a new series of non-cumulative preferred stock on the same date (as described below). Prior to its redemption, dividends on Series C Preferred Stock compounded quarterly at an annual rate of 5.0 percent of the then-applicable liquidation preference per share, with the annual rate scheduled to increase to (1) 7.0 percent on January 1 following the fifth anniversary of the applicable issue date and (2) 9.0 percent on January 1 following the tenth anniversary of the applicable issue date.

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The following table presents the dividends declared on Series C Preferred Stock during and subsequent to 2012:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 2, 2012	\$12.50	January 1, 2012	March 31, 2012	April 2, 2012
June 7, 2012	12.50	April 1, 2012	June 30, 2012	July 2, 2012
August 6, 2012	12.50	July 1, 2012	September 30, 2012	October 1, 2012
December 6, 2012	12.50	October 1, 2012	December 31, 2012	December 31, 2012
December 6, 2012 *	2.36	January 1, 2013	January 17, 2013	January 17, 2013

* Series C Preferred Stock was redeemed and retired on January 17, 2013.

During 2012 and 2011, there were no sales of Series C Preferred Stock by Farmer Mac. Farmer Mac had authorized the issuance of up to 100,000 shares of Series C Preferred Stock with a par value of \$1,000 per share and an initial liquidation preference of \$1,000 per share. As of December 31, 2012, outstanding Series C Preferred Stock ranked senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock, and any other common stock of Farmer Mac issued in the future. CFC, a related party, owned all of the outstanding Series C Preferred Stock at December 31, 2012, and held at issuance 1.2 million shares of the Series A Preferred Stock (as defined and described below), the proceeds of which were used to redeem the Series C Preferred Stock.

On January 17, 2013, Farmer Mac issued 2.4 million shares of 5.875% Non-Cumulative Preferred Stock, Series A ("Series A Preferred Stock") with a par value of \$25 per share and an initial liquidation preference of \$25 per share. Series A Preferred Stock ranks senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock, and any other common stock of Farmer Mac issued in the future. The annual dividend rate will remain at a fixed rate of 5.875 percent for as long as the Series A Preferred Stock remains outstanding. Dividends on Series A Preferred Stock are non-cumulative, which means that if the Board of Directors has not declared a dividend before the applicable dividend payment date for any dividend period, such dividend will not be paid or cumulate, and Farmer Mac will have no obligation to pay dividends for such dividend period, whether or not dividends on the Series A Preferred Stock are declared for any future dividend period. Farmer Mac may pay dividends on Series A Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to Series A Preferred Stock. On February 6, 2013, Farmer Mac's board of directors declared a dividend of \$0.3672 per share of Series A Preferred Stock for the period from but not including January 17, 2013 to and including April 17, 2013, payable on April 17, 2013 to holders of record as of April 2, 2013. Farmer Mac has the right, but not the obligation, to redeem some or all of the issued and outstanding shares of Series A Preferred Stock at a price equal to the then-applicable liquidation preference beginning on January 17, 2018 and anytime thereafter.

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of \$250.0 million aggregate face amount of securities issued by a newly formed Delaware statutory trust. The trust securities represent undivided beneficial ownership interests in 250,000 shares of Farmer Mac II LLC Preferred Stock. The Farmer Mac II LLC Preferred Stock has a liquidation preference of \$1,000 per share.

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

The following table presents the dividends declared on Farmer Mac II LLC Preferred Stock during and subsequent to 2012:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 2, 2012	\$22.19	December 30, 2011	March 29, 2012	March 30, 2012
June 7, 2012	22.19	March 30, 2012	June 29, 2012	June 30, 2012
August 3, 2012	22.19	June 30, 2012	September 29, 2012	October 1, 2012
December 6, 2012	22.19	September 30, 2012	December 29, 2012	December 31, 2012
February 6, 2013	22.19	December 30, 2012	March 29, 2013	*

* The dividend declared on February 6, 2013 is scheduled to be paid on April 1, 2013.

Farmer Mac used part of the proceeds from the sale of \$250.0 million of the Farmer Mac II LLC Preferred Stock to repurchase and retire all \$150.0 million of the outstanding Series B Preferred Stock issued in 2008. After consideration of the consolidated tax benefits to Farmer Mac, the net effective cost of the \$250.0 million of preferred stock was 5.77 percent per year until it was redeemed and retired on January 17, 2013. That cost was \$3.6 million less per year than the cost of the \$150 million of Series B Preferred Stock that was redeemed in 2010 based on its 2010 dividend rate of 12 percent, which was scheduled to increase to 14 percent at the end of 2010 and to 16 percent at the end of 2011.

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FARMER MAC'S AUTHORITY TO BORROW FROM THE U.S. TREASURY

Farmer Mac is authorized to borrow up to \$1.5 billion from the U.S. Treasury through the issuance of debt obligations to the U.S. Treasury. Any funds borrowed from the U.S. Treasury may be used solely for the purpose of fulfilling Farmer Mac's guarantee obligations. Farmer Mac's charter provides that the U.S. Treasury is required to purchase Farmer Mac's debt obligations up to the authorized limit if Farmer Mac certifies that:

a portion of the guarantee fees assessed by Farmer Mac has been set aside as a reserve against losses arising out of Farmer Mac's guarantee activities in an amount determined by Farmer Mac's board of directors to be necessary and such reserve has been exhausted (that amount was \$98.6 million as of December 31, 2012); and
the proceeds of such obligations are needed to fulfill Farmer Mac's guarantee obligations.

Any debt obligations issued by Farmer Mac under this authority would bear interest at a rate determined by the U.S. Treasury, taking into consideration the average rate on outstanding marketable obligations of the United States as of the last day of the last calendar month ending before the date of the purchase of the obligations from Farmer Mac. Farmer Mac would be required to repurchase any of its debt obligations held by the U.S. Treasury within a "reasonable time." As of December 31, 2012, Farmer Mac had not utilized this borrowing authority and does not expect to utilize this borrowing authority in the future.

The United States government does not guarantee payments due on Farmer Mac Guaranteed Securities, funds invested in the equity or debt securities of Farmer Mac, any dividend payments on shares of Farmer Mac stock, or the profitability of Farmer Mac.

GOVERNMENT REGULATION OF FARMER MAC

General

In 1987, Congress created Farmer Mac in the aftermath of the collapse of the agricultural credit delivery system. Farmer Mac's primary committees of jurisdiction in Congress – the Committee on Agriculture of the U.S. House of Representatives and the U.S. Senate Committee on Agriculture, Nutrition and Forestry – added requirements for Farmer Mac that had not been included in any of the other statutes establishing other GSEs.

Unlike the other existing GSEs at the time, Farmer Mac's initial 1987 legislation required the Corporation to be regulated by an independent regulator, the Farm Credit Administration, which has the authority to regulate Farmer Mac's safety and soundness. The statute creating Farmer Mac expressly requires that qualified loans meet minimum credit and appraisal standards that represent sound loans to profitable businesses. The enabling legislation also required Farmer Mac to comply with the periodic reporting requirements of the SEC, including filing quarterly reports on the financial status of the Corporation and interim reports when there are significant developments. Farmer Mac's statutory charter also requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act of 1933 and related regulations (collectively, the "Securities Act"), unless an exemption for an offering is available.

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Since Farmer Mac's creation, Congress has amended Farmer Mac's charter four times:

- in 1990 to create the USDA Guarantees line of business;
- in 1991 to clarify Farmer Mac's authority to purchase its guaranteed securities, establish OSMO as Farmer Mac's financial regulator, and set minimum regulatory capital requirements for Farmer Mac;
- in 1996 to remove certain barriers to and restrictions on Farmer Mac's operations to be more competitive (e.g., allowing Farmer Mac to buy loans directly from lenders and issue guaranteed securities representing 100 percent of the principal of the purchased loans and modifying capital requirements); and
- in 2008 to authorize Farmer Mac to purchase, and guarantee securities backed by, loans made by cooperative lenders to borrowers to finance electrification and telecommunications systems in rural areas.

Farmer Mac's authorities and regulatory structure were not revised by subsequent legislation adopted in 2008 to regulate other GSEs.

Regulation

Office of Secondary Market Oversight (OSMO)

As an institution of the FCS, Farmer Mac (including its subsidiaries) is subject to the regulatory authority of FCA. FCA, acting through OSMO, has general regulatory and enforcement authority over Farmer Mac, including the authority to promulgate rules and regulations governing the activities of Farmer Mac and to apply its general enforcement powers to Farmer Mac and its activities. The Director of OSMO, who is selected by and reports to the FCA board, is responsible for the examination of Farmer Mac and the general supervision of the safe and sound performance by Farmer Mac of the powers and duties vested in it by Farmer Mac's charter. Farmer Mac's charter requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of its regulatory activities, including the cost of any examination. Farmer Mac is required to file quarterly reports of condition with FCA.

Capital Standards

General. Farmer Mac's charter establishes three capital standards for Farmer Mac:

Statutory minimum capital requirement. Farmer Mac's minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income plus non-controlling interest - preferred stock) equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of Farmer Mac's aggregate off-balance sheet obligations, specifically including:

- the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
- instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
- other off-balance sheet obligations of Farmer Mac.

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• Statutory critical capital requirement. Farmer Mac's critical capital level is an amount of core capital equal to 50 percent of the total minimum capital requirement at that time.

• Risk-based capital. The charter directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters.

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

The risk-based capital stress test promulgated by FCA is intended to determine the amount of regulatory capital (core capital plus the allowance for losses) that Farmer Mac would need to maintain positive capital during a ten-year period in which:

• annual losses occur at a rate of default and severity "reasonably related" to the rates of the highest sequential two years in a limited U.S. geographic area; and
• interest rates increase to a level equal to the lesser of 600 basis points or 50 percent of the ten-year U.S. Treasury rate, and interest rates remain at such level for the remainder of the period.

The risk-based capital stress test then adds an additional 30 percent to the resulting capital requirement for management and operational risk.

As of December 31, 2012, Farmer Mac's statutory minimum and critical capital requirements were \$374.0 million and \$187.0 million, respectively, and its actual core capital level was \$519.0 million, \$145.0 million above the statutory minimum capital requirement and \$332.0 million above the statutory critical capital requirement. Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2012 was \$58.1 million and Farmer Mac's regulatory capital of \$535.9 million exceeded that amount by approximately \$477.8 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" for a presentation of Farmer Mac's current regulatory capital position.

Enforcement Levels. Farmer Mac's charter directs FCA to classify Farmer Mac within one of four enforcement levels for purposes of determining compliance with capital standards. As of December 31, 2012, Farmer Mac was classified as within level I – the highest compliance level.

Failure to comply with the applicable required capital level in the charter would result in Farmer Mac being classified as within level II (below the applicable risk-based capital level, but above the minimum capital level), level III (below the minimum capital level, but above the critical capital level) or level IV (below the critical capital level). In the event that Farmer Mac were classified as within level II, III or IV, the charter requires the Director of OSMO to take a number of mandatory supervisory measures and provides the Director with discretionary authority to take various optional supervisory measures depending on the level in which Farmer Mac is classified. The mandatory measures applicable to levels II and III include:

• requiring Farmer Mac to submit and comply with a capital restoration plan;
• prohibiting the payment of dividends if such payment would result in Farmer Mac being reclassified as within a lower level and requiring the pre-approval of any dividend payment even if such payment would not result in reclassification as within level IV; and

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reclassifying Farmer Mac as within one level lower if it does not submit a capital restoration plan that is approved by the Director, or the Director determines that Farmer Mac has failed to make, in good faith, reasonable efforts to comply with such a plan and fulfill the schedule for the plan approved by the Director.

If Farmer Mac were classified as within level III, then, in addition to the foregoing mandatory supervisory measures, the Director of OSMO could take any of the following discretionary supervisory measures:

- imposing limits on any increase in, or ordering the reduction of, any obligations of Farmer Mac, including off-balance sheet obligations;
- limiting or prohibiting asset growth or requiring the reduction of assets;
- requiring the acquisition of new capital in an amount sufficient to provide for reclassification as within a higher level;
- terminating, reducing, or modifying any activity the Director determines creates excessive risk to Farmer Mac; or
- appointing a conservator or a receiver for Farmer Mac.

Farmer Mac's charter does not specify any supervisory measures, either mandatory or discretionary, to be taken by the Director in the event Farmer Mac were classified as within level IV.

The Director of OSMO has the discretionary authority to reclassify Farmer Mac to a level that is one level below its then current level (for example, from level I to level II) if the Director determines that Farmer Mac is engaging in any action not approved by the Director that could result in a rapid depletion of core capital or if the value of property subject to mortgages backing Farmer Mac Guaranteed Securities has decreased significantly.

Item 1A. Risk Factors

Farmer Mac's business activities, financial performance, and results of operations are, by their nature, subject to a number of risks and uncertainties, including those related to the agricultural sector, the rural utilities industry, access to the capital markets, the regulatory environment, and the level of prevailing interest rates and overall market conditions. The following risk factors could materially affect Farmer Mac's financial condition and operating results and should be considered in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K, including the risks and uncertainties described in the "Forward-Looking Statements" section. Furthermore, because new risk factors likely will emerge from time to time, management can neither predict all such risk factors nor assess the effects of such factors on Farmer Mac's business, operating results, and financial condition or the extent to which any factor, or combination of factors, may affect the Corporation's actual results and financial condition. If any of the following risks materialize, Farmer Mac's business, financial condition, or results of operations could be materially and adversely affected. Farmer Mac undertakes no obligation to update or revise this risk factor discussion, except as required by law.

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An inability to access the debt capital markets could have a material adverse effect on Farmer Mac's business, operating results, financial condition, and capital levels.

Farmer Mac's ability to operate its business, meet its obligations, grow its assets, and fulfill its statutory mission depends on the Corporation's ability to issue substantial amounts of debt frequently and at favorable rates. The issuance of short-term and long-term debt securities in the U.S. financial markets is the primary source of funding for Farmer Mac's purchases of eligible loan assets and liquidity investment assets and for repaying or refinancing existing debt. Moreover, one of the primary sources of the Corporation's revenue is the net interest income earned from the difference, or "spread," between the return received on assets held and the related borrowing costs. Farmer Mac's ability to obtain funds through the issuance of debt, at favorable rates and terms, depends on many factors, including:

- Farmer Mac's corporate and regulatory structure, including its status as a government-sponsored enterprise, or GSE, and perceptions about the viability of stockholder-owned GSEs in general;
- compliance with regulatory capital requirements and any measures imposed by Farmer Mac's regulator if the Corporation were to fail to comply with those requirements;
- Farmer Mac's financial results and changes in its financial condition;
- the public's perception of the risks to and financial prospects of Farmer Mac's business;
- prevailing conditions in the capital markets;
- competition from other issuers of GSE debt; and
- legislative or regulatory actions relating to Farmer Mac's business, including any actions that would affect the Corporation's GSE status or that could increase its costs for hedging interest rate risks or restrict or reduce its ability to issue debt.

