FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K
March 15, 2012
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As filed with the Securities and Exchange Commission on
March 15, 2012

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

(Mark One)

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

For the fiscal year ended December 31, 2011.

or

o 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)
1133 Twenty-First Street, N.W., Suite 600, Washington, D.C. 20036
(Registrant's former address)

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

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 o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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

Yes x No o

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

Yes x No o

Indicate by check mark 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. x

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

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

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

Yes o No x

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 210,270,506 as of June 30, 2011, based upon the closing prices for the respective classes on June 30, 2011 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, 2012, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,832,485 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2012 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 as described herein).

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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 creators or owners of financial investments, such as the originators of loans, may sell all or part of their interests or otherwise offset, for a fee, some or all of the inherent risks of holding those investments. 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 assets, retained by Farmer Mac, or sold to third party investors.

Farmer Mac was established, and continues to exist, under federal legislation first enacted in 1988 and amended as recently as 2008 – Title VIII of the Farm Credit Act of 1971, as amended (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:

- guarantee and commitment fees received in connection with outstanding guaranteed securities and LTSPCs; and
- 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).

Farmer Mac funds its "program" purchases of 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

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used to fund "non-program" investments that must comply with policies adopted by the Corporation's board of directors and with regulations promulgated by FCA, including dollar amount, issuer concentration, and credit quality limitations. 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 non-program investment assets provide an alternative source of funds should market conditions be unfavorable. As of December 31, 2011, Farmer Mac had $5.1 billion of discount notes and $5.1 billion of medium-term notes outstanding. For more information about Farmer Mac's program assets and non-program 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 participants with an efficient and competitive secondary market that enhances the participants' 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 to provide greater liquidity and lending capacity to lenders that extend credit to agricultural borrowers, rural borrowers and rural utilities cooperatives. 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 the capital and liquidity of primary lenders and provide a continuous source of funding for new lending. Farmer Mac's guaranteed securities that are retained by the seller of the securitized assets, as well as Farmer Mac's LTSPCs for eligible loans, result in lower regulatory capital requirements for assets retained by the lenders, thereby expanding their lending capacity. By thus 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.

Programs

Farmer Mac conducts its secondary market activities through three programs—Farmer Mac I, 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 Farmer Mac I program);
- certain agricultural and rural development loans guaranteed by the United States Department of Agriculture ("USDA") (encompassing the Farmer Mac II program); and
- loans made by cooperative lenders to finance electrification and telecommunications systems in rural areas (encompassing the Rural Utilities program).

As of December 31, 2011, the total outstanding amount of the eligible loans included in all of Farmer Mac's programs was $11.9 billion.

Farmer Mac I

Under the Farmer Mac I program, 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

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agricultural real estate. The securities guaranteed by Farmer Mac under the Farmer Mac I program are referred to as "Farmer Mac I Guaranteed Securities." To be eligible for the Farmer Mac I program, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation and other specified standards that are discussed in "Business—Farmer Mac Programs—Farmer Mac I." As of December 31, 2011, outstanding Farmer Mac I loans held by Farmer Mac and loans that either backed Farmer Mac I Guaranteed Securities or were subject to LTSPCs in the Farmer Mac I program totaled $8.1 billion.

Farmer Mac II

Under the Farmer Mac II program, Farmer Mac's subsidiary, Farmer Mac II LLC, purchases the portions of certain agricultural, rural development, business and industry, and community facilities loans guaranteed by the USDA pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.) ("USDA-guaranteed portions" or "USDA Guaranteed Securities"). Farmer Mac II LLC also purchases USDA-guaranteed portions and issues securities to third parties backed by those USDA-guaranteed portions that are guaranteed by Farmer Mac ("Farmer Mac II Guaranteed Securities"). As of December 31, 2011, outstanding USDA Guaranteed Securities and Farmer Mac II Guaranteed Securities totaled $1.5 billion.

Rural Utilities

Farmer Mac's Rural Utilities program was initiated in 2008 after Congress expanded Farmer Mac's authorized secondary market activities to include rural utilities loans. Farmer Mac's authorized activities under this program are similar to those conducted under the Farmer Mac I program—loan purchases, guarantees of securities ("Farmer Mac Guaranteed Securities – Rural Utilities") and issuance of LTSPCs—with respect to eligible rural utilities loans. To be eligible for the Rural Utilities program, loans must meet Farmer Mac's credit underwriting and other specified standards that are discussed in "Business—Farmer Mac Programs—Rural Utilities." To date, Farmer Mac has not issued any LTSPCs with respect to rural utilities loans. As of December 31, 2011, the aggregate outstanding principal balance of rural utilities loans held and Farmer Mac Guaranteed Securities – Rural Utilities was $2.3 billion.

