

FEDERAL AGRICULTURAL MORTGAGE CORP

Form 10-Q

November 09, 2016

As filed with the Securities and Exchange Commission on November 9, 2016

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

Commission File Number 001-14951

---

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

(Exact name of registrant as specified in its charter)

Federally chartered instrumentality  
of the United States

52-1578738

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

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

20006

(Address of principal executive offices) (Zip code)

(202) 872-7700

(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

As of November 1, 2016, the registrant had outstanding 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,952,481 shares of Class C Non-Voting Common Stock.

---

Table of Contents	
<u>PART I - Financial Information</u>	<u>3</u>
<u>Item 1. Consolidated Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets</u>	<u>4</u>
<u>Consolidated Statements of Operations</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>6</u>
<u>Consolidated Statements of Equity</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>1. Accounting Policies</u>	<u>9</u>
<u>2. Investment Securities</u>	<u>17</u>
<u>3. Farmer Mac Guaranteed Securities and USDA Securities</u>	<u>20</u>
<u>4. Financial Derivatives</u>	<u>22</u>
<u>5. Loans and Allowance for Losses</u>	<u>27</u>
<u>6. Off-Balance Sheet Guarantees and Long-Term Standby Purchase Commitments</u>	<u>39</u>
<u>7. Equity</u>	<u>40</u>
<u>8. Fair Value Disclosures</u>	<u>41</u>
<u>9. Business Segment Reporting</u>	<u>51</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>55</u>
<u>Forward-Looking Statements</u>	<u>55</u>
<u>Overview</u>	<u>56</u>
<u>Use of Non-GAAP Measures</u>	<u>59</u>
<u>Results of Operations</u>	<u>61</u>
<u>Outlook</u>	<u>79</u>
<u>Balance Sheet Review</u>	<u>81</u>
<u>Off-Balance Sheet Arrangements</u>	<u>82</u>
<u>Risk Management</u>	<u>83</u>
<u>Liquidity and Capital Resources</u>	<u>101</u>
<u>Regulatory Matters</u>	<u>103</u>
<u>Other Matters</u>	<u>104</u>
<u>Supplemental Information</u>	<u>105</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>110</u>
<u>Item 4. Controls and Procedures</u>	<u>110</u>
<u>PART II - Other Information</u>	<u>110</u>
<u>Item 1. Legal Proceedings</u>	<u>110</u>
<u>Item 1A. Risk Factors</u>	<u>110</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>111</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>111</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>111</u>
<u>Item 5. Other Information</u>	<u>111</u>
<u>Item 6. Exhibits</u>	<u>112</u>
<u>Signatures</u>	<u>113</u>

Table of Contents

PART I

Item 1. Financial Statements

3

---

Table of Contents

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

	As of	
	September 30, 2016	December 31, 2015
	(in thousands)	
Assets:		
Cash and cash equivalents	\$313,581	\$1,210,084
Investment securities:		
Available-for-sale, at fair value	3,001,185	2,775,025
Trading, at fair value	—	491
Total investment securities	3,001,185	2,775,516
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	4,937,481	4,152,605
Held-to-maturity, at amortized cost	1,153,646	1,274,016
Total Farmer Mac Guaranteed Securities	6,091,127	5,426,621
USDA Securities:		
Available-for-sale, at fair value	1,980,327	1,888,344
Trading, at fair value	23,489	28,975
Total USDA Securities	2,003,816	1,917,319
Loans:		
Loans held for investment, at amortized cost	3,299,618	3,258,413
Loans held for investment in consolidated trusts, at amortized cost	1,039,770	708,111
Allowance for loan losses	(4,954)	(4,480)
Total loans, net of allowance	4,334,434	3,962,044
Real estate owned, at lower of cost or fair value	1,528	1,369
Financial derivatives, at fair value	4,627	3,816
Interest receivable (includes \$7,683 and \$7,938, respectively, related to consolidated trusts)	86,699	112,700
Guarantee and commitment fees receivable	39,655	40,189
Deferred tax asset, net	29,187	42,916
Prepaid expenses and other assets	95,066	47,780
Total Assets	\$16,000,905	\$15,540,354
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$9,295,700	\$9,111,461
Due after one year	4,820,388	4,967,036
Total notes payable	14,116,088	14,078,497
Debt securities of consolidated trusts held by third parties	1,044,559	713,536
Financial derivatives, at fair value	123,796	77,199
Accrued interest payable (includes \$6,487 and \$6,705, respectively, related to consolidated trusts)	40,270	47,621
Guarantee and commitment obligation	37,764	38,609
Accounts payable and accrued expenses	35,575	29,089
Reserve for losses	1,969	2,083
Total Liabilities	15,400,021	14,986,634