Factors affecting the agricultural sector or the rural utilities industry may negatively affect borrowers' profitability and, as a consequence, their ability to repay their loans on which Farmer Mac has assumed credit risk.

External factors beyond Farmer Mac's control that could negatively affect borrowers' profitability could cause Farmer Mac to experience increased delinquency and default rates within its loan portfolio, including, but not limited to:

- severe protracted or sudden adverse weather conditions, animal and plant disease outbreaks, restrictions on water supply, or other conditions affecting particular geographic regions or industries;
- increases in production expenses, including increases in commodity or fuel prices or labor costs within any particular industry;
- fluctuations in currency exchange markets that would reduce export demand for U.S. agricultural products;
- slow or negative economic growth, which could reduce demand for U.S. agricultural products;
- adverse changes in interest rates, agricultural land values, or other factors that may affect delinquency levels and credit losses on agricultural real estate mortgage loans;
- the effects of any changes in federal assistance for ethanol producers, such as the elimination of the tax credit previously available to blenders and the elimination of the import tariff previously applicable to foreign producers, which may affect the level of income of ethanol producers and consequently their repayment capacity on affected loans in Farmer Mac's programs;
- the effects of any changes in federal assistance for agricultural producers in the current Farm Bill (the Food, Conservation, and Energy Act of 2008), which is scheduled to expire in September

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2013, such as reduced support for crop insurance or other disaster recovery programs, which may affect the level of income of grain, livestock, or other affected producers and consequently their repayment capacity on affected loans owned or guaranteed by Farmer Mac;

- budget issues in Congress that limit the services made available by USDA in connection with agricultural production;
- changes in the general economy that can affect the availability of off-farm sources of income and prices of real estate for borrowers; and
- negative economic conditions that may strain the ability of members of rural electric cooperatives to pay the costs of providing electricity or cause regulators of rural electric cooperatives to restrict the cooperatives' ability to raise rates to achieve profitable levels.

Farmer Mac's business, operating results, financial condition, and capital levels may be materially and adversely affected by external factors that may affect the price or marketability of Farmer Mac's products or Farmer Mac's ability to offer its products and services.

Farmer Mac's business, operating results, financial condition, and capital levels may be materially and adversely affected by external factors, including adverse changes in the capital markets or changes in public policy, that may affect the price or marketability of Farmer Mac's products and services or Farmer Mac's ability to offer its products and services, including, but not limited to:

- disruptions in the capital markets, which could adversely affect the value and performance of Farmer Mac's eligible loan assets and investment securities, the Corporation's liquidity position, and Farmer Mac's ability to access funding at favorable levels or to raise capital;
- competitive pressures in the purchase of loans eligible for Farmer Mac's programs and the sale of Farmer Mac Guaranteed Securities and debt securities;
- changes in interest rates that may increase the basis risk of Farmer Mac's hedging instruments, thereby increasing its funding costs; and
- legislative or regulatory developments or interpretations of Farmer Mac's statutory charter that could adversely affect Farmer Mac, its ability to offer new products, the ability or motivation of certain lenders to participate in its programs or the terms of any such participation, or increase the cost of related corporate activities.

Farmer Mac's business development, profitability, and capital depend on the continued growth of the secondary market for agricultural real estate mortgage loans and for rural utilities loans, the future for both of which remains uncertain.

Continued growth in Farmer Mac's business and future profitability may be constrained by conditions that limit the need or ability for lenders to obtain the benefits of Farmer Mac's secondary market, including, but not limited to:

- reduced growth rates in the agricultural mortgage market caused by prevailing conditions in the overall economy;
- the increase in capital levels or the availability of other sources of capital for customers of Farmer Mac;
- decreased demand for mortgage lending due to borrower liquidity;
- the acceptance by Federal Home Loan Banks of agricultural real estate mortgage loans as collateral;

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the historical preference of many agricultural lending institutions to retain loans in their portfolios rather than to sell them into the secondary market;

the small number of business partners that currently provide a significant portion of Farmer Mac's business volume, resulting in vulnerability as existing business volume pays down or matures and the status of these business partners evolves;

budget issues in Congress that limit the ability of agricultural producers to obtain USDA-guaranteed loans; and

expanded funding alternatives available to rural utilities.

The loss of business from key business partners or customers could adversely affect Farmer Mac's business and result in a decrease in its revenues and profits.

Farmer Mac's business and ability to generate revenues and profits largely depends on its ability to purchase eligible loans or place eligible loans under guarantees or purchase commitments. Farmer Mac conducts a significant portion of its business with a small number of business partners. This results in vulnerability as existing receivables pay down or mature and the status and needs of Farmer Mac's business partners evolve. In 2012, ten institutions generated approximately 53.9 percent of loan purchase volume in the Farm & Ranch line of business. As of December 31, 2012, approximately 99.8 percent of the \$5.6 billion outstanding principal amount of AgVantage securities were issued by four institutions. Transactions with CFC has represented 100 percent of business volume under the Farmer Mac Rural Utilities line of business since its inception in 2008. Farmer Mac's ability to maintain the current relationships with its business partners or customers and the business generated by those business partners or customers is significant to Farmer Mac's business. Consequently, the loss of business from any one of Farmer Mac's key business partners could negatively impact Farmer Mac's revenues and profitability. Furthermore, Farmer Mac may not be able to replace the loss of business of a key business partner or customer with alternate sources of business due to limitations on the types of assets eligible for Farmer Mac's secondary market pursuant to its charter, which could adversely affect Farmer Mac's business and result in a decrease in its revenues and profits.

The failure of an issuer to pay the outstanding principal amount or to issue new AgVantage securities upon the maturity of outstanding AgVantage securities could negatively affect Farmer Mac's liquidity position and income.

As of December 31, 2012, Farmer Mac had \$5.6 billion of AgVantage securities outstanding, of which \$0.7 billion and \$1.1 billion will be maturing in 2013 and 2014, respectively. AgVantage securities are guaranteed by Farmer Mac as to the timely payment of interest and principal. Most do not pay down principal based on amortization schedules and instead have fixed maturity dates when the secured general obligation is due. Thus, if the issuer of a maturing AgVantage security defaults and does not pay the outstanding principal amount due upon maturity, then Farmer Mac's liquidity position could be negatively affected because Farmer Mac will be required to obtain funds to pay the holder of the AgVantage security or, for AgVantage securities owned by Farmer Mac, to pay off the debt securities used to fund the purchase of the AgVantage securities. Farmer Mac's income could also be adversely affected if the issuer of a maturing AgVantage security does not issue new AgVantage securities to replace the maturing securities and Farmer Mac does not find alternate sources of business, or if the net interest margin earned by Farmer Mac on new AgVantage securities that replace maturing AgVantage securities is lower than the margin earned on the maturing AgVantage securities.

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Farmer Mac is a GSE that may be materially and adversely affected by legislative or political developments that may affect the ongoing operations or continued existence of GSEs.

Farmer Mac is a GSE that is governed by a statutory charter controlled by the U.S. Congress and regulated by government agencies. Although Farmer Mac is not aware of any pending legislative proposals that would adversely affect either the manner in which Farmer Mac conducts its business or the status of Farmer Mac as a GSE at this time, Farmer Mac's ability to effectively conduct its business is subject to risks and uncertainties related to legislative or political developments that may affect the status or operations of GSEs generally. From time to time, legislative initiatives may be commenced that, if successful, could result in the enactment of legislation or the promulgation of regulations that could negatively affect the status of Farmer Mac as a GSE or the manner in which Farmer Mac operates. Farmer Mac cannot predict whether any legislative proposals related to the housing GSEs would also address the continued GSE status of Farmer Mac or modify the current operating structure or authorities of Farmer Mac in any material way. Implementation of any such proposal could have a material and adverse effect on Farmer Mac's business, operating results, financial condition, and capital levels. See "Government Regulation of Farmer Mac" in Item 1 of this Annual Report on Form 10-K for additional discussion on the rules and regulations governing Farmer Mac's activities.

Farmer Mac is subject to statutory and regulatory capital requirements that are subject to change, and failure to meet those requirements could result in supervisory measures or otherwise materially and adversely affect Farmer Mac's business, operating results, or financial condition.

Farmer Mac is required by statute and regulation to maintain certain capital levels. Any inability by Farmer Mac to meet these capital requirements could result in supervisory measures by FCA or could otherwise materially and adversely affect Farmer Mac's business, operating results, or financial condition. Factors that could adversely affect the adequacy of Farmer Mac's capital levels in the future, and which may be beyond Farmer Mac's control, include:

- the potential for any other-than-temporary impairment charges;
- adverse changes in interest rates or credit spreads;
- the potential need to increase the level of the allowance for losses on eligible loan assets in the future;
 - legislative or regulatory actions that increase Farmer Mac's applicable capital requirements; and
- changes in U.S. generally accepted accounting principles ("GAAP").

Farmer Mac is exposed to credit risk on its eligible loan assets, the repayment of which may depend on factors outside of Farmer Mac's or the borrower's control.

Farmer Mac assumes the ultimate credit risk of borrower defaults on the loans it holds as well as the loans underlying Farmer Mac Guaranteed Securities and LTSPCs. In the Farm & Ranch line of business, repayment of eligible loans typically depends on the success of the related farming operation, which, in turn, depends on many variables and factors over which farmers may have little or no control, such as weather conditions, animal and plant disease outbreaks, economic conditions (both domestic and international), and political conditions.

In the Rural Utilities line of business, eligible utilities operations include the distribution of electricity, the generation and transmission of electricity, and telecommunications. Each type of utility operation has different inherent risks associated with it, but all share a common risk posed by potential changes in public

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and regulatory policies. Business cash flows can be disrupted as a result of storms, though distribution cooperatives have in place cost-sharing arrangements with providers in other regions that mitigate this exposure. Historically, natural disasters have often resulted in disaster area declarations and financial aid to utilities providers through the Federal Emergency Management Agency and other conduits, although there can be no assurance that any such aid would be available in the event of any future natural disaster. The electrical distribution and generation sectors can be adversely affected by changes in fuel costs and prices received from consumers, as well as by contractual power obligations that do not match up with supply or demand. The depth and pace of technological change in the telecommunications industry can also provide significant challenges, as the industry requires heavy capital investment and correct judgments about the sustainability of new technologies in an area with many competitors.

Widespread repayment shortfalls on loans in the Farm & Ranch line of business or Rural Utilities line of business could require Farmer Mac to pay under its guarantees and LTSPCs and could have a material adverse effect on the Corporation's financial condition, results of operations, and liquidity.

Farmer Mac Guaranteed Securities and LTSPCs expose Farmer Mac to significant contingent liabilities, and Farmer Mac's ability to fulfill its obligations under its guarantees and LTSPCs may be limited.

Farmer Mac's guarantee and purchase commitment obligations to third parties, including Farmer Mac Guaranteed Securities and LTSPCs, are obligations of Farmer Mac only and are not backed by the full faith and credit of the United States, FCA, or any other agency or instrumentality of the United States other than Farmer Mac. As of December 31, 2012, Farmer Mac had \$4.1 billion of contingent liabilities related to Farmer Mac Guaranteed Securities and LTSPCs issued to third parties, which represents Farmer Mac's exposure if all loans underlying these guarantees and purchase commitments defaulted and Farmer Mac recovered no value from the related collateral. Farmer Mac's principal sources of funds for payments on all of its liabilities, including claims that may arise under its guarantees and purchase commitments, are the liquid assets held by Farmer Mac (including cash and cash equivalents), guarantee and commitment fees, interest payments on assets held by Farmer Mac, loan repayments, repayment of principal amounts due upon maturity of AgVantage securities, and proceeds from the issuance of debt securities. If all of the loans underlying Farmer Mac's guarantees and purchase commitments defaulted, and Farmer Mac recovered no value from the related collateral, the sources of funds for payment on these guarantees and purchase commitments could be substantially less than the aggregate amount of the corresponding liabilities. It is difficult to quantify at any particular point in time the funds that would be available from interest payments, loan repayments, and maturing AgVantage securities for payment on Farmer Mac's guarantees and purchase commitments, and Farmer Mac's ability to issue debt as a source of repayment would be subject to its ability to access the debt markets and market conditions at that time. As of December 31, 2012, Farmer Mac held at fair value cash, cash equivalents, and other investment securities of \$3.3 billion that could be used as a source of funds for payment on its obligations. Although Farmer Mac believes that it remains well-collateralized on the assets underlying its guarantee and purchase commitment obligations to third parties and that the estimated probable losses for these obligations remain low relative to the amount available for payment of claims on these obligations, Farmer Mac's total contingent liabilities for these obligations exceed the amount it may have available for payment of claims on these obligations. See "Management's Discussion and Analysis—Risk Management—Credit Risk – Loans" for more information on Farmer Mac's management of credit risk.

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Farmer Mac is exposed to credit risk on its eligible loan assets that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac's earnings depend significantly on the performance of its eligible loan assets and the spread between the interest, guarantee fees, and commitment fees earned on such assets and interest paid on Farmer Mac's obligations and liabilities. Farmer Mac's earnings may be adversely affected by its exposure to credit risk associated with the agricultural mortgage and rural utilities loans that Farmer Mac purchases or commits to purchase or that back Farmer Mac Guaranteed Securities. This risk may increase in the case of loans that have a balloon payment at maturity, if the borrower seeks to refinance but is unable to do so. As of December 31, 2012, 23.0 percent of the loans in the Farm & Ranch line of business included balloon payments. In addition, loans to borrowers in industries which have had historically higher delinquency rates relative to Farmer Mac's portfolio may present a higher risk of delinquency in future periods. For example, as of December 31, 2012, loans to borrowers in the permanent plantings and part-time farm categories comprised a combined 22.8 percent of the Farm & Ranch portfolio (excluding AgVantage securities), but delinquencies in these combined categories comprised 50.9 percent of the aggregate delinquencies for all commodity categories. As of December 31, 2012, loans to borrowers in the agstorage and processing (including ethanol facilities) category comprised 4.0 percent of the Farm & Ranch portfolio (excluding AgVantage securities), but cumulative net credit losses for this category comprised 34.4 percent of the cumulative net credit losses for all categories.

Farmer Mac is exposed to swap counterparty credit risk that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac relies on interest rate swap contracts and hedging arrangements to effectively manage its interest rate risk. Failure to perform under a derivatives contract by one or more of Farmer Mac's counterparties could disrupt Farmer Mac's hedging operations, particularly if Farmer Mac were entitled to a termination payment under the terms of the contract that it did not receive, or if Farmer Mac were unable to reposition the swap with a new counterparty. Farmer Mac has mitigated its swap counterparty credit risk by contracting only with counterparties that have investment grade credit ratings, establishing and maintaining collateral requirements that are scaled based upon credit ratings, and entering into netting agreements. As of December 31, 2012, Farmer Mac's credit exposure to interest rate swap counterparties was \$37.1 million excluding netting arrangements and \$2.4 million including netting arrangements.