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 or USDA-guaranteed portions eligible under one of Farmer Mac's programs and (2) general obligations of lenders secured by pools of eligible loans. The Corporation 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 Farmer Mac I and Rural Utilities programs.

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Capital and Corporate Governance

Farmer Mac's basic capital and corporate governance structure is prescribed in its charter, which 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. Farmer Mac's board of directors currently has 14 members due to the resignation of a member in August 2011. Farmer Mac expects the board of directors to have 15 members after the Corporation's Annual Meeting of Stockholders in June 2012.

- 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 trades 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 holdings of Class B voting common stock, 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 medium, and Farmer Mac is not aware of any publicly available quotations or prices for that 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 those shares 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 trades 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 group of institutions. Approximately 97 percent of the voting power of the Class B voting common stock is held by four institutions of the FCS. Approximately 45 percent of the Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Farmer Mac believes that the concentration in such a small group of holders of Class B voting common stock is a by-product of the limited number of eligible holders of that stock under the charter and the structure of the FCS. 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.

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

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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 preferred stock would be paid in full at par value, plus all accrued 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 Programs—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. Farmer Mac, as a stockholder-owned, publicly-traded corporation, seeks to fulfill its mission of serving the financing needs of agriculture and rural America while at the same time 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 Farmer Mac Class A or Class B voting common stock, based on the size and type of institution, to participate in the Farmer Mac I program. 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 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 program participant 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.

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 of, 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 as a secondary market 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.

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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. 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 statutory and regulatory 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, 2011, Farmer Mac employed 62 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, Suite 120, Johnston, Iowa 50131. Farmer Mac's main telephone number is (202) 872-7700.

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 U.S. Securities and Exchange Commission (the "SEC"), including 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 such materials with, or furnishing such 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 PROGRAMS

The following tables present the outstanding balances and annual activity under Farmer Mac's three programs—Farmer Mac I, 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,	
	2011	2010
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$1,251,370	$972,206
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	181	3,697
Beneficial interests owned by third party investors	696,554	821,411
Farmer Mac Guaranteed Securities - AgVantage	2,741,000	941,500
Farmer Mac II:		
USDA Guaranteed Securities	1,435,679	1,297,439
Farmer Mac Guaranteed Securities	35,410	39,856
Rural Utilities:		
Loans	529,227	339,963
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	386,800	400,228
Farmer Mac Guaranteed Securities - AgVantage	1,410,800	1,887,200
Total on-balance sheet	$8,487,021	$6,703,500
Off-balance sheet:		
Farmer Mac I:		
Farmer Mac Guaranteed Securities - AgVantage	$970,000	$2,945,000
LTSPCs	1,776,051	1,754,597
Farmer Mac Guaranteed Securities	621,871	750,217
Farmer Mac II:		
Farmer Mac Guaranteed Securities	42,088	48,103
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	16,271	15,292
Total off-balance sheet	$3,426,281	$5,513,209
Total	$11,913,302	$12,216,709

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Farmer Mac Loan Purchases, Guarantees and LTSPCs

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Farmer Mac I:			
Loans	$495,455	$382,669	$195,318
LTSPCs	471,994	263,741	234,166
Farmer Mac Guaranteed Securities - AgVantage	1,801,500	900,000	—
Farmer Mac II:			
USDA Guaranteed Securities	404,445	437,751	—
Farmer Mac Guaranteed Securities	3,268	20,124	346,432
Rural Utilities:			
Loans	203,789	313,028	28,644
Farmer Mac Guaranteed Securities - AgVantage	2,796	652,924	1,711,009
Total purchases, guarantees and commitments	$3,383,247	$2,970,237	$2,515,569

The following sections describe Farmer Mac's activities under each program.

Farmer Mac I

Under the Farmer Mac I program, Farmer Mac assumes the credit risk on agricultural real estate mortgage loans by (1) purchasing and retaining eligible 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) issuing LTSPCs to acquire designated eligible mortgage loans. Farmer Mac is compensated for these activities through guarantee fees earned on Farmer Mac Guaranteed Securities, commitment fees earned on loans in LTSPCs, and net effective spread on loans and Farmer Mac Guaranteed Securities held on balance sheet.

Loan Eligibility

To be eligible for the Farmer Mac I program, 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 Farmer Mac I credit underwriting, collateral valuation, documentation and other specified standards. See "—Underwriting and Collateral Valuation (Appraisal) Standards" and "—Sellers" for a description of these standards.