## Commitments and Contingencies (Note 6)

## Equity:

## Preferred stock:

Series A, par value \$25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	58,333
Series B, par value \$25 per share, 3,000,000 shares authorized, issued and outstanding	73,044	73,044
Series C, par value \$25 per share, 3,000,000 shares authorized, issued and outstanding	73,382	73,382

## Common stock:

Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, \$1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, \$1 par value, no maximum authorization, 8,949,511 shares and 9,155,661 shares outstanding, respectively	8,950	9,156
Additional paid-in capital	118,897	117,862
Accumulated other comprehensive income/(loss), net of tax	13,564	(11,019 )
Retained earnings	252,989	231,228
Total Stockholders' Equity	600,690	553,517
Non-controlling interest	194	203
Total Equity	600,884	553,720
Total Liabilities and Equity	\$ 16,000,905	\$ 15,540,354

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

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

	For the Three Months Ended		For the Nine Months Ended		
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	
	(in thousands, except per share amounts)				
Interest income:					
Investments and cash equivalents	\$6,994	\$ 3,185	\$20,235	\$ 9,144	
Farmer Mac Guaranteed Securities and USDA Securities	38,129	34,002	110,938	101,608	
Loans	34,409	29,731	99,486	86,509	
Total interest income	79,532	66,918	230,659	197,261	
Total interest expense	43,969	34,735	127,098	102,425	
Net interest income	35,563	32,183	103,561	94,836	
(Provision for)/release of loan losses	(191	) 1,164	(604	) 978	
Net interest income after (provision for)/release of loan losses	35,372	33,347	102,957	95,814	
Non-interest income/(loss):					
Guarantee and commitment fees	3,798	3,532	11,079	10,297	
(Losses)/gains on financial derivatives and hedging activities	(1,601	) (9,568	) (13,079	) 939	
Gains/(losses) on trading securities	1,182	(8	) 1,934	524	
Gains/(losses) on sale of available-for-sale investment securities	—	3	(9	) 9	
Gains/(losses) on sale of real estate owned	15	—	15	(1	)
Other income	707	1,060	1,221	1,933	
Non-interest income/(loss)	4,101	(4,981	) 1,161	13,701	
Non-interest expense:					
Compensation and employee benefits	5,438	5,236	16,823	16,662	
General and administrative	3,474	3,676	10,757	9,873	
Regulatory fees	613	600	1,838	1,800	
Real estate owned operating costs, net	—	48	39	47	
(Release of)/provision for reserve for losses	(222	) 861	(114	) 1,235	
Non-interest expense	9,303	10,421	29,343	29,617	
Income before income taxes	30,170	17,945	74,775	79,898	
Income tax expense	10,529	6,327	26,264	24,327	
Net income	19,641	11,618	48,511	55,571	
Less: Net loss/(income) attributable to non-controlling interest	18	36	62	(5,199	)
Net income attributable to Farmer Mac	19,659	11,654	48,573	50,372	
Preferred stock dividends	(3,295	) (3,295	) (9,886	) (9,886	)
Loss on retirement of preferred stock	—	—	—	(8,147	)
Net income attributable to common stockholders	\$16,364	\$ 8,359	\$38,687	\$ 32,339	
Earnings per common share and dividends:					
Basic earnings per common share	\$1.56	\$ 0.76	\$3.70	\$ 2.94	
Diluted earnings per common share	\$1.54	\$ 0.74	\$3.60	\$ 2.85	
Common stock dividends per common share	\$0.26	\$ 0.16	\$0.78	\$ 0.48	
The accompanying notes are an integral part of these consolidated financial statements.					