Farmer Mac is exposed to AgVantage counterparty credit risk that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac is exposed to credit risk from issuers of AgVantage securities. Each AgVantage security is a general obligation of an issuing institution secured by eligible loans in an amount at least equal to the outstanding principal amount of the security and guaranteed by Farmer Mac. However, most of Farmer Mac's AgVantage exposure is concentrated in a small number of issuers. Farmer Mac mitigates its risk to AgVantage counterparties by reviewing each institution for which Farmer Mac has AgVantage exposure and requiring those institutions to meet Farmer Mac's standards for creditworthiness. In addition, Farmer Mac requires some level of overcollateralization (between 103 percent and 120 percent of the principal amount of the securities issued) for AgVantage securities in the Farm & Ranch line of business. As of December 31, 2012, nearly all of the AgVantage securities outstanding had been issued by four counterparties. A default by any of these counterparties could have a significant adverse effect on Farmer Mac's financial condition.

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Farmer Mac is exposed to counterparty credit risk on its investment securities that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac maintains a liquidity investment portfolio that can be drawn upon for liquidity needs. In addition to cash and cash equivalents (such as U.S. Treasury securities and short-term money market instruments), this portfolio consists of investment securities, including securities guaranteed by U.S. Government agencies and GSEs, GSE-issued preferred stock, and corporate debt obligations. While Farmer Mac regularly reviews concentration limits to ensure that its liquidity investments are appropriately diversified and comply with applicable FCA regulations, Farmer Mac is exposed to credit risk from issuers of the investment securities it holds. For example, as of December 31, 2012, Farmer Mac held at fair value, as part of its liquidity investment portfolio, \$129.2 million of corporate debt securities, \$149.5 million of asset-backed securities principally backed by U.S. Government-guaranteed student loans (including \$63.2 million of auction-rate certificates), \$756.0 million of investment securities guaranteed by GSEs, and \$87.1 million of preferred stock issued by a single GSE. A default by multiple issuers of investment securities held by Farmer Mac, or by a single issuer of investment securities in which Farmer Mac is more heavily concentrated, could have an adverse effect on Farmer Mac's financial condition and capital position.

Farmer Mac is exposed to interest rate risk that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac is subject to interest rate risk due to the possible timing differences in the cash flows of the assets it holds and related liabilities. The ability of borrowers to prepay their loans prior to the scheduled maturities increases the risk of asset and liability cash flow mismatches. In a changing interest rate environment, these cash flow mismatches could reduce Farmer Mac's earnings if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments, particularly if Farmer Mac's related funding costs cannot be correspondingly reduced. In addition, if assets repay more slowly than anticipated and the associated debt issued to fund the assets must be reissued at a higher yield, Farmer Mac's earnings could be adversely affected. As of December 31, 2012, of all the eligible loan assets held on Farmer Mac's balance sheet, \$4.5 billion had a fixed interest rate and \$4.5 billion had an adjustable interest rate.

Changes in interest rates or Farmer Mac's ability to manage interest rate risk successfully may cause volatility in financial results and capital levels and adversely affect net interest income.

Farmer Mac enters into financial derivatives transactions to hedge interest rate risks inherent in its business and applies fair value accounting to its financial derivatives transactions. Although Farmer Mac's financial derivatives provide effective economic hedges of interest rate risk, accounting guidance requires changes in the fair values of financial derivatives to be reflected in net income. As interest rates increase or decrease, the fair value of Farmer Mac's derivatives changes based on the position Farmer Mac holds relative to the specific characteristics of the derivative. Application of the accounting guidance on financial derivatives has historically contributed to significant volatility in Farmer Mac's earnings under GAAP when the financial derivative is not designated in a hedging relationship. For example, Farmer Mac recorded unrealized losses of \$47.6 million and unrealized gains of \$20.1 million in 2011 and 2010, respectively, for fair value changes on its financial derivatives not designated in a hedging relationship as a result of movements in interest rates during those years. Another consequence of the changes in the fair values of financial derivatives being accounted for in earnings is the resulting effect on Farmer Mac's regulatory core capital that is available to meet the Corporation's statutory minimum capital requirement.

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Adverse changes in the fair values of Farmer Mac's financial derivatives would reduce the amount of core capital available to meet this requirement, which could result in regulatory enforcement action against Farmer Mac if it were unable to meet the requirement.

Effective July 1, 2012, Farmer Mac designated \$950.0 million notional amount of interest rate swaps in fair value hedging relationships. Beginning in third quarter 2012, Farmer Mac recorded in earnings offsetting fair value adjustments on the hedged items attributable to the risk being hedged. In 2012, Farmer Mac recorded unrealized gains of \$0.7 million for fair value changes on its financial derivatives not designated in a hedging relationship as a result of movements in interest rates during the year. Although derivative instruments designated in fair value hedging relationships may lessen exposure to changes in the fair value of assets or liabilities, any differences arising from fair value changes that are not offset could result in hedge ineffectiveness and adversely affect Farm Mac's earnings under GAAP.

Changes in interest rates as well as certain credit events may trigger collateralization requirements for Farmer Mac under its derivatives contracts, which could adversely affect Farmer Mac's liquidity position and operating results.

Farmer Mac uses derivatives contracts to help manage its interest rate risk. Changes in interest rates have required, and in the future may require, Farmer Mac to post cash or investment securities to its derivative counterparties to reflect the changes in fair market values of Farmer Mac's derivatives as a result of the changes in interest rates. For example, as of December 31, 2012, Farmer Mac posted \$60.3 million of cash and no investment securities as collateral for its derivatives in net liability positions. Farmer Mac's derivatives contracts contain provisions establishing minimum threshold collateral amounts below which Farmer Mac is not required to post collateral. These threshold collateral amounts range between \$15 million and \$25 million, but may be reduced to zero upon the occurrence of specified credit events such as insolvency, receivership, failure to make a payment under the contract when due, or failure to continue as an instrumentality of the United States. If changes in interest rates were to result in a significant decrease in the fair value of Farmer Mac's derivatives, Farmer Mac would be required to post a significant amount of cash, cash equivalents, or investment securities, possibly within a short period of time, to satisfy its obligations under its derivatives contracts. The amount required to be posted would expand if Farmer Mac also experienced a credit event triggering full collateralization of its derivatives positions without any minimum threshold. As of December 31, 2012, the amount that would have been required for full collateralization of Farmer Mac's derivatives positions given the fair value of Farmer Mac's derivatives at that time was \$75.5 million. If Farmer Mac were required to fully collateralize its derivatives position in an adverse interest rate environment, it could have a negative effect on Farmer Mac's liquidity position and operating results.

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Incorrect estimates and assumptions by management in preparing financial statements could adversely affect the Corporation's business, operating results, reported assets and liabilities, financial condition, and capital levels.

Incorrect estimates and assumptions by management in connection with the preparation of Farmer Mac's consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of Farmer Mac's consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. For example, as of December 31, 2012, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at \$7.1 billion whose fair values were estimated by management in the absence of readily determinable fair values (in other words, level 3). These financial instruments measured as level 3 represented 56 percent of total assets and 73 percent of financial instruments measured at fair value as of December 31, 2012. Further information regarding fair value measurement is included in "Management's Discussion and Analysis—Critical Accounting Policies—Fair Value Measurement." If management makes incorrect assumptions or estimates, Farmer Mac may under- or overstate reported financial results, which could materially and adversely affect the Corporation's business, operating results, reported assets and liabilities, financial condition, and capital levels.

Changes in the value or composition of Farmer Mac's investment securities could adversely affect the Corporation's business, operating results, financial condition, and capital levels.

Deterioration in financial or credit market conditions could reduce the fair value of Farmer Mac's investment securities, particularly those securities that are less liquid and more subject to market variability. Some securities owned by Farmer Mac, including auction-rate certificates and GSE subordinated debt, do not have well-established secondary trading markets, which make it more difficult to estimate current fair values for those securities. Adverse financial market conditions may further compound the challenges of estimating fair values for Farmer Mac's securities, as was the case in 2008 after widespread failure of the auction mechanism that had been established to provide liquidity for the auction-rate certificates that Farmer Mac currently holds.

Farmer Mac relies on market observations to determine the fair value of its investment securities, although the market data Farmer Mac relies upon may not reflect the actual sale conditions that Farmer Mac would face when selling its investment securities. For example, the market value of auction-rate certificates held by Farmer Mac materially depends on the amounts and timing of the expected cash flows on these securities, which may be highly uncertain. Therefore, a change in the amounts or timing of cash flows could materially alter the market price of those securities. Subsequent valuations of these and other investment securities, in light of factors then prevailing, may result in significant changes in the value of the Corporation's investment securities. For example, the current market values for the auction-rate certificates and GSE subordinated debt are significantly below their amortized cost due to widening credit spreads after purchase. As of December 31, 2012, the fair values of Farmer Mac's auction-rate certificates and GSE subordinated debt were \$63.2 million and \$57.4 million, respectively, compared to Farmer Mac's amortized cost of \$74.1 million and \$70.0 million, respectively, for each of these classes of investment securities.

Farmer Mac also relies on internal models to estimate the fair values of its investment securities and to determine whether credit losses exist, which requires Farmer Mac to exercise judgment about estimates

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and assumptions used in the models. If Farmer Mac uses incorrect estimates or assumptions in the internal models it develops to estimate the fair value of its investment securities, those models could adversely affect reported income during the reporting period.

If Farmer Mac decides to sell securities in its investment portfolio, the price ultimately realized will depend on the demand and liquidity in the market at the time of sale. Farmer Mac's inability to sell the securities in its investment portfolio at or above their estimated fair values could adversely affect the Corporation's business, operating results, financial condition, and capital levels.

Farmer Mac's ability to attract and retain qualified employees is critical to the success of its business, and failure to do so may materially adversely affect Farmer Mac's performance or financial condition.

Farmer Mac relies on its employees' breadth and depth of knowledge of agricultural and rural utilities lending, financial products, and other areas of expertise to run its business operations successfully. A significant disruption in the continuity of Farmer Mac's employees would require Farmer Mac to expend resources to replace personnel and could result in a loss of productivity in the interim. If Farmer Mac is unable to continue to retain and attract qualified employees, Farmer Mac's performance or financial condition could be materially adversely affected.

Any failure, interruption, or breach in Farmer Mac's information systems or technology, including the occurrence of cyber incidents or a deficiency in Farmer Mac's cyber security, could result in a loss of business, damage to Farmer Mac's reputation, the disclosure or misuse of confidential or proprietary information, or increased costs or liability to Farmer Mac, which could adversely affect Farmer Mac's business, operating results, or financial condition.

Farmer Mac relies heavily on information systems and other technology, including from third parties, to conduct and manage its business operations. As Farmer Mac's reliance on technology has increased, so have the risks posed to its systems, including the effect of events that would threaten the confidentiality, integrity, or availability of Farmer Mac's information resources, known as cyber incidents. Farmer Mac has undertaken remedial measures and devotes significant resources to regularly implement, maintain, and upgrade its information systems and network with backup systems and various other safeguards to mitigate these risks, including a business continuity plan. However, Farmer Mac may not be able to prevent, address on a timely and adequate basis, or fully mitigate the negative effects of any failure or interruption of Farmer Mac's information systems or network, including these backup systems and safeguards, on Farmer Mac's business, operating results, or financial condition. A failure or interruption in any of Farmer Mac's information systems, backup infrastructure, or other technology could result in a disruption or malfunction of its operations, which could adversely affect Farmer Mac's ability to do business with its approved lenders or other counterparties, result in financial loss, or cause damage to Farmer Mac's reputation.

Farmer Mac's operations largely rely on the secure transmission, processing, and storage of its approved lenders' and other counterparties' confidential, proprietary, and other information through its online and network systems and applications. Any action resulting in unauthorized access to Farmer Mac's information systems and networks by third parties, including through computer viruses, malicious code, cyber-attacks or other information security breaches, could disrupt Farmer Mac's operations, corrupt its data, or result in the misappropriation, unauthorized release, loss, or destruction of the confidential, proprietary, or other information of its approved lenders and other counterparties. If such an event were to occur, Farmer Mac could consequently experience operational interruption, damage to its reputation, loss

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of business, legal liability, or increased costs from private data exposure, which could adversely affect Farmer Mac's business, operating results, or financial condition.

If Farmer Mac's management of risk associated with its eligible loan assets and investment securities is not effective, its business, operating results, financial condition, and capital levels could be materially adversely affected.

Events in the financial markets during the last five years leading to heightened volatility and tightened liquidity and credit have challenged financial institutions, including Farmer Mac, to adapt and further develop profitability and risk management models adequate to address a wider range of possible market developments. Farmer Mac's techniques and strategies may not be effective in mitigating its risk exposure in all economic market environments or against all types of risk, including risks that Farmer Mac fails to identify or anticipate. Some of Farmer Mac's qualitative tools and metrics for managing risk are based upon its use of observed historical market behavior. Farmer Mac applies statistical and other tools to these observations to quantify its risks. These tools and metrics may fail to predict future or unanticipated risk. Such failures could, for example, arise from factors Farmer Mac did not anticipate or correctly evaluate in its models. In addition, Farmer Mac's quantified modeling does not take into account all risks. Farmer Mac's more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. The inability of Farmer Mac to effectively identify and manage the risks inherent in its business could have a material adverse effect on its business, operating results, financial condition, and capital levels.

Farmer Mac's ability to repay its obligations and/or raise capital through issuances of debt or equity may be adversely affected by the sale of certain assets to, and the operating results of, its subsidiary Farmer Mac II LLC.

In January 2010, Farmer Mac contributed substantially all of its USDA Guarantees line of business to Farmer Mac II LLC, including USDA Guaranteed Securities in an aggregate principal amount of \$1.1 billion and the primary intangible assets related to the operation of that line of business. As a result, the assets of Farmer Mac II LLC are no longer directly available to satisfy the claims of Farmer Mac's creditors or stockholders. In the event of an insolvency, bankruptcy, liquidation, reorganization, dissolution, or winding-up of Farmer Mac II LLC, Farmer Mac, as the holder of the common equity interest, may lose all or some of its investment in Farmer Mac II LLC, which event likely would adversely affect Farmer Mac's ability to raise capital, issue new debt, and repay outstanding debt as it comes due. Because Farmer Mac is also a creditor to Farmer Mac II LLC, the value of Farmer Mac II LLC's assets may be insufficient to repay amounts due to Farmer Mac, which also could adversely affect Farmer Mac's ability to raise capital, issue new debt, and repay outstanding debt as it comes due. In addition, the ability of Farmer Mac II LLC to successfully operate the USDA Guarantees line of business will impact its ability to pay dividends on the common equity interest owned by Farmer Mac. If Farmer Mac II LLC cannot pay dividends to Farmer Mac or repay or refinance obligations owed to Farmer Mac, Farmer Mac's liquidity and ability to raise additional capital also may be adversely affected, which could adversely affect the Corporation's operating results and financial condition.