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.

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Farmer Mac's charter authorizes a maximum loan size (adjusted annually for inflation) for a Farmer Mac I eligible loan secured by more than 1,000 acres of agricultural real estate. That maximum loan size was $9.8 million as of December 31, 2011 and increased to $10.1 million as of February 1, 2012. Although the charter does not prescribe a maximum loan size for a Farmer Mac I eligible loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac currently limits the size of those loans to:

- $22.5 million for transactions involving direct exposure to credit risk on loans (e.g., loan purchases, LTSPC transactions, and non-AgVantage Farmer Mac 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.

For the rural housing portion of the Farmer Mac I program, 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 $4.8 million of those loans in Farmer Mac's portfolio as of December 31, 2011.

Summary of Farmer Mac I Transactions

During the year ended December 31, 2011, Farmer Mac purchased or placed under guarantees or LTSPCs $2.8 billion of loans under the Farmer Mac I program. As of December 31, 2011, loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs in the Farmer Mac I program totaled $8.1 billion.

During 2011, Farmer Mac purchased newly originated and current seasoned 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 operating throughout the United States. During 2010, Farmer Mac purchased newly originated and current seasoned 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 operating throughout the United States. During 2009, Farmer Mac purchased newly originated and current seasoned eligible loans from 62 entities (the top ten institutions generated 81.1 percent of the purchase volume) and placed loans under LTSPCs with 19 entities operating throughout the United States.

The following table summarizes loans purchased or newly placed under guarantees or LTSPCs under the Farmer Mac I program for each of the years ended December 31, 2011, 2010 and 2009:

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Loans	$495,455	$382,669	$195,318
LTSPCs	471,994	263,741	234,166
Farmer Mac Guaranteed Securities - AgVantage	1,801,500	900,000	—
Total	$2,768,949	$1,546,410	$429,484

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The following table presents the outstanding balances of Farmer Mac I 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,	
	2011	2010
	(in thousands)	
On-balance sheet:		
Loans	$1,251,370	$972,206
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	181	3,697
Beneficial interests owned by third party investors	696,554	821,411
Farmer Mac Guaranteed Securities - AgVantage	2,741,000	941,500
Total on-balance sheet	$4,689,105	$2,738,814
Off-balance sheet:		
Farmer Mac Guaranteed Securities - AgVantage	$970,000	$2,945,000
LTSPCs	1,776,051	1,754,597
Farmer Mac Guaranteed Securities	621,871	750,217
Total off-balance sheet	$3,367,922	$5,449,814
Total	$8,057,027	$8,188,628

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 such 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 or subject to purchase commitments 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 $495.5 million of loans purchased in the Farmer Mac I program during 2011, 61 percent included balloon payments and less than 1 percent included yield maintenance prepayment protection. By comparison, of the $382.7 million of loans purchased in the Farmer Mac I program during 2010, 73 percent included balloon payments and 1 percent included yield maintenance prepayment protection.

Guarantees and Commitments

Farmer Mac offers two credit enhancement alternatives through the Farmer Mac I program 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 of these products 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 judged to be 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 judged to be the primary beneficiary still result in the creation of off-balance sheet obligations for Farmer Mac. In performing its obligations

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related to LTSPCs and Farmer Mac Guaranteed Securities, Farmer Mac would have the right to enforce the underlying loans, and in the event of default under the terms of those loans, would have access to the underlying collateral.

Both types of transactions permit a seller to nominate from its portfolio an identified pool of loans for participation in the Farmer Mac I program, subject to review by Farmer Mac for conformance with its applicable standards. In both types of transactions, the seller 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 seller's credit and concentration risk exposures and, consequently, its regulatory capital requirements and its loss reserve requirements. The loans underlying LTSPCs and Farmer Mac I Guaranteed Securities may include loans 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 the loans are subject to the applicable underwriting 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 eligible loans from a pool of loans that met Farmer Mac's standards at the time the loans first became subject to the LTSPC and Farmer Mac assumed the credit risk on the loans. The LTSPC structure, which is not a guarantee of loans or securities, permits the seller to retain the loan pool in its portfolio until such time, if ever, as the seller 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. 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 seller to absorb up to a specified amount of any losses incurred on the loans in the pool.