Table of Contents

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

	For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in thousands)			
Net income	\$19,641	\$ 11,618	\$48,511	\$ 55,571
Other comprehensive income/(loss) before taxes:				
Net unrealized gains/(losses) on available-for sale securities	552	(56,949	) 46,305	(40,363
Net changes in held-to-maturity securities	(73	) (2,236	) (2,081	) (8,930
Net unrealized gains/(losses) on cash flow hedges	1,336	(3,195	) (6,403	) (2,012
Other comprehensive income/(loss) before tax	1,815	(62,380	) 37,821	(51,305
Income tax (expense)/benefit related to other comprehensive income	(635	) 21,833	(13,238	) 17,958
Other comprehensive income/(loss), net of tax	1,180	(40,547	) 24,583	(33,347
Comprehensive income/(loss)	20,821	(28,929	) 73,094	22,224
Less: comprehensive loss/(income) attributable to non-controlling interest	18	36	62	(5,199
Comprehensive income/(loss) attributable to Farmer Mac	\$20,839	\$ (28,893	) \$73,156	\$ 17,025

The accompanying notes are an integral part of these consolidated financial statements.



Table of Contents

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Non-controlling Interest	Total Equity
	(in thousands)								
Balance as of December 31, 2014	8,400	\$204,759	10,937	\$10,937	\$113,559	\$15,533	\$201,013	\$236,028	\$781,829
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	50,372	—	50,372
Attributable to non-controlling interest	—	—	—	—	—	—	—	(155)	(155)
Other comprehensive loss, net of tax	—	—	—	—	—	(33,347)	—	—	(33,347)
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(9,886)	—	(9,886)
Common stock	—	—	—	—	—	—	(5,280)	—	(5,280)
Issuance of Class C Common Stock	—	—	110	110	10	—	—	—	120
Repurchase of Class C Common Stock	—	—	(104)	(104)	—	—	(2,686)	—	(2,790)
Stock-based compensation cost	—	—	—	—	2,457	—	—	—	2,457
Other stock-based award activity	—	—	—	—	1,051	—	—	—	1,051
Investment in subsidiary - non-controlling interest	—	—	—	—	—	—	—	175	175
Redemption of Farmer Mac II LLC preferred stock	—	—	—	—	—	—	(8,147)	(235,853)	(244,000)
Balance as of September 30, 2015	8,400	\$204,759	10,943	\$10,943	\$117,077	\$(17,814)	\$225,386	\$195	\$540,546
Balance as of December 31, 2015	8,400	\$204,759	10,687	\$10,687	\$117,862	\$(11,019)	\$231,228	\$203	\$553,720
Net income/(loss):	—	—	—	—	—	—	48,573	—	48,573

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q

Attributable to Farmer Mac											
Attributable to non-controlling interest	—	—	—	—	—	—	—	(62	)	(62 )	
Other comprehensive income, net of tax	—	—	—	—	—	24,583	—	—		24,583	
Cash dividends:											
Preferred stock	—	—	—	—	—	—	(9,886	)	—	(9,886 )	
Common stock	—	—	—	—	—	—	(8,145	)	—	(8,145 )	
Issuance of Class C Common Stock	—	—	101	101	23	—	—	—		124	
Repurchase of Class C Common Stock	—	—	(307	)	(307	)	—	(8,781	)	—	(9,088 )
Stock-based compensation cost	—	—	—	—	2,565	—	—	—		2,565	
Other stock-based award activity	—	—	—	—	(1,553	)	—	—	—	(1,553 )	
Investment in subsidiary - non-controlling interest	—	—	—	—	—	—	—	53		53	
Balance as of September 30, 2016	8,400	\$204,759	10,481	\$10,481	\$118,897	\$13,564	\$252,989	\$194		\$600,884	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