The trading price for Farmer Mac's Class C non-voting common stock may be volatile due to market influences, trading volume, or the effects of equity awards for the Corporation's officers, directors, and employees.

The trading price of Farmer Mac's Class C non-voting common stock has at times experienced substantial price volatility and may continue to be volatile. For example, from January 2012 to December 2012, the

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price of the stock ranged from \$18.01 per share to \$34.58 per share. The trading price may fluctuate in response to various factors, including short sales, low trading volume, hedging, or stock market influences in general that are unrelated to the Corporation's operating performance. In addition, as a component of compensation for its officers, directors, and employees, Farmer Mac typically grants equity awards each year that are based on the Class C non-voting common stock, including stock appreciation rights and restricted stock that vest over time or upon the achievement of specified performance goals. Sales of stock acquired upon vesting or exercise of equity awards by Farmer Mac's officers, directors, or employees, whether pursuant to an established trading plan or otherwise, could adversely affect the trading price of Farmer Mac's Class C non-voting common stock. These factors may be exacerbated during periods of low trading volume for the Corporation's Class C non-voting common stock, and may have a prolonged negative effect on its trading price.

Farmer Mac's efforts to pursue its Congressional mission of providing a secondary market for loans made to borrowers in rural America may adversely affect its business, operating results, and financial condition.

Congress created Farmer Mac to provide for a secondary market for agricultural mortgage loans, loans to rural utilities cooperatives, and the guaranteed portions of USDA-guaranteed loans. In pursuing this mission, Farmer Mac's secondary market activities are designed to:

- increase the availability of long-term credit to rural borrowers at stable interest rates;
- provide greater liquidity and lending capacity in extending credit to rural borrowers; and
- provide an arrangement for new lending by facilitating capital market investments in long-term funding for rural borrowers, including funds at fixed rates of interest.

Although Farmer Mac strives to undertake its mission-related activities in a manner consistent with providing a positive return to Farmer Mac's stockholders, it is possible that these activities may contribute to a lower return to stockholders than if Farmer Mac's sole purpose were to maximize stockholder value. In addition, it is possible that the entities that regulate Farmer Mac could seek to alter Farmer Mac's mission-related activities in the future or place limits on its liquidity investments that provide liquidity for Farmer Mac's mission-related activities. If this were to happen, and Farmer Mac were required to undertake activities involving greater risk to satisfy its Congressional mission, Farmer Mac's business, operating results, and financial condition could be adversely affected.

A few significant stockholders may seek to influence Farmer Mac's business, strategy, or board composition, and the interests of these stockholders may differ from the interests of Farmer Mac or other holders of Farmer Mac's common stock.

The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 45 percent of Farmer Mac's Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Approximately 97 percent of Farmer Mac's Class B voting common stock is held by five FCS institutions (two of which are related to each other through a parent-subsidary relationship). Three of those five FCS institutions may be deemed to have entered into a voting arrangement regarding the election of directors to Farmer Mac's board of directors.

Many holders of Farmer Mac's voting common stock are rural lenders that may compete directly with each other. At times, some of these voting stockholders may also view Farmer Mac as an indirect competitor in that Farmer Mac's secondary market activities often provide attractive funding and effective risk management tools that help many lenders compete in the origination of eligible rural loans. So long as Farmer Mac's

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Class A and Class B voting common stock is highly concentrated in a small number of institutions, there is the potential that these institutions will seek to influence Farmer Mac's business, strategy, or board composition in a way that may not be in the best interests of either Farmer Mac or all other stockholders. Furthermore, the interests of the holders of Farmer Mac's Class A and Class B voting common stock may not be fully aligned with each other or the interests of Farmer Mac's Class C non-voting common stockholders, and this could lead to a strategy that is not in the best interests of Farmer Mac or all stockholders. The holders of Farmer Mac's Class A voting common stock and the holders of Farmer Mac's Class B voting common stock each have the right to elect one third of the membership of Farmer Mac's Board. Accordingly, each of these stockholder classes has the potential to significantly influence Farmer Mac's business and strategy in a manner that may not be in the best interests of all stockholders.

Any of the risks described in this section could materially and adversely affect Farmer Mac's business, operating results, financial condition, capital levels, and future earnings. For additional discussion about Farmer Mac's risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" in Item 7 of this Annual Report on Form 10-K.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Farmer Mac currently occupies its principal offices, which are located at 1999 K Street, N.W., 4th Floor, Washington, D.C. 20006 under a Sublease that commenced on October 1, 2011 and expires on August 30, 2024. Farmer Mac also maintains an office located at 5408 NW 88th Street, Suite 120, Johnston, Iowa 50131, under the terms of a lease that commenced on November 1, 2010 and expires on October 31, 2015. Farmer Mac's offices are suitable and adequate for its current and currently anticipated needs.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

(a)Farmer Mac has three classes of common stock outstanding. Ownership of Class A voting common stock is restricted to banks, insurance companies, and other financial institutions or similar entities that are not institutions of the FCS. Ownership of Class B voting common stock is restricted to institutions of the FCS. There are no ownership restrictions on the Class C non-voting common stock. Under the terms of the original public offering of the Class A and Class B voting common stock, Farmer Mac reserved the right to redeem at book value any shares of either class held by an ineligible holder.

Farmer Mac's Class A voting common stock and Class C non-voting common stock are listed on the New York Stock Exchange under the symbols AGM.A and AGM, respectively. The Class B voting common stock, which has a limited market and trades infrequently, is not listed or quoted on any exchange or other quotation system, and Farmer Mac is unaware of any publicly available quotations or prices for that class of common stock.

The information below represents the high and low closing sales prices for the Class A and Class C common stocks for the periods indicated as reported by the New York Stock Exchange:

	Sales Prices Class A Stock		Class C Stock	
	High (per share)	Low	High	Low
2013				
First quarter (through March 1, 2013)	\$29.50	\$23.36	\$37.72	\$32.96
2012				
Fourth quarter	\$28.88	\$19.75	\$34.58	\$25.76
Third quarter	21.47	17.52	27.36	23.71
Second quarter	20.51	17.28	26.51	20.55
First quarter	18.33	11.35	22.70	18.01
2011				
Fourth quarter	\$13.66	\$11.34	\$20.38	\$15.69
Third quarter	15.93	12.22	22.59	16.91
Second quarter	14.88	11.97	22.12	17.24
First quarter	15.25	12.08	20.27	14.82

As of March 4, 2013, Farmer Mac estimates that there were 1,113 registered owners of the Class A voting common stock, 84 registered owners of the Class B voting common stock and 1,036 registered owners of the Class C non-voting common stock.

The dividend rights of all three classes of the Corporation's common stock are the same, and dividends may be paid on common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion. From first quarter 2009 through fourth quarter 2011, Farmer Mac paid a quarterly dividend of \$0.05 per share on all classes of the Corporation's common stock. On February 2, 2012, Farmer Mac's board of directors declared a quarterly dividend of \$0.10 per share on the Corporation's common stock payable on March 30, 2012, which increased the quarterly dividend rate to the level paid

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prior to 2009, and was paid quarterly through fourth quarter 2012. On February 6, 2013, Farmer Mac's board of directors declared a quarterly dividend of \$0.12 per share on the Corporation's common stock payable on March 29, 2013. Farmer Mac expects to continue to pay comparable quarterly cash dividends for the foreseeable future, subject to the outlook and indicated capital needs of the Corporation and the determination of the board of directors. Farmer Mac's ability to pay dividends on its common stock is subject to the payment of dividends on its outstanding preferred stock. Farmer Mac's ability to declare and pay dividends could also be restricted if it were to fail to comply with regulatory capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement Levels." In addition, the FCA has recently proposed a rule that would require advance notice reporting of certain capital distributions to the FCA. If enacted, Farmer Mac would be required to provide the FCA with 15 business days' advance notice of any capital distribution, including dividends, if there is any change in the dividend from the prior dividend distribution period. See "Management's Discussion and Analysis—Regulatory Matters."

Information about securities authorized for issuance under Farmer Mac's equity compensation plans appears under "Equity Compensation Plans" in the Corporation's definitive proxy statement to be filed on or about April 26, 2013. That portion of the definitive proxy statement is incorporated by reference into this Annual Report on Form 10-K.

Farmer Mac is a federally chartered instrumentality of the United States, and its common stock is exempt from registration under Section 3(a)(2) of the Securities Act. Two types of transactions related to Farmer Mac common stock occurred during fourth quarter 2012 that were not registered under the Securities Act and not otherwise reported on a Current Report on Form 8-K:

On December 6, 2012, Farmer Mac granted stock appreciation rights under its 2008 Omnibus Incentive Plan with respect to 8,983 shares of Class C non-voting common stock, at an exercise price of \$32.85 per share, to the newly appointed CEO as incentive compensation. This grant was contemplated under the newly appointed CEO's employment agreement, which was entered into effective December 6, 2012 and was previously reported on a Current Report on Form 8-K that was filed with the SEC on December 10, 2012.

On October 16, 2012, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 136 shares of its Class C non-voting common stock to the four directors who elected to receive such stock in lieu of a portion of their cash retainers. The number of shares issued to the directors was calculated based on a price of \$25.74 per share, which was the closing price of the Class C non-voting common stock on September 28, 2012, the last business day of the third quarter, as reported by the New York Stock Exchange.

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Performance Graph. The following graph compares the performance of Farmer Mac's Class A voting common stock and Class C non-voting common stock with the performance of the New York Stock Exchange Composite Index (the "NYSE Comp") and the Standard & Poor's 500 Diversified Financials Index (the "S&P 500 Div Fin") over the period from December 31, 2007 to December 31, 2012. The graph assumes that \$100 was invested on December 31, 2007 in each of: Farmer Mac's Class A voting common stock; Farmer Mac's Class C non-voting common Stock; the NYSE Comp; and the S&P 500 Div Fin. The graph also assumes that all dividends were reinvested into the same securities throughout the past five years. Farmer Mac obtained the information contained in the performance graph from SNL Financial.

This performance graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC, and this performance graph shall not be incorporated by reference into any of Farmer Mac's filings under the Securities Act or the Securities Exchange Act of 1934 and related regulations (collectively, the "Exchange Act"), or any other document, whether made before or after the date of this report and irrespective of any general incorporation language contained in a filing or document (except to the extent Farmer Mac specifically incorporates this section by reference into a filing or document).

(b)Not applicable.

Farmer Mac did not repurchase any shares of its common stock during 2012, 2011, or 2010.

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Item 6. Selected Financial Data

The selected consolidated financial data presented below is summarized from Farmer Mac's consolidated balance sheet data as of December 31, 2012 and the five-year period then ended, as well as selected results of operations data for the five-year period then ended. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

Summary of Financial Condition:	As of December 31,					
	2012	2011	2010	2009	2008	
	(dollars in thousands)					
Cash and cash equivalents	\$785,564	\$817,046	\$729,920	\$654,794	\$278,412	
Investment securities	2,499,629	2,184,490	1,763,329	1,131,895	1,235,859	
Farmer Mac Guaranteed Securities	4,766,258	4,289,272	2,907,264	3,398,996	2,451,244	
USDA Guaranteed Securities	1,590,783	1,491,905	1,317,444	—	—	
Loans, net	2,729,774	2,894,156	2,558,599	753,720	774,596	
Total assets	12,622,201	11,883,508	9,479,914	6,138,813	5,107,307	
Notes payable:						
Due within one year	6,567,366	6,087,879	4,509,419	3,662,898	3,757,099	
Due after one year	5,034,739	4,104,882	3,430,656	1,908,713	887,999	
Total liabilities	12,029,239	11,328,975	9,001,037	5,798,406	4,947,743	
Mezzanine equity	—	—	—	144,216	144,216	
Stockholders' equity	351,109	312,680	237,024	196,191	15,348	
Non-controlling interest - preferred stock	241,853	241,853	241,853	—	—	
Selected Financial Ratios:						
Return on average assets (1)	0.36	% 0.13	% 0.28	% 1.46	% (3.06))%
Return on average common equity (2)	16.00	% 6.34	% 13.88	% 113.70	% (158.24))%
Average equity to assets (3)	2.71	% 2.57	% 2.77	% 1.88	% 2.37	%
Average total equity to assets (4)	4.68	% 4.84	% 5.25	% 4.45	% 3.80	%

(1) Calculated as net income/(loss) attributable to common stockholders divided by the simple average of beginning and ending total assets.

(2) Calculated as net income/(loss) attributable to common stockholders divided by the simple average of beginning and ending stockholders' equity, net of preferred stock, at redemption value.

(3) Calculated as the simple average of beginning and ending stockholders' equity divided by the simple average of beginning and ending total assets.

(4) Calculated as the simple average of beginning and ending mezzanine equity, stockholders' equity and non-controlling interest - preferred stock divided by the simple average of beginning and ending total assets.

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Summary of Operations:	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
Interest Income:					
Net interest income after provision for loan losses	\$ 118,289	\$ 120,695	\$ 94,150	\$ 83,055	\$ 74,184
Non-interest income/(loss):					
Guarantee and commitment fees	24,963	24,821	24,091	31,805	28,381
(Losses)/gains on financial derivatives, hedging activities and trading assets	(19,522)	(89,190)	(11,889)	64,570	(141,042)
Other-than-temporary impairment losses	—	—	—	(3,994)	(106,240)
Gains on asset sales and debt repurchases	18	269	266	4,934	2,689
Gains on the sale of real estate owned	878	974	10	—	—
Lower of cost or fair value adjustment on loans held for sale	(5,943)	8,887	(8,748)	(139)	—
Other income	3,341	6,850	1,244	1,578	1,413
Non-interest income/(loss)	3,735	(47,389)	4,974	98,754	(214,799)
Non-interest expense	30,908	28,659	32,627	29,692	32,612
Income/(loss) before income taxes	91,116	44,647	66,497	152,117	(173,227)
Income tax expense/(benefit)	22,156	5,797	13,797	52,517	(22,864)
Net income/(loss)	68,960	38,850	52,700	99,600	(150,363)
Less: Net income attributable to non-controlling interest - preferred stock dividends	(22,187)	(22,187)	(20,707)	—	—
Preferred stock dividends	(2,879)	(2,879)	(4,129)	(17,302)	(3,717)
Loss on retirement of preferred stock	—	—	(5,784)	—	—
Net income/(loss) attributable to common stockholders	\$ 43,894	\$ 13,784	\$ 22,080	\$ 82,298	\$ (154,080)
Allowance for Losses Activity:					
Provision for/(release of) losses	\$ 1,875	\$ (2,347)	\$ 4,310	\$ 5,242	\$ 17,840
Net charge-offs/(recoveries)	2,501	252	(1,618)	7,490	5,292
Ending balance	16,890	17,516	20,115	14,187	16,435
Earnings Per Common Share and Dividends:					
Basic earnings/(loss) per common share	\$ 4.19	\$ 1.32	\$ 2.16	\$ 8.12	\$ (15.40)
Diluted earnings/(loss) per common share	3.98	1.28	2.08	8.04	(15.40)
Common stock dividends per common share	0.40	0.20	0.20	0.20	0.40
Regulatory Capital:					
Statutory minimum capital requirement	\$ 374,037	\$ 348,649	\$ 300,996	\$ 216,959	\$ 193,476
Core capital	518,993	475,163	460,602	337,153	206,976
Minimum capital surplus	144,956	126,514	159,606	120,194	13,500

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information included in this report is consolidated to include the accounts of Farmer Mac and its subsidiaries, Farmer Mac Mortgage Securities Corporation and Farmer Mac II LLC. Farmer Mac II LLC was formed as a Delaware limited liability company in December 2009 to operate substantially all of Farmer Mac's USDA Guarantees line of business – primarily the acquisition of USDA Guaranteed Securities. The business operations of Farmer Mac II LLC began in January 2010. Since then, Farmer Mac has operated only that part of the USDA Guarantees line of business that involves the issuance of Farmer Mac II Guaranteed Securities backed by USDA Guaranteed Securities to investors other than Farmer Mac or Farmer Mac II LLC. Although Farmer Mac II LLC may issue securities in these transactions, Farmer Mac II LLC does not guarantee any USDA Securities it holds or any Farmer Mac II Guaranteed Securities issued by Farmer Mac or Farmer Mac II LLC.

This discussion and analysis of financial condition and results of operations should be read together with Farmer Mac's consolidated financial statements and the related notes to the consolidated financial statements for the fiscal years ended December 31, 2012, 2011, and 2010.

The discussion below is not necessarily indicative of future results.

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 and net effective spread;
 - trends in portfolio credit quality, delinquencies, and provisions for losses;
- trends in expenses;
- trends in investment securities;
- 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 this Annual Report on Form 10-K and uncertainties regarding:

- the availability to Farmer Mac and Farmer Mac II LLC of debt financing and, if available, the reasonableness of rates and terms;

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legislative or regulatory developments that could affect Farmer Mac or its sources of business, including but not limited to developments in relation to agricultural policies and programs contained in the current Farm Bill (the Food, Conservation and Energy Act of 2008), which is currently scheduled to expire in September 2013, or reduced funding for agricultural policies and programs as a result of federal budget cuts;

- fluctuations in the fair value of assets held by Farmer Mac and Farmer Mac II LLC;
- 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;
- the impact of economic conditions, including the effects of drought and other weather-related conditions and fluctuations in agricultural real estate values, on agricultural mortgage lending and borrower repayment capacity;
- developments in the financial markets, including possible investor, analyst, and rating agency reactions to events involving GSEs, including Farmer Mac;
- financial market volatility;
- changes in the level and direction of interest rates, which could among other things affect the value of collateral securing Farmer Mac's agricultural mortgage loan assets; and
- volatility in commodity prices and/or export demand for U.S. agricultural products.

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.

Overview

At the end of 2012, Farmer Mac's outstanding program volume and core earnings reached record levels, and asset quality continued to improve. Farmer Mac is prepared to build on these positive results while remaining committed to delivering stockholder value and fulfilling its mission and believes that its financial condition and earnings outlook remain strong. Consistent with this outlook, two developments that have already occurred in 2013 are noteworthy:

In January 2013, Farmer Mac replaced \$57.6 million of cumulative preferred stock with \$60.0 million of non-cumulative preferred stock. That transaction strengthened Farmer Mac's overall capital position, lowered its projected long-term dividends, and broadened its investor base by tapping the retail investor market.

In February 2013, Farmer Mac announced that it would increase the quarterly dividend paid on all three classes of the Corporation's common stock by 20 percent from the previous quarter. That dividend increase underscored Farmer Mac's confidence in its future financial performance and capital position.

Farmer Mac' outstanding program volume rose to an all-time high by the end of 2012. Farmer Mac's total outstanding loans, guarantees, and commitments exceeded \$13.0 billion as of December 31, 2012, compared to \$11.9 billion as of December 31, 2011, and \$12.2 billion as of December 31, 2010. Farmer Mac's overall outstanding program volume increased during 2012 because new business volume more

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than offset paydowns and maturities during the year. Also, for the first time in its history, Farmer Mac purchased more than \$1.0 billion of agricultural mortgage loans and USDA Guaranteed Securities in a single calendar year, reaching \$1.1 billion in purchases during 2012. This purchase volume is more than double the level of the Corporation's purchase volume of agricultural mortgage loans and USDA Guaranteed Securities only five years ago, when Farmer Mac purchased \$501 million of agricultural mortgage loans and USDA Guaranteed Securities during 2008.

Farmer Mac's GAAP net income attributable to common stockholders for 2012 was \$43.9 million, compared to \$13.8 million for 2011, and \$22.1 million for 2010. The increase in Farmer Mac's GAAP net income compared to the prior years was almost entirely attributable to the effects of fair value changes on financial derivatives. Because Farmer Mac's financial derivatives were not designated in hedge relationships for accounting purposes prior to third quarter 2012, changes in the fair values of these instruments were recorded in earnings, without offsetting fair value adjustments on the corresponding hedged items. As a result, movements in long-term interest rates have historically created significant volatility in Farmer Mac's periodic GAAP earnings due to changes in the fair values of financial derivatives.

Beginning in third quarter 2012, Farmer Mac designated \$950.0 million notional amount of interest rate swaps in fair value hedge relationships. Accordingly, Farmer Mac records in earnings offsetting fair value adjustments on the hedged items attributable to the risk being hedged. For the year ended December 31, 2012, Farmer Mac recorded unrealized fair value gains of \$6.7 million on its financial derivatives and hedging activities. This compares to unrealized fair value losses on financial derivatives of \$47.6 million for 2011 and gains of \$20.1 million for 2010. Because Farmer Mac expects its fair value hedge relationships to remain highly effective through maturity, a substantial portion of the volatility caused from changes in the fair values of financial derivatives is expected to be eliminated in future periods.

Farmer Mac's non-GAAP core earnings for 2012 were a record \$49.6 million, continuing the upward trend from \$42.9 million in 2011, and \$25.4 million in 2010. Core earnings for 2012 benefited from higher net effective spread of \$106.6 million (95 basis points), compared to \$89.4 million (96 basis points) in 2011, and \$66.5 million (106 basis points) in 2010. This higher net effective spread was partially offset by net provisions to the allowance for losses of \$1.9 million in 2012, compared to net releases from the allowance for losses of \$2.3 million in 2011, and net provisions to the allowance for losses of \$4.3 million in 2010. In addition, both GAAP net income and core earnings for 2012 were negatively affected by the severance payment made to Farmer Mac's former President and Chief Executive Officer in connection with the termination of his employment in October 2012. The severance payment made to the former executive resulted in a net after-tax expense of \$1.0 million during fourth quarter 2012.

Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings is a useful alternative measure in understanding Farmer Mac's economic performance, transaction economics, and business trends. Core earnings differs from GAAP net income by excluding the effects of fair value accounting guidance, which are not expected to have a permanent effect on capital. Core earnings also differs from GAAP net income by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of the Corporation's core business. This non-GAAP financial measure may not be comparable to similarly labeled non-GAAP financial measures disclosed by other companies. Farmer Mac's disclosure of this non-GAAP measure is not intended to replace GAAP information but, rather, to supplement it. Further

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discussion of Farmer Mac's financial results and a reconciliation of Farmer Mac's GAAP net income attributable to common stockholders to core earnings is presented in "—Results of Operations."

The loans included in the Farm & Ranch and Rural Utilities lines of business continued to perform well during 2012. As of December 31, 2012, Farmer Mac's 90-day delinquencies in the Farm & Ranch line of business were \$33.3 million (0.70 percent of the non-AgVantage Farm & Ranch portfolio), down from \$40.8 million (0.93 percent) as of September 30, 2012, and \$40.6 million (0.93 percent) as of December 31, 2011. The drought conditions experienced in the Midwest and Great Plains during 2012 caused significant deterioration in the yields of feed grains, although the higher prices for these commodities during the past year as well as the availability of crop insurance has significantly mitigated any negative effects that the drought may otherwise have had on feed grains producers. Although Farmer Mac continues to monitor the drought's effects, as of December 31, 2012, the drought has had no measurable impact on the credit quality of Farmer Mac's portfolio. Farmer Mac believes that it generally remains well-collateralized on its exposures in drought areas and that there are no additional probable losses inherent in the portfolio as of December 31, 2012 due to the drought conditions.

When analyzing the overall risk profile of its eligible loan lines of business, Farmer Mac takes into account more than the loan delinquency percentages in its Farm & Ranch line of business. The total eligible loan lines of business includes AgVantage securities and rural utilities loans, neither of which had any delinquencies as of December 31, 2012, and USDA Guaranteed Securities, which are backed by the full faith and credit of the United States. Across Farmer Mac's entire eligible loan lines of business, 90-day delinquencies represented 0.26 percent of total eligible loan lines of business as of December 31, 2012, compared to 0.33 percent as of September 30, 2012, and 0.34 percent as of December 31, 2011.

As of December 31, 2012, Farmer Mac's core capital of \$519.0 million exceeded its minimum capital requirement of \$374.0 million by \$145.0 million. As noted, Farmer Mac issued \$60.0 million of non-cumulative perpetual preferred stock in January 2013, and used the proceeds to redeem and retire all \$57.6 million of its issued and outstanding Series C Preferred Stock. This transaction furthers Farmer Mac's ability to meet the financing needs of rural America as opportunities arise during 2013 and in the future. See "—Outlook" for further discussion about the opportunities that Farmer Mac foresees for future business growth.

Critical Accounting Policies and Estimates

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

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses incurred as of the balance sheet date on loans held ("allowance for loan losses") and loans underlying LTSPCs and Farmer Mac Guaranteed Securities ("reserve for losses") based on available information. Farmer Mac's methodology for determining the allowance for losses separately considers its portfolio segments – Farm

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& Ranch, USDA Guarantees, and Rural Utilities, and disaggregates its analysis, where relevant, into classes of financing receivables, which currently include loans and AgVantage securities. Further disaggregation by commodity type is performed, where appropriate, in analyzing the need for an allowance for losses.

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses that are charged to non-interest expense and is reduced by charge-offs for actual losses, net of recoveries. Charge-offs represent losses on the outstanding principal balance, any interest payments previously accrued or advanced and expected costs of liquidation. 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.

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

General Allowance for Losses

Farm & Ranch

Farmer Mac's methodology for determining its general 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 various factors, including:

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

Management believes that its use of this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans included in the Farm & Ranch portfolio, including loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

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

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

USDA Guarantees

No allowance for losses has been provided for USDA Guaranteed Securities or Farmer Mac II Guaranteed Securities. The USDA Guaranteed Securities on the consolidated balance sheets, as well as those that collateralize 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. Farmer Mac excludes these guaranteed portions from the credit risk metrics it discloses because of the USDA guarantee.

Rural Utilities

Farmer Mac separately evaluates the rural utilities loans it owns, as well as the lender obligations and loans underlying or securing its Farmer Mac Guaranteed Securities – Rural Utilities, including AgVantage securities, to determine if there are any probable losses inherent in those assets. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac has not provided an allowance for losses for the portfolio segment related to the Rural Utilities program, based on the credit quality of the collateral supporting rural utilities assets and Farmer Mac's counterparty risk analysis.

Specific Allowance for Impaired Loans

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

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

Farmer Mac uses a risk-based approach in determining the necessity of obtaining updated appraisals on impaired loans. For example, larger exposures associated with highly improved and specialized collateral will generally receive updated appraisals once the loans are identified as impaired. In addition, updated appraisals are always obtained during the foreclosure process. Depending on the risk factors associated with the loan and underlying collateral, which can vary widely depending on the circumstances of the loan

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and collateral, this can occur early in the foreclosure process, while in other instances this may occur just prior to the transfer of title. As part of its routine credit review process, Farmer Mac often will exercise judgment in discounting an appraisal value due to local real estate trends or the condition of the property (e.g., following an inspection by Farmer Mac or the servicer). In addition, a property appraisal value may be discounted based on the market's reaction to Farmer Mac's asking price for sale of the property.

Further information regarding the allowance for losses is included in "—Risk Management—Credit Risk – Loans" and Note 2(j) to the consolidated financial statements.

Fair Value Measurement

A significant portion of Farmer Mac's assets consists of financial instruments that are measured at fair value in the consolidated balance sheets. For financial instruments that are complex in nature or for which observable inputs are not available, the measurement of fair value requires significant management judgments and assumptions. These judgments and assumptions, as well as changes in market conditions, may have a material impact on the consolidated balance sheets and statements of operations.

Accounting guidance on fair value measurements 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) and establishes a hierarchy for ranking fair value measurements. In determining fair value, Farmer Mac uses various valuation approaches, including market and income approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. When available, the fair value of Farmer Mac's financial instruments is based on quoted market prices, valuation techniques that use observable market-based inputs, or unobservable inputs that are corroborated by market data. Pricing information obtained from third parties is internally validated for reasonableness prior to use in the consolidated financial statements.

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

Farmer Mac's assets and liabilities presented at fair value in the consolidated balance sheets on a recurring basis include investment securities, Farmer Mac Guaranteed Securities, USDA Guaranteed Securities, and financial derivatives. The changes in fair value from period to period are recorded either in the consolidated balance sheets to accumulated other comprehensive income or in the consolidated statements of operations as gains/(losses) on financial derivatives and hedging activities or gains/(losses) on trading assets.

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 accounting guidance describes the following three levels used to classify fair value measurements:

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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.

As of December 31, 2012, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at \$7.1 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 56 percent of total assets and 73 percent of financial instruments measured at fair value as of December 31, 2012.

Assets underlying (or, in the case of USDA Guaranteed Securities, consisting of) these financial instruments measured as level 3 primarily include the following:

Type of Financial Instrument	Underlying Assets
Farmer Mac I Guaranteed Securities	General obligations of various issuers that are secured by agricultural real estate loans eligible under the standards for the Farm & Ranch line of business.
Farmer Mac II Guaranteed Securities	Portions of loans guaranteed by the USDA pursuant to the Consolidated Farm Rural Development Act.
USDA Guaranteed Securities	Portions of loans guaranteed by the USDA pursuant to the Consolidated Farm Rural Development Act.
Farmer Mac Guaranteed Securities – Rural Utilities	General obligations of currently only CFC that are secured by rural utilities loans.
Auction-rate certificates ("ARCs")	Guaranteed student loans that are backed by the full faith and credit of the United States.