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

	For the Nine Months Ended	
	September 30, 2016	September 30, 2015
	(in thousands)	
Cash flows from operating activities:		
Net income	\$48,511	\$ 55,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums, and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Securities	1,343	2,199
Amortization of debt premiums, discounts and issuance costs	24,789	9,601
Net change in fair value of trading securities, hedged assets, and financial derivatives	1,672	(8,705 )
Losses/(gains) on sale of available-for-sale investment securities	9	(9 )
(Gains)/losses on sale of real estate owned	(15 )	1 )
Total provision for losses	490	257
Deferred income taxes	(1,270 )	2,182
Stock-based compensation expense	2,565	2,457
Proceeds from repayment of trading investment securities	2,212	544
Proceeds from repayment of loans purchased as held for sale	67,506	82,864
Net change in:		
Interest receivable	26,172	32,911
Guarantee and commitment fees receivable	534	(698 )
Other assets	(46,832 )	(2,369 )
Accrued interest payable	(7,351 )	(10,525 )
Other liabilities	(1,468 )	(864 )
Net cash provided by operating activities	118,867	165,417
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(1,365,314 )	(1,282,474 )
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(2,203,574 )	(1,093,737 )
Purchases of loans held for investment	(762,018 )	(565,829 )
Purchases of defaulted loans	(2,516 )	(2,244 )
Proceeds from repayment of available-for-sale investment securities	957,973	1,111,093
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	1,467,052	901,327
Proceeds from repayment of loans purchased as held for investment	333,920	248,989
Proceeds from sale of available-for-sale investment securities	186,769	83,735
Proceeds from sale of Farmer Mac Guaranteed Securities	457,369	231,242
Payments from sale of real estate owned	295	(1 )
Net cash used in investing activities	(930,044 )	(367,899 )
Cash flows from financing activities:		
Proceeds from issuance of discount notes	77,411,229	68,066,267
Proceeds from issuance of medium-term notes	4,763,631	3,406,037
Payments to redeem discount notes	(79,058,129 )	(66,933,948 )
Payments to redeem medium-term notes	(3,103,800 )	(3,875,715 )
Excess tax benefits related to stock-based awards	408	154
Payments to third parties on debt securities of consolidated trusts	(71,806 )	(42,449 )
Proceeds from common stock issuance	405	1,685

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q

Common stock repurchased	(9,286 )	(1,994 )
Investment in subsidiary - non-controlling interest	53	175
Redemption of Farmer Mac II LLC Preferred Stock	—	(244,000 )
Dividends paid - Non-controlling interest - preferred stock	—	(5,415 )
Dividends paid on common and preferred stock	(18,031 )	(15,166 )
Net cash (used)/provided by financing activities	(85,326 )	355,631
Net (decrease)/increase in cash and cash equivalents	(896,503 )	153,149
Cash and cash equivalents at beginning of period	1,210,084	1,363,387
Cash and cash equivalents at end of period	\$313,581	\$ 1,516,536

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac") and subsidiaries have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2015 consolidated balance sheet presented in this report has been derived from Farmer Mac's audited 2015 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2015 consolidated financial statements of Farmer Mac and subsidiaries included in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 10, 2016. That Form 10-K describes Farmer Mac's significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents and Statements of Cash Flows; Transfers of Financial Assets and Liabilities; Investment Securities, Farmer Mac Guaranteed Securities, and USDA Securities; Loans; Securitization of Loans; Real Estate Owned; Financial Derivatives; Notes Payable; Allowance for Loan Losses and Reserve for Losses; Earnings Per Common Share; Income Taxes; Stock-Based Compensation; Comprehensive Income; Long-Term Standby Purchase Commitments; Fair Value Measurement; and Consolidation of Variable Interest Entities ("VIEs"). Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Presented below are Farmer Mac's significant accounting policies that contain updated information for the three and nine months ended September 30, 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its three subsidiaries: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities; (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the USDA Guarantees line of business – primarily the acquisition of USDA Securities; and (3) Contour Valuation Services, LLC (which began doing business as AgVisory during first quarter 2016), whose principal activity is to appraise agricultural real estate. The consolidated financial statements also include the accounts of VIEs in which Farmer Mac determined itself to be the primary beneficiary.

Table of Contents

The following tables present, by line of business, details about the consolidation of VIEs:

Table 1.1

	Consolidation of Variable Interest Entities					Total
	As of September 30, 2016					
	Farm & Ranch	USDA Guarantee	Rural Utilities	Institutional Credit	Corporate	
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	\$1,039,770	\$	—\$	—\$	—\$	—\$1,039,770
Debt securities of consolidated trusts held by third parties <sup>(1)</sup>	1,044,559	—	—	—	—	1,044,559
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value <sup>(2)</sup>	—	32,824	—	30,666	—	63,490
Maximum exposure to loss <sup>(3)</sup>	—	32,364	—	30,000	—	62,364
Investment securities:						
Carrying value <sup>(4)</sup>	—	—	—	—	758,066	758,066
Maximum exposure to loss <sup>(3) (4)</sup>	—	—	—	—	756,693	756,693
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss <sup>(3) (5)</sup>	441,417	61,054	—	970,000	—	1,472,471
<sup>(1)</sup> Includes borrower remittances of \$4.8 million. The borrower remittances have not been passed through to third party investors as of September 30, 2016.						
Includes \$0.5 million of unamortized premiums and discounts and fair value adjustments related to the USDA						
<sup>(2)</sup> Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of \$0.7 million.						
<sup>(3)</sup> Farmer Mac uses unpaid principal balance and outstanding face amount of investment securities to represent maximum exposure to loss.						
<sup>(4)</sup> Includes auction-rate certificates, asset-backed securities, and government-sponsored enterprise ("GSE")-guaranteed mortgage-backed securities.						
<sup>(5)</sup> The amount under the Farm & Ranch line of business relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.						