Further information regarding fair value measurement is included in Note 13 to the consolidated financial statements.

Other-than-Temporary Impairment of Investment Securities

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 security is below its amortized cost, and it is determined that management (1) has the intent to sell the security or (2) more likely than not will be required to sell the 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.

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For debt securities, 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 cash flows likely to be collected 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.

Results of Operations

Farmer Mac's GAAP net income attributable to common stockholders for 2012 was \$43.9 million or \$3.98 per diluted common share, compared to \$13.8 million or \$1.28 per diluted common share for 2011, and \$22.1 million or \$2.08 per diluted common share for 2010.

Farmer Mac's non-GAAP core earnings were \$49.6 million or \$4.51 per diluted common share in 2012, compared to \$42.9 million or \$3.97 per diluted common share in 2011, and \$25.4 million or \$2.39 per diluted common share in 2010.

The adjustments required to reconcile from GAAP net income attributable to common stockholders to Farmer Mac's core earnings are related principally to the effects of fair value accounting guidance that may cause volatility in periodic GAAP earnings but are not expected to have a cumulative net impact on GAAP earnings if the financial instruments are held to maturity, as is generally expected. Adjustments are also made to exclude specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of the Corporation's core business.

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A reconciliation of Farmer Mac's GAAP net income attributable to common stockholders to core earnings is presented in the following table, and the adjustments are described in more detail below the table:

Reconciliation of GAAP Net Income Attributable to Common Stockholders to Core Earnings

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands, except per share amounts)		
GAAP net income attributable to common stockholders	\$43,894	\$13,784	\$22,080
Less the after-tax effects of:			
Unrealized gains/(losses) on financial derivatives and hedging activities	4,325	(30,930)	) 13,046
Unrealized gains on trading assets	200	2,246	3,426
Amortization of premiums and deferred gains on assets consolidated at fair value	(7,266)	) (3,692)	) (7,617)
Net effects of settlements on agency forward contracts	856	(2,523)	) (670)
Lower of cost or fair value adjustment on loans held for sale	(3,863)	) 5,776	(5,686)
Issuance costs on the retirement of preferred stock	—	—	(5,784)
Sub-total	(5,748)	) (29,123)	) (3,285)
Core earnings	\$49,642	\$42,907	\$25,365
Core earnings per share:			
Basic	\$4.74	\$4.15	\$2.48
Diluted	4.51	3.97	2.39
Weighted-average shares:			
Basic	10,479	10,335	10,229
Diluted	11,019	10,802	10,615

Derivatives are required to be recognized as either assets or liabilities on the consolidated balance sheet and measured at fair value. Because Farmer Mac's financial derivatives were not designated in hedge relationships for accounting purposes prior to third quarter 2012, changes in the fair value of these instruments were recorded in earnings as they occurred, with no fair value adjustments on the corresponding hedged items. In an effort to mitigate volatility in GAAP earnings caused from these fair value changes, Farmer Mac previously elected the fair value option for certain investment securities and Farmer Mac Guaranteed Securities that were funded or hedged principally with financial derivatives. Farmer Mac classifies these assets as trading and measures them at fair value, with changes in fair value recorded in earnings as they occur.

Effective July 1, 2012, Farmer Mac designated \$950.0 million notional amount of interest rate swaps in fair value hedge relationships. Beginning in third quarter 2012, Farmer Mac recorded in earnings offsetting fair value adjustments on the hedged items attributable to the risk being hedged. Any differences arising from fair value changes that are not offset result in hedge ineffectiveness and affect GAAP earnings. Farmer Mac excludes the after-tax effect of unrealized gains and losses resulting from changes in the fair values of financial derivatives and hedging activities from core earnings.

Farmer Mac recorded unrealized gains of \$6.7 million (\$4.3 million after-tax) for fair value changes on its financial derivatives and hedging activities for 2012, compared to unrealized losses of \$47.6 million (\$30.9 million after-tax) in 2011, and unrealized gains of \$20.1 million (\$13.0 million after-tax) in 2010. Unrealized fair value gains on trading assets totaled \$0.3 million (\$0.2 million after-tax) for 2012, compared to \$3.5 million (\$2.2 million after-tax) for 2011, and \$5.3 million (\$3.4 million after-tax) for 2010. Changes in the fair values of financial derivatives and trading assets have historically contributed

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significant volatility to Farmer Mac's periodic GAAP earnings. Because Farmer Mac expects its fair value hedge relationships to remain highly effective through maturity, a substantial portion of the volatility caused from changes in the fair values of financial derivatives is expected to be eliminated in future periods. As of December 31, 2012, the cumulative fair value of after-tax losses recorded on financial derivatives was \$77.7 million. Over time, Farmer Mac will realize in earnings the net effect of the cash settlements on its interest rate swap contracts, which will on its own produce either income or expense, but is expected to generate positive net effective spread when combined with the interest received and paid on the assets and liabilities Farmer Mac holds on its balance sheet. Any positive net effective spread would continue to build retained earnings and capital over time.

In 2010, Farmer Mac consolidated certain variable interest entities ("VIEs") where Farmer Mac held beneficial interests in trusts used as vehicles for securitization. Prior to consolidation, Farmer Mac classified these assets as trading Farmer Mac Guaranteed Securities because of a fair value option election made previously. As such, these assets were measured at fair value and the unrealized gains and losses resulting from changes in fair value were excluded from Farmer Mac's core earnings. Upon consolidation, these assets were transferred to loans held for investment in consolidated trusts at their fair value, which resulted in an unamortized premium of \$42.7 million. This premium is being amortized into interest income over the contractual lives of the underlying assets.

Also in 2010, Farmer Mac contributed substantially all of the assets, in excess of \$1.1 billion, comprising the USDA Guarantees line of business to a subsidiary, Farmer Mac II LLC. The contributed assets included Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities that were designated as either available-for-sale or trading, depending on whether a fair value option election had been made previously. Farmer Mac transferred these assets at their fair value, which resulted in an unamortized premium of \$39.1 million being recorded by Farmer Mac II LLC. This premium is being amortized into interest income over the estimated remaining lives of the USDA Guaranteed Securities that were transferred.

At the time of transfer, Farmer Mac had after-tax unrealized gains of \$7.0 million recorded in accumulated other comprehensive income related to changes in the fair value of the contributed securities designated as available-for-sale. These gains are being amortized into other income based on the estimated remaining lives of the related USDA Guaranteed Securities. On a consolidated basis, the amortization of these gains will offset the premium amortization on the contributed securities designated as available-for-sale.

The after-tax net effect of the amortization of the premiums and deferred gains described above are shown as amortization of premiums and deferred gains on assets consolidated at fair value in the table above. Farmer Mac excludes these items from core earnings because they are not expected to have an economic effect on Farmer Mac's financial performance if the assets are held to maturity, as is generally expected. As of December 31, 2012, \$46.1 million of these premiums were still outstanding and \$2.5 million of after-tax gains remained deferred in accumulated other comprehensive income.

Farmer Mac routinely enters into forward sales contracts on the debt of other GSEs to reduce its interest rate exposure on forecasted future debt issuances. In its calculation of core earnings, Farmer Mac reverses the gains or losses resulting from the net settlement of these contracts in the period of settlement and amortizes them over the estimated lives of the associated debt issuances. The after-tax net effect of these items is shown as net effect of settlements on agency forward contracts in the table above. Changes in the fair values of these contracts prior to net settlement are excluded from Farmer Mac's core earnings and are captured in unrealized gains/(losses) on financial derivatives and hedging activities in the table above.

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Farmer Mac's portfolio of loans held for sale is reported at the lower of cost or fair value and is subject to fair value adjustments in certain periods. These periodic unrealized gains and losses recorded to adjust the carrying value of loans held for sale to the lower of cost or fair value are excluded from Farmer Mac's core earnings. Farmer Mac recorded unrealized losses of \$5.9 million (\$3.9 million after-tax) in 2012, compared to unrealized gains of \$8.9 million (\$5.8 million after-tax) in 2011, and unrealized losses of \$8.7 million (\$5.7 million after-tax) in 2010. These amounts were recorded to adjust the carrying values of loans held for sale to their estimated fair value or to reverse previously recorded unrealized losses as the estimated fair values of these loans increased above their cost amounts.

The following sections provide more detail regarding specific components of Farmer Mac's results of operations.

Net Interest Income. Net interest income was \$122.0 million for 2012, \$121.3 million for 2011, and \$96.0 million for 2010. The increase in net interest income in 2012 and 2011 was primarily attributable to purchases of AgVantage securities throughout 2012 and 2011 that Farmer Mac held on balance sheet. The overall net interest yield was 105 basis points for the year ended December 31, 2012, compared to 120 basis points and 130 basis points for the years ended December 31, 2011 and 2010, respectively.

The following table provides information regarding interest-earning assets and funding for the years ended December 31, 2012, 2011, and 2010. The average balance of non-accruing loans is included in the average balance of loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities presented, though the related income is accounted for on a cash basis. Therefore, as the average balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. The average balance of consolidated loans with beneficial interests owned by third parties is disclosed in the net effect of consolidated trusts and is not included in the average balances of interest-earning assets and interest-bearing liabilities. The interest income and expense associated with these trusts are shown in the net effect of consolidated trusts. The average rate earned on cash and investments reflects lower short-term market rates during 2012 compared to 2011 and 2010. The lower average rate on loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities during 2012 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.

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	For the Year Ended December 31,								
	2012			2011			2010		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	(dollars in thousands)								
Interest-earning assets:									
Cash and investments	\$3,020,264	\$24,729	0.82 %	\$2,503,513	\$28,117	1.12 %	\$1,654,998	\$27,497	1.66 %
Loans, Farmer Mac Guaranteed Securities and USDA	8,225,582	221,949	2.70 %	6,858,866	209,611	3.06 %	4,630,430	155,001	3.35 %
Guaranteed Securities (1)									
Total interest-earning assets	11,245,846	246,678	2.19 %	9,362,379	237,728	2.54 %	6,285,428	182,498	2.90 %
Funding:									
Notes payable due within one year	5,266,520	9,707	0.18 %	4,232,118	9,218	0.22 %	3,111,464	9,752	0.31 %
Notes payable due after one year (2)	5,516,953	116,649	2.11 %	4,658,829	110,474	2.37 %	2,748,805	81,330	2.96 %
Total interest-bearing liabilities (3)	10,783,473	126,356	1.17 %	8,890,947	119,692	1.35 %	5,860,269	91,082	1.55 %
Net non-interest-bearing funding	462,373	—		471,432	—		425,159	—	
Total funding	11,245,846	126,356	1.12 %	9,362,379	119,692	1.28 %	6,285,428	91,082	1.45 %
Net interest income/yield prior to consolidation of certain trusts	11,245,846	120,322	1.07 %	9,362,379	118,036	1.26 %	6,285,428	91,416	1.45 %
Net effect of consolidated trusts (4)	392,046	1,658	0.42 %	747,577	3,269	0.44 %	1,078,027	4,627	0.43 %
Adjusted net interest income/yield	\$11,637,892	\$121,980	1.05 %	\$10,109,956	\$121,305	1.20 %	\$7,363,455	\$96,043	1.30 %

(1) Excludes interest income of \$18.0 million, \$37.0 million, and \$56.2 million in 2012, 2011, and 2010, respectively, related to consolidated trusts with beneficial interests owned by third parties.

(2) Includes current portion of long-term notes.

(3) Excludes interest expense of \$16.3 million, \$33.7 million, and \$51.6 million in 2012, 2011, and 2010, respectively, related to consolidated trusts with beneficial interests owned by third parties.

(4) Includes the effect of consolidated trusts with beneficial interests owned by third parties.

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The following table sets forth information regarding 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, Farmer Mac Guaranteed Securities, and USDA Guaranteed Securities, as described above. The decreases in expense reflect the decreased cost of funding due to lower interest rates in the debt markets. The increases due to changes in volume reflect the increase in on-balance sheet assets during 2012 and 2011.

	2012 vs. 2011			2011 vs. 2010		
	Increase/(Decrease) Due to Rate	Volume	Total	Increase/(Decrease) Due to Rate	Volume	Total
	(in thousands)					
Income from interest-earning assets:						
Cash and investments	\$(8,510)	\$5,122	\$(3,388)	\$(10,680)	\$11,300	\$620
Loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(26,351)	38,689	12,338	(14,486)	69,097	54,611
Total	(34,861)	43,811	8,950	(25,166)	80,397	55,231
Expense from interest-bearing liabilities	(16,761)	23,425	6,664	(13,486)	42,096	28,610
Change in net interest income prior to consolidation of certain trusts (1)	\$(18,100)	\$20,386	\$2,286	\$(11,680)	\$38,301	\$26,621

(1) Excludes the effect of consolidated trusts with beneficial interests owned by third parties.

The net interest yield includes yield maintenance payments received upon the early payoff of certain borrowers' loans, the amortization of premiums on assets consolidated at fair value, and the amortization of discounts on certain prepaid loans and excludes the accrual of income and expense related to the contractual amounts due on financial derivatives that are not designated in hedging relationships. 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 undesignated financial derivatives.

Farmer Mac uses interest rate swaps to manage its interest rate risk exposure by modifying the interest rate reset or maturity characteristics of certain assets and liabilities. Farmer Mac historically accounted for its financial derivatives as undesignated financial derivatives, however, beginning in third quarter 2012, Farmer Mac designated \$950.0 million notional amount of interest rate swaps in fair value hedge relationships. The accrual of the contractual amounts due on these interest rate swaps is included as an adjustment to the yield of the hedged item and is included in interest income. Farmer Mac presents the income or expense related to the accrual of the contractual amounts due on undesignated financial derivatives in "Losses on financial derivatives and hedging activities" on the consolidated statements of operations. Farmer Mac includes the accrual of the contractual amounts due for undesignated financial derivatives in its calculation of net effective spread. For the years ended December 31, 2012, 2011, and 2010, expenses related to undesignated financial derivatives were \$25.6 million (23 basis points), \$38.7 million (41 basis points), and \$34.1 million (54 basis points), respectively.

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Net interest income and net interest yields for 2012, 2011, and 2010 include the benefits of yield maintenance payments of \$1.2 million (1 basis point), \$0.8 million (1 basis point), and \$1.1 million (2 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. Because the timing and size of these payments vary greatly, variations do not necessarily indicate positive or negative trends to gauge future financial results.

Farmer Mac's net interest income and net interest yield for the years ended December 31, 2012, 2011, and 2010 also include expenses of \$13.0 million (12 basis points), \$10.9 million (12 basis points), and \$11.7 million (19 basis points), respectively, related to the amortization of premiums on assets consolidated at fair value. During 2010, Farmer Mac consolidated certain assets at fair value as a result of adopting new consolidation guidance and contributing substantially all of the assets, in excess of \$1.1 billion, comprising the USDA Guarantees line of business to Farmer Mac's subsidiary, Farmer Mac II LLC. Farmer Mac had been reporting these assets at their fair values, with changes in fair value recorded in earnings, based on its election of the fair value option in 2008. These premiums are being amortized into net interest income over the contractual or estimated remaining lives of the underlying assets.

During 2009, Farmer Mac sold four ethanol plants for which Farmer Mac, as part of a lender group, provided a significant portion of the financing, with little or no initial net investment from the purchasers. Farmer Mac presented its outstanding loans resulting from the sale of the ethanol plants as "Loans held for investment" on the consolidated balance sheets and recorded its investment at \$40.2 million, which included \$43.4 million of unpaid principal loan balances, net of a \$3.2 million deferred gain resulting from the sale of the ethanol plants. These gains are being recognized into net interest income over time as the purchasers make principal payments on the loans. During 2010, one of the loans secured by an ethanol plant paid off in its entirety, resulting in net interest income of \$1.4 million, or 2 basis points on the net interest yield, for the year ended December 31, 2010.

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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 undesignated financial derivatives and excluding yield maintenance payments, the amortization of premiums on assets consolidated at fair value, and the amortization of discounts on certain prepaid loans. New on-balance sheet program volume added in 2012, 2011, and 2010 increased Farmer Mac's net effective spread to \$106.6 million in 2012, compared to \$89.4 million in 2011, and \$66.5 million in 2010. The net effective spread has remained relatively stable at 0.95 percent in 2012, compared to 0.96 percent in 2011. The decline in the net effective spread from 1.06 percent in 2010 to 0.96 percent in 2011 was mainly attributable to the addition of (1) lower yielding assets in Farmer Mac's liquidity investment portfolio, such as U.S. Treasuries, which have a negative net yield but offer a source of contingent liquidity, and (2) on-balance sheet AgVantage securities at lower net yields than the average net yield on Farmer Mac's existing portfolio. See Note 14 to the consolidated financial statements for more information regarding net effective spread for Farmer Mac's individual business segments.

	For the Year Ended December 31,					
	2012		2011		2010	
	Dollars	Yield	Dollars	Yield	Dollars	Yield
	(dollars in thousands)					
Net interest income/yield prior to consolidation of certain trusts	\$ 120,322	1.07 %	\$ 118,036	1.26 %	\$ 91,416	1.45 %
Expense related to undesignated financial derivatives	(25,596)	(0.23)%	(38,663)	(0.41)%	(34,146)	(0.54)%
Yield maintenance payments	(1,187)	(0.01)%	(816)	(0.01)%	(1,090)	(0.02)%
Amortization of premiums on assets consolidated at fair value	13,018	0.12 %	10,862	0.12 %	11,719	0.19 %
Amortization of discounts on certain prepaid loans (1)	—	— %	—	— %	(1,421)	(0.02)%
Net effective spread	\$ 106,557	0.95 %	\$ 89,419	0.96 %	\$ 66,478	1.06 %

(1)Includes income recognition as a result of an early payoff of a loan secured by an ethanol plant.

Provision for Loan Losses. During 2012, Farmer Mac recorded provisions to its allowance for loan losses of \$3.7 million and charge-offs of \$2.5 million, respectively, compared to provisions of \$0.6 million and charge-offs of \$0.3 million, respectively, for the same period in 2011. The provisions recorded during 2012 resulted primarily from the reclassification of a specific allowance of \$3.2 million from the reserve for losses to the allowance for loan losses upon the purchase of one defaulted ethanol loan pursuant to the terms of an LTSPC agreement during fourth quarter 2012. During 2011, Farmer Mac purchased two defaulted loans pursuant to the terms of an LTSPC agreement that resulted in a reclassification of \$1.8 million of specific allowance from the reserve for losses to the allowance for loan losses. This reclassification was partially offset by a decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries. During 2010, Farmer Mac recorded provisions to its allowance for loan losses of \$1.9 million, charge-offs of \$0.6 million, and recoveries of \$2.2 million. The provision for loan losses in 2010 included a reclassification of \$2.0 million from the reserve for losses to the allowance for loan losses upon adoption of consolidation guidance and recoveries of \$2.2 million on a loan secured by an ethanol plant. As of December 31, 2012, Farmer Mac's total allowance for loan losses was \$11.4 million, compared to \$10.2 million as of December 31, 2011. See "—Risk Management—Credit Risk – Loans."

Release of and Provision for Losses. During 2012, Farmer Mac recorded releases from its reserve for losses of \$1.8 million, compared to releases of \$3.0 million for 2011, and provisions of \$2.4 million for 2010. The releases recorded during 2012 primarily resulted from the reclassification of the \$3.2 million specific allowance described above, offset partially by increases to the reserve for losses during 2012. The releases recorded in 2011 primarily

resulted from the reclassification of the \$1.8 million specific

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allowance described above combined with a decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries. The provisions recorded during 2010 primarily related to Farmer Mac's exposure to the ethanol and timber industries on loans underlying LTSPCs. These provisions were partially offset by the reclassification of \$2.0 million from the reserve for losses to the allowance for loan losses described above. As of December 31, 2012, Farmer Mac's reserve for losses was \$5.5 million, compared to \$7.4 million as of December 31, 2011. See "—Risk Management—Credit Risk – Loans."

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 \$25.0 million for 2012, compared to \$24.8 million for 2011, and \$24.1 million for 2010.

Losses on Financial Derivatives and Hedging Activities. Effective July 1, 2012, Farmer Mac designated \$950.0 million notional amount of interest rate swaps in fair value hedge relationships. Prior to third quarter 2012, Farmer Mac did not designate its financial derivatives in hedging relationships for accounting purposes. The net effect of unrealized and realized gains and losses on Farmer Mac's financial derivatives and hedging activities was net losses of \$19.8 million for 2012, compared to net losses of \$92.6 million for 2011, and \$17.2 million for 2010.

The components of losses on financial derivatives and hedging activities for the years ended December 31, 2012, 2011, and 2010 are summarized in the following table:

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Fair value hedges:			
Unrealized (losses)/gains due to fair value changes:			
Financial derivatives	\$ (404) \$ —	\$ —
Hedged items	6,388	—	—
Gains on hedging activities	5,984	—	—
No hedge designation:			
Unrealized gains/(losses) due to fair value changes	669	(47,578	) 20,131
Amortization of financial derivatives transition adjustment	—	—	(70
Realized:			
Expense related to financial derivatives	(25,596	) (38,663	) (34,146
Losses due to terminations or net settlements	(886	) (6,404	) (3,074
Losses on financial derivatives not designated in hedging relationships	(25,813	) (92,645	) (17,159
Losses on financial derivatives and hedging activities	\$ (19,829	) \$ (92,645	) \$ (17,159

Changes in the fair values of Farmer Mac's open derivative positions for both designated and undesignated hedges are captured in the table above in unrealized gains/(losses) due to fair value changes and are primarily the result of fluctuations in long-term interest rates. For financial derivatives designated as fair value hedges, changes in the fair values of the hedged items attributable to the hedged risk are also included in the table above in unrealized (losses)/gains due to fair value changes. The accrual of periodic cash settlements for interest paid or received from Farmer Mac's interest rate swaps that are not designated in hedging relationships is shown as expense related to financial derivatives. Payments or receipts to terminate derivative positions or net cash settle forward sales contracts on the debt of other GSEs and U.S.

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Treasury futures that are not designated in hedging relationships are included in losses due to terminations or net settlements.

For the years ended December 31, 2012, 2011, and 2010, Farmer Mac was a party to interest rate swaps with one related party, Zions First National Bank. Farmer Mac realized expenses of \$1.0 million, \$1.9 million, and \$2.9 million during 2012, 2011, and 2010, respectively, related to these interest rate swaps with Zions. Farmer Mac recognized unrealized gains of \$0.6 million, \$2.1 million, and \$0.3 million during 2012, 2011, and 2010, respectively, due to changes in the fair values of these interest rate swaps with Zions. See Note 3 to the consolidated financial statements for more information on related party transactions.

Gains on Trading Assets. During 2012, Farmer Mac recorded unrealized gains on trading assets of \$0.3 million, compared to unrealized gains of \$3.5 million and \$5.3 million for 2011 and 2010, respectively. Of the total unrealized gains recognized on trading assets during 2012, 2011, and 2010, \$45,000, \$2.2 million, and \$4.9 million, respectively, related to assets selected for the fair value option during 2008. Farmer Mac has not made any fair value option elections since 2008.

The trading gains recorded in 2012 were primarily the result of an increase in the fair value of asset-backed securities in Farmer Mac's trading investment portfolio. The trading gains recorded in 2011 were primarily the result of an increase in the fair value of the USDA Guaranteed Securities contributed to Farmer Mac II LLC due to a decline in long-term interest rates during 2011. During 2010, Farmer Mac recorded trading gains of \$2.6 million and \$2.4 million, respectively, related to changes in the fair values of the USDA Guaranteed Securities contributed to Farmer Mac II LLC and its investment in GSE preferred stock.

Gains on Sale of Available-for-Sale Investment Securities. During 2012, 2011, and 2010, Farmer Mac realized net gains of \$18,000, \$0.3 million, and \$0.3 million, respectively. The gains on sale of available-for-sale securities in 2012 were the result of sales of corporate bonds from Farmer Mac's available-for-sale investment portfolio. The gains in 2011 and 2010 primarily resulted from sales of GSE guaranteed mortgage-backed securities from Farmer Mac's available for-sale investment portfolio.

Gains on Sale of Real Estate Owned. During 2012, Farmer Mac realized gains of \$0.9 million from the sale of real estate owned properties, compared to realized gains of \$1.0 million and \$10,000 in 2011 and 2010, respectively.

Lower of Cost or Fair Value Adjustment on Loans Held for Sale. During 2012, Farmer Mac recorded unrealized losses of \$5.9 million, compared to unrealized gains of \$8.9 million for 2011 and unrealized losses of \$8.7 million for 2010. The unrealized losses recorded in 2012 primarily resulted from a decline in the fair value of certain loans held for sale as mortgage spreads widened and long-term interest rates increased at the end of fourth quarter 2012. The unrealized gains recorded during 2011 resulted from the reversal of previously recognized unrealized losses as the fair value of these loans increased above their cost amounts. The unrealized losses during 2010 were primarily the result of a larger portfolio of loans held for sale, wider mortgage spreads and higher interest rates compared to 2009.

Other Income. Other income totaled \$3.3 million in 2012, compared to \$6.9 million and \$1.2 million in 2011 and 2010, respectively. Other income during 2012 and 2011 included the recognition of \$1.8 million and \$5.2 million, respectively, of gains previously deferred in accumulated other comprehensive income

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related to fair value changes of certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities contributed to Farmer Mac II LLC in 2010.

Compensation and Employee Benefits. Compensation and employee benefits were \$19.2 million in 2012, compared to \$17.9 million and \$17.2 million in 2011 and 2010, respectively. The increase in compensation and employee benefits during 2012 compared to 2011 was due primarily to a severance payment in fourth quarter 2012 to the former President and Chief Executive Officer, offset partially by lower employee health insurance costs resulting from a change in the type of health insurance plan offered to employees in 2012. Farmer Mac expects employee health insurance costs to increase in 2013.

General and Administrative Expenses. General and administrative expenses, including legal, audit, and consulting fees, were \$11.1 million, \$9.7 million, and \$8.6 million in 2012, 2011, and 2010, respectively. The increase in general and administrative expenses in 2012 compared to 2011 was primarily attributable to higher costs for consulting, information technology, and legal services associated with general corporate activities. The higher expenses in 2011 compared to 2010 were primarily attributable to higher rent expense beginning with the construction phase of Farmer Mac's new office space and increased costs associated with information technology initiatives. These increases were partially offset by lower legal fees and consulting fees.

Regulatory Fees. Regulatory fees were \$2.3 million for both 2012 and 2011, and \$2.2 million in 2010, respectively. FCA has advised Farmer Mac that its estimated fees for the federal fiscal year ending September 30, 2013 will be \$2.4 million, compared to \$2.3 million for the federal fiscal year ended September 30, 2012. 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.

REO Operating Costs. During 2012, Farmer Mac recorded REO operating costs of \$0.1 million, compared to \$0.8 million and \$2.2 million in 2011 and 2010, respectively. The decreased REO operating costs in 2012 were due mainly to lower write-downs of REO properties to their fair value (less estimated costs to sell) compared to 2011 and 2010.

Other Expense. During 2011, Farmer Mac recorded \$0.9 million of expense related to the termination of an agreement with a third party that previously provided services related to loan and security administration for certain Farm & Ranch assets. Farmer Mac is currently performing those services internally and expects to continue to do so in the future. Since then, Farmer Mac incurred no comparable termination charges.

Income Tax Expense. Income tax expense totaled \$22.2 million in 2012, compared to \$5.8 million and \$13.8 million in 2011 and 2010, respectively. Income tax expense increased in 2012 from 2011 primarily due to the increase in pre-tax book income. The consolidated tax benefit of the dividends declared on Farmer Mac II LLC Preferred Stock, which is presented as "Net income attributable to non-controlling interest - preferred stock dividends" on the consolidated statements of operations on a pre-tax basis, was the primary reason Farmer Mac's effective tax rate was lower than the statutory federal rate of 35 percent.

Farmer Mac recorded a valuation allowance of \$40.6 million as of December 31, 2012 and 2011 and \$40.9 million as of December 31, 2010 against the deferred tax assets arising primarily from capital loss carryforwards related to tax losses incurred in 2009 on Farmer Mac's investments in Fannie Mae preferred stock, Lehman Brothers Holdings Inc. senior debt securities and other GSE preferred stock. Because

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these losses were capital in nature, tax benefits can only be realized to the extent Farmer Mac would have offsetting capital gains. Farmer Mac does not currently expect to produce sufficient capital gains within the five year carryforward period to recognize any material tax benefits related to these losses. For more information about income taxes, see Note 10 to the consolidated financial statements.