Table of Contents

	Consolidation of Variable Interest Entities As of December 31, 2015					Total
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	\$708,111	\$	—\$	—\$	—\$	—\$708,111
Debt securities of consolidated trusts held by third parties (1)	713,536	—	—	—	—	713,536
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value (2)	—	31,360	—	31,400	—	62,760
Maximum exposure to loss (3)	—	31,553	—	30,000	—	61,553
Investment securities:						
Carrying value (4)	—	—	—	—	917,292	917,292
Maximum exposure to loss (3) (4)	—	—	—	—	918,121	918,121
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss (3) (5)	514,051	10,272	—	970,000	—	1,494,323
(1) Includes borrower remittances of \$5.4 million, which have not been passed through to third party investors as of December 31, 2015.						
Includes \$0.2 million of unamortized premiums and discounts and fair value adjustments related to the USDA						
(2) Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of \$1.4 million.						
(3) Farmer Mac uses unpaid principal balance and the outstanding face amount of investment securities to represent maximum exposure to loss.						
(4) Includes auction-rate certificates, asset-backed securities, and GSE-guaranteed mortgage-backed securities.						
(5) The amount under the Farm & Ranch line of business relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.						

## (a) Statements of Cash Flows

The following table sets forth information regarding certain non-cash transactions for the nine months ended September 30, 2016 and 2015:

Table 1.2

	For the Nine Months Ended	
	September 30, 2016	September 30, 2015
	(in thousands)	
Non-cash activity:		
Loans acquired and securitized as Farmer Mac Guaranteed Securities	\$457,369	\$ 231,242
Consolidation of Farm & Ranch Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts and to debt securities of consolidated trusts held by third	402,841	231,242

parties

Purchases of securities - traded, not yet settled	25,000	15,000
Issuance costs on the retirement of Farmer Mac II LLC Preferred Stock	—	8,147
Unsettled common stock repurchases	—	796

11

---



Table of Contents

## (b) Earnings Per Common Share

Basic earnings per common share ("EPS") is based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share is based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights ("SARs"), and non-vested restricted stock awards. The following schedule reconciles basic and diluted EPS for three and nine months ended September 30, 2016 and 2015:

Table 1.3

	For the Three Months Ended					
	September 30, 2016			September 30, 2015		
	Net Income	Weighted-Average Shares	\$ per Share	Net Income	Weighted-Average Shares	\$ per Share
(in thousands, except per share amounts)						
Basic EPS						
Net income attributable to common stockholders	\$16,364	10,473	\$1.56	\$8,359	11,028	\$0.76
Effect of dilutive securities <sup>(1)</sup>						
Stock options, SARs and restricted stock	—	176	(0.02 )	—	243	(0.02 )
Diluted EPS	\$16,364	10,649	\$1.54	\$8,359	11,271	\$0.74

For the three months ended September 30, 2016 and 2015, stock options and SARs of 54,709 and 476,699, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock <sup>(1)</sup> because they were anti-dilutive. For the three months ended September 30, 2016 and 2015, contingent shares of non-vested restricted stock of 37,284 and 45,034, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

	For the Nine Months Ended					
	September 30, 2016			September 30, 2015		
	Net Income	Weighted-Average Shares	\$ per Share	Net Income	Weighted-Average Shares	\$ per Share
(in thousands, except per share amounts)						
Basic EPS						
Net income attributable to common stockholders	\$38,687	10,464	\$3.70	\$32,339	10,992	\$2.94
Effect of dilutive securities <sup>(1)</sup>						
Stock options, SARs and restricted stock	—	291	(0.10 )	—	355	(0.09 )
Diluted EPS	\$38,687	10,755	\$3.60	\$32,339	11,347	\$2.85