Business Volume. During 2012, Farmer Mac added \$2.9 billion of new program volume, compared to \$3.4 billion in 2011, and \$3.0 billion in 2010. Farmer Mac's outstanding program volume as of December 31, 2012 was \$13.0 billion, compared to \$11.9 billion and \$12.2 billion as of December 31, 2011 and 2010, respectively. During 2012, Farmer Mac:

- purchased \$570.3 million of newly originated farm and ranch eligible loans;
- added \$744.1 million of farm and ranch eligible loans under LTSPCs;
- purchased \$601.0 million of Farmer Mac I AgVantage securities;
- purchased \$166.1 million of loans under the Rural Utilities line of business;
- purchased \$383.4 million of Rural Utilities AgVantage securities; and
- purchased \$484.7 million of USDA Guaranteed Securities.

Farmer Mac's outstanding program volume was \$13.0 billion as of December 31, 2012, which represents an increase of \$1.1 billion from December 31, 2011, as new volume exceeded maturities and principal paydowns on existing program assets during the year. The new program volume in 2012 included \$600.0 million of Farmer Mac I AgVantage securities purchased from Rabo Agrifinance Inc., and \$383.4 million of Rural Utilities AgVantage securities purchased from CFC. Principal paydowns and maturities in 2012 included \$495.7 million related to Rural Utilities AgVantage securities.

The following table sets forth Farm & Ranch, USDA Guarantees, and Rural Utilities loan purchase, LTSPC, and guarantee activities for newly originated and current seasoned loans during the periods indicated:

Farmer Mac Loan Purchases, Guarantees, and LTSPCs

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Farm & Ranch:			
Loans	\$570,346	\$495,455	\$382,669
LTSPCs	744,110	471,994	263,741
Farmer Mac Guaranteed Securities - AgVantage	601,000	1,801,500	900,000
USDA Guarantees:			
USDA Guaranteed Securities	479,324	404,445	437,751
Farmer Mac Guaranteed Securities	5,327	3,268	20,124
Rural Utilities:			
Loans	166,117	203,789	313,028
Farmer Mac Guaranteed Securities - AgVantage	383,406	2,796	652,924
Total purchases, guarantees, and commitments	\$2,949,630	\$3,383,247	\$2,970,237

The decrease in new business volume under the Farm & Ranch line of business during 2012 compared to 2011 was attributable to the aggregate purchase of \$600.0 million of Farmer Mac I AgVantage securities issued by Rabo Agrifinance, Inc., compared to purchases of \$1.8 billion of Farmer Mac I AgVantage securities in 2011. This decrease was partially offset by increased LTSPC activity of \$744.1 million,

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including the completion of a \$180.6 million LTSPC transaction, the largest since first quarter 2007, and an increase in loan purchase activity in the Farm & Ranch line of business. The overall decrease in new business volume in the Farm & Ranch line of business was partially offset by increases in USDA Guarantees activity and Rural Utilities activity, due primarily to the purchase of \$383.4 million of Rural Utilities AgVantage securities issued by CFC. The increase in new business volume under the Farm & Ranch line of business during 2011 compared to 2010 was mainly attributable to purchases of \$1.5 billion of AgVantage securities issued by MetLife and \$300.0 million of AgVantage securities issued by Rabo Agrifinance, Inc., as well as increased loan purchase activity and increased LTSPC activity due primarily to the completion of a \$159.9 million LTSPC transaction. The increases in Farm & Ranch business volume activity during 2011 compared to 2010 were partially offset by decreases in USDA Guarantees and Rural Utilities activity.

The purchase price of newly originated and seasoned eligible loans and portfolios, none of which are delinquent at the time of purchase, is the fair value based on current market interest rates and Farmer Mac's target net yield. The purchase price includes an amount to compensate Farmer Mac for credit risk that is similar to the guarantee or commitment fee it receives for assuming credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs. Based on market conditions, Farmer Mac either retains the loans it purchases or securitizes them and sells Farmer Mac Guaranteed Securities backed by those loans. Farmer Mac's decision to retain loans it purchases is based on an analysis of the underlying funding costs and resulting net interest income achievable over the lives of the loans. The weighted-average age of the Farm & Ranch newly originated and current seasoned loans purchased and retained (excluding the purchases of defaulted loans) during 2012 and 2011 was less than one year and one year, respectively. Of those loans, 57 percent and 61 percent, respectively, had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 16.8 years and 16.0 years, respectively.

During 2012, 2011, and 2010, Farmer Mac securitized loans it purchased and sold the resulting Farmer Mac Guaranteed Securities in the amount of \$38.1 million, \$25.7 million, and \$30.7 million, respectively. In 2012 and 2011, \$32.7 million and \$22.4 million, respectively, of securities were sold to AgStar Financial Services, ACA ("AgStar"), which was a related party to Farmer Mac until June 2010, and in 2012, \$5.3 million of securities were sold to Zions First National Bank ("Zions"), which is a related party to Farmer Mac. Of the 2010 transactions, \$5.7 million were sold to Zions, and \$2.9 million were sold to AgStar. See Note 3 to the consolidated financial statements for more information about related party transactions.

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The following table sets forth information regarding the Farmer Mac Guaranteed Securities issued during the periods indicated:

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Loans securitized and sold as Farmer Mac I Guaranteed Securities	\$38,063	\$25,674	\$30,725
Farmer Mac II Guaranteed Securities	5,327	3,268	22,131
Farmer Mac I Guaranteed Securities - AgVantage	601,000	1,801,500	900,000
Farmer Mac Guaranteed Securities - Rural Utilities AgVantage	383,406	2,796	652,924
Conversions of LTSPCs into Farmer Mac I Guaranteed Securities	—	—	351,847
Total Farmer Mac Guaranteed Securities Issuances	\$1,027,796	\$1,833,238	\$1,957,627

The following table sets forth information regarding outstanding volume in each of Farmer Mac's three lines of business as of the dates indicated:

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

	As of December 31,		
	2012	2011	2010
	(in thousands)		
Farm & Ranch:			
Loans	\$1,519,415	\$1,251,370	\$972,206
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	39	181	3,697
Beneficial interests owned by third party investors	160,397	696,554	821,411
Farmer Mac Guaranteed Securities	911,370	621,871	750,217
Farmer Mac Guaranteed Securities - AgVantage	4,309,200	3,711,000	3,886,500
LTSPCs	2,156,068	1,776,051	1,754,597
USDA Guarantees:			
USDA Guaranteed Securities	1,559,683	1,435,679	1,297,439
Farmer Mac Guaranteed Securities	55,896	77,498	87,959
Rural Utilities:			
Loans	663,097	529,227	339,963
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	368,848	386,800	400,228
Farmer Mac Guaranteed Securities - AgVantage	1,311,175	1,427,071	1,902,492
Total	\$13,015,188	\$11,913,302	\$12,216,709

Of the \$13.0 billion outstanding principal balance of volume included in Farmer Mac's three lines of business as of December 31, 2012, \$5.6 billion were Farmer Mac Guaranteed Securities structured as AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Unlike business volume in the form of purchased loans, USDA Guaranteed Securities, and loans underlying LTSPCs and non-AgVantage Farmer Mac Guaranteed Securities, the Farmer Mac Guaranteed Securities structured as AgVantage securities generally do not pay down principal

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based on amortization schedules and instead typically have fixed maturity dates when the secured general obligation is due.

The following table summarizes by maturity date the scheduled principal amortization of loans held, loans underlying non-AgVantage Farmer Mac Guaranteed Securities and LTSPCs, and USDA Guaranteed Securities as of December 31, 2012:

Schedule of Principal Amortization of Loans Held, Loans Underlying
Non-AgVantage Farmer Mac Guaranteed Securities and LTSPCs, and USDA Guaranteed Securities

	Loans Held	Loans Underlying Farmer Mac I Guaranteed Securities and LTSPCs	Loans Underlying Farmer Mac II and USDA Guaranteed Securities	Total
	(in thousands)			
2013	\$184,488	\$281,007	\$224,232	\$689,727
2014	463,850	262,477	117,628	843,955
2015	129,233	223,548	145,433	498,214
2016	127,694	205,092	104,381	437,167
2017	135,144	211,000	74,104	420,248
Thereafter	1,671,387	1,884,314	949,801	4,505,502
Total	\$2,711,796	\$3,067,438	\$1,615,579	\$7,394,813

The following table summarizes by maturity date the outstanding principal amount of both on- and off-balance sheet AgVantage securities as of December 31, 2012:

AgVantage Balances by Year of Maturity

	As of December 31, 2012 (in thousands)
2013	\$669,029
2014	1,070,148
2015	659,709
2016	1,261,674
2017	1,260,393
Thereafter (1)	699,422
Total	\$5,620,375

(1) Includes various maturities ranging from 2018 to 2025.

The weighted-average remaining maturity of the outstanding \$5.6 billion of AgVantage securities shown in the table above was 3.3 years as of December 31, 2012. As a general matter, if the issuer of a maturing AgVantage security does not issue new AgVantage securities to replace the maturing securities, and Farmer Mac does not find alternate sources of business volume, the Corporation's income could be adversely affected. However, the income effect of future maturing AgVantage securities, particularly off-balance sheet transactions, may not be material and will likely not be proportional to the amount of any resulting decrease in business volume. The Corporation's income could also be adversely affected if the net interest margin earned by Farmer Mac on new AgVantage securities that replace maturing AgVantage

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securities is lower than the margin earned on the maturing securities, as was the case in the CFC transactions completed in 2012.

As part of fulfilling its guarantee obligations for Farmer Mac I Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent or in material non-monetary default at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet. The purchase price for defaulted loans purchased out of Farmer Mac I Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for defaulted loans purchased under an LTSPC is the then-current outstanding principal balance of the loan, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received. The purchase price of a defaulted loan is not an indicator of the expected loss on that loan; many other factors affect expected loss, if any, on loans so purchased. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs during 2012, 2011, and 2010 was 5 years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans."

The following table presents Farmer Mac's purchases of newly originated and current seasoned loans under the Farm & Ranch line of business and purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs for the periods indicated:

	For the Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Farm & Ranch newly originated and current seasoned loan purchases	\$570,346	\$495,455	\$382,669
Defaulted loans purchased underlying Farmer Mac I Guaranteed Securities owned by third party investors	8,933	7,471	3,456
Defaulted loans purchased underlying LTSPCs	8,091	14,192	2,626
Total loan purchases	\$587,370	\$517,118	\$388,751

For information regarding eligible participants in the Farm & Ranch and USDA Guarantees lines of business, see "Business—Farmer Mac Lines of Business—Farm & Ranch—Approved Lenders" and "Business—Farmer Mac Lines of Business—USDA Guarantees—United States Department of Agriculture Guaranteed Loan Programs."

Farmer Mac II LLC. In January 2010, Farmer Mac contributed substantially all of the assets comprising the USDA Guarantees line of business (in excess of \$1.1 billion) to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA Guaranteed Securities that had not been securitized by Farmer Mac but also included \$35.0 million of Farmer Mac II Guaranteed Securities. Farmer Mac did not and will not guarantee the timely payment of principal and interest on the \$1.1 billion of contributed USDA Guaranteed Securities. The financial information presented in this report reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, Farmer Mac's reportable operating segments presented in this report will differ from the stand-alone financial statements of Farmer Mac II LLC. Those separate financial statements are available on the website of Farmer Mac II LLC and are not incorporated in this report by reference.

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The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. As of December 31, 2012, Farmer Mac II LLC held assets with a fair value of \$1.7 billion, had debt outstanding to Farmer Mac of \$328.0 million, had preferred stock outstanding with a liquidation preference of \$250.0 million, and had \$1.0 billion of common stock outstanding held by Farmer Mac. For more information about the formation and operations of Farmer Mac II LLC and the features of the preferred stock issued by Farmer Mac II LLC in January 2010, see Notes 9 and 14 to the consolidated financial statements.

Related Party Transactions. As provided by Farmer Mac's statutory charter, only banks, insurance companies, and other financial institutions or similar entities may hold Farmer Mac's Class A voting common stock, and only institutions of the FCS may hold Farmer Mac's Class B voting common stock. Farmer Mac's charter also provides that holders of Class A voting common stock elect five members of Farmer Mac's 15-member board of directors and that holders of Class B voting common stock elect five members of the board of directors. The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 45 percent of the Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Approximately 97 percent of the Class B voting common stock is held by five FCS institutions (two of which are related to each other through a parent-subsidary relationship).

Unlike some other GSEs, specifically other FCS institutions and the Federal Home Loan Banks, Farmer Mac is not structured as a cooperative owned exclusively by member institutions and established to provide services exclusively to its members. Farmer Mac, as a stockholder-owned, publicly-traded corporation, seeks to fulfill its mission of serving the financing needs of agriculture and rural America in a manner that is consistent with providing a return on the investment of its stockholders, including those who do not directly participate in the Farmer Mac secondary market. Farmer Mac's policy is to require financial institutions to own a requisite amount of common stock, based on the size and type of institution, to participate in the Farm & Ranch line of business. As a result of this requirement, coupled with the ability of holders of Class A and Class B voting common stock to elect two-thirds of Farmer Mac's board of directors, Farmer Mac regularly conducts business with "related parties," including institutions affiliated with members of Farmer Mac's board of directors and institutions that own large amounts of Farmer Mac's voting common stock. Farmer Mac has adopted a Code of Business Conduct and Ethics that governs any conflicts of interest that may arise in these transactions, and Farmer Mac's policy is to require that any transactions with related parties be conducted in the ordinary course of business, with terms and conditions comparable to those available to any other counterparty not related to Farmer Mac.

The following table summarizes the material relationships between Farmer Mac and certain related parties. The related parties listed in the table consist of (1) all holders of at least five percent of a class of Farmer Mac voting common stock and (2) other institutions that are considered "related parties" through an affiliation with a Farmer Mac director and conduct material business with Farmer Mac. The table below does not specify any relationships based on the ownership of non-voting common or preferred stock, such as Farmer Mac's investments in preferred stock issued by CoBank or the investments of related parties in Farmer Mac's Class C non-voting common stock or Farmer Mac's series of preferred stock.

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Name of Institution	Ownership of Farmer Mac Voting Common Stock	Affiliation with Any Farmer Mac Directors	Primary Aspects of Institution's Business Relationship with Farmer Mac
AgFirst Farm Credit Bank	84,024 shares of Class B voting common stock (16.79% of outstanding Class B stock and 5.49% of total voting common stock outstanding)	None	In 2012 and 2011, Farmer Mac earned approximately \$1.3 million and \$1.4 million, respectively, in fees attributable to transactions with AgFirst, primarily commitment fees for LTSPCs.
AgriBank, FCB	201,621 shares of Class B voting common stock (40.30% of outstanding Class B stock and 13.17% of total voting common stock outstanding)	Farmer Mac directors Richard H. Davidson and James B. McElroy are directors of AgriBank. Brian O'Keane, who served on Farmer Mac's board of directors from June 2008 to June 2012, is the Executive Vice President, Banking and Finance, and Chief Financial Officer of AgriBank.	No Farmer Mac business through any of its lines of business was conducted between the parties.
CoBank, ACB			