For the nine months ended September 30, 2016 and 2015, stock options and SARs of 115,875 and 302,598, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock <sup>(1)</sup> because they were anti-dilutive. For the nine months ended September 30, 2016 and 2015, contingent shares of non-vested restricted stock of 37,284 and 40,194, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

## (c) Comprehensive Income

Comprehensive income represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised of net income and unrealized gains and losses on available-for-sale securities, certain held-to-maturity securities transferred from the available-for-sale classification, and cash flow

hedges, net of related taxes.

12

---

Table of Contents

The following table presents the changes in accumulated other comprehensive income ("AOCI"), net of tax, by component for the three and nine months ended September 30, 2016 and 2015:

Table 1.4

	As of September 30, 2016				As of September 30, 2015			
	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total
	(in thousands)							
For the Three Months Ended:								
Beginning Balance	\$ 19,704	\$ (1,781 )	\$ (5,539)	\$ 12,384	\$ 20,498	\$ 1,622	\$ 613	\$ 22,733
Other comprehensive income/(loss) before reclassifications	2,746	—	527	3,273	(33,392 )	—	(2,347 )	(35,739 )
Amounts reclassified from AOCI	(2,388 )	(47 )	342	(2,093 )	(3,624 )	(1,454 )	270	(4,808 )
Net other comprehensive income/(loss)	358	(47 )	869	1,180	(37,016 )	(1,454 )	(2,077 )	(40,547 )
Ending Balance	\$ 20,062	\$ (1,828 )	\$ (4,670)	\$ 13,564	\$ (16,518)	\$ 168	\$ (1,464)	\$ (17,814)
For the Nine Months Ended								
Beginning Balance	\$ (10,035)	\$ (476 )	\$ (508 )	\$ (11,019)	\$ 9,716	\$ 5,973	\$ (156 )	\$ 15,533
Other comprehensive income/(loss) before reclassifications	37,446	—	(5,136 )	32,310	(15,985 )	—	(1,814 )	(17,799 )
Amounts reclassified from AOCI	(7,349 )	(1,352 )	974	(7,727 )	(10,249 )	(5,805 )	506	(15,548 )
Net other comprehensive income/(loss)	30,097	(1,352 )	(4,162 )	24,583	(26,234 )	(5,805 )	(1,308 )	(33,347 )
Ending Balance	\$ 20,062	\$ (1,828 )	\$ (4,670)	\$ 13,564	\$ (16,518)	\$ 168	\$ (1,464)	\$ (17,814)

Table of Contents

The following table presents other comprehensive income activity, the impact on net income of amounts reclassified from each component of AOCI, and the related tax impact for the three and nine months ended September 30, 2016 and 2015:

Table 1.5

	For the Three Months Ended					
	September 30, 2016			September 30, 2015		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income/(loss):						
Available-for-sale-securities:						
Unrealized holding gains/(losses) on available-for-sale-securities	\$4,225	\$ 1,479	\$2,746	\$(51,373)	\$(17,981)	\$(33,392)
Less reclassification adjustments included in:						
(Losses)/gains on financial derivatives and hedging activities <sup>(1)</sup>	(3,652 )	(1,278 )	(2,374 )	(5,038 )	(1,763 )	(3,275 )
Gains/(losses) on sale of available-for-sale investment securities <sup>(2)</sup>	—	—	—	(4 )	(2 )	(2 )
Other income <sup>(3)</sup>	(21 )	(7 )	(14 )	(534 )	(187 )	(347 )
Total	\$552	\$ 194	\$358	\$(56,949)	\$(19,933)	\$(37,016)
Held-to-maturity securities:						
Less reclassification adjustments included in:						
Net interest income <sup>(4)</sup>	\$(73 )	\$(26 )	\$(47 )	\$(2,236 )	\$(782 )	\$(1,454 )
Total	\$(73 )	\$(26 )	\$(47 )	\$(2,236 )	\$(782 )	\$(1,454 )
Cash flow hedges						
Unrealized gains/(losses) on cash flow hedges	\$810	\$ 283	\$527	\$(3,611 )	\$(1,264 )	\$(2,347 )
Less reclassification adjustments included in:						