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 2011, Farmer Mac entered into $472.0 million of LTSPCs, compared to $263.7 million in 2010. In 2011, LTSPCs remained the preferred credit enhancement alternative for new off-balance sheet transactions, and they continue to be a significant portion of the Farmer Mac I program. During 2011, there were no conversions of LTSPCs into Farmer Mac I Guaranteed Securities. As of December 31, 2011, Farmer Mac's outstanding LTSPCs covered 4,456 mortgage loans with an aggregate principal balance of $1.8 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 either (1) guarantees securities representing interests in, or obligations secured by, eligible loans held by a

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trust or other entity established by a seller or (2) acquires eligible loans from sellers in exchange for Farmer Mac I Guaranteed Securities backed by those loans. 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. As consideration for its assumption of the credit risk on loans underlying the Farmer Mac I Guaranteed Securities, Farmer Mac receives guarantee fees based on the outstanding principal balance of the related Farmer Mac I Guaranteed 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 such 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 such securities outstanding and on the applicable guarantee fee rate, which Farmer Mac's statutory charter caps at 50 basis points (0.50 percent) per annum. 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. 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 loans underlying Farmer Mac I Guaranteed Securities. For more information regarding yield maintenance provisions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk."

For the years ended December 31, 2011 and 2010, Farmer Mac sold non-AgVantage Farmer Mac I Guaranteed Securities in the amounts of $22.4 million and $8.6 million, respectively. No gains or losses resulted from these sales in either 2011 or 2010. As of December 31, 2011, 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 6,024 mortgage loans with an aggregate principal balance of $1.3 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, which obligation is also secured by a pool of eligible loans under one of Farmer Mac's programs. 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 in Farmer Mac's Rural Utilities program, see "—Rural Utilities—Summary of Rural Utilities Transactions."

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Before approving an institution as an issuer in a Farmer Mac I AgVantage transaction, 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 Farmer Mac I program, 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 150 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, 2011, 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, 2011 and 2010, the outstanding principal amount of Farmer Mac I AgVantage securities held by Farmer Mac was $2.7 billion and $941.5 million, respectively. As of December 31, 2011 and 2010, the aggregate outstanding principal amount of off-balance sheet AgVantage securities issued under the Farmer Mac I program totaled $970.0 million and $2.9 billion, respectively. 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 minimum underwriting standards for agricultural real estate mortgage loans under the Farmer Mac I program prescribed by the charter:

- 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;
- protect the integrity of the appraisal process with respect to any loan; and
- confirm that the borrower is or will be actively engaged in agricultural production.

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In addition, loans purchased, subject to an LTSPC, or underlying Farmer Mac I Guaranteed Securities (other than loans securing Farmer Mac I AgVantage securities) are also typically required to meet the underwriting standards set forth below.

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

Underwriting. To manage its credit risk, to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting to all participating sellers and potential sellers in its programs, Farmer Mac has adopted credit underwriting standards for the Farmer Mac I program that vary by type of loan and program product under which the loan is brought to Farmer Mac. These standards were developed based on industry norms for similar mortgage loans and are designed to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac for having assumed the credit risk on such mortgage loans. Furthermore, Farmer Mac requires sellers of agricultural real estate mortgage loans to make representations and warranties regarding the conformity of eligible mortgage loans to these standards and any other requirements the Corporation may impose from time to time. Farmer Mac has the ability to require repurchase of the loan by the seller upon a material breach of these representations and warranties.

Farmer Mac I credit underwriting standards require that the original LTV of any loan not exceed 70 percent, 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 80 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 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;
- ratio of current assets to current liabilities of not less than 1; and
- cash flow debt service coverage ratio on the mortgaged property of not less than 1.

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).

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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 with respect to two ratios, requiring:

- total debt service coverage ratio, including farm and non-farm income, of not less than 1.35; and
- ratio of current assets to current liabilities of not less than 1.25.

Loans 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 underwriting standards prescribed by Farmer Mac's charter.

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 Farmer Mac I program 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 2011, $594.4 million (62.9 percent) of the loans purchased or added under LTSPCs were approved based upon compensating strengths ($4.6 million of which had original LTVs of greater than 70 percent). As of December 31, 2011, a total of $2.1 billion (48.5 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 ($77.1 million of which had original LTVs of greater than 70 percent). Most of the loans that Farmer Mac approved based on compensating strengths involved a debt service coverage ratio for the property securing the loan of less than 1, with the compensating strength being a total debt service coverage ratio for the borrower of not less than 1.50.

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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. 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 prior to the date the loan is either purchased by Farmer Mac or made subject to an LTSPC. There is no requirement that each loan's compliance with the underwriting standards be re-evaluated after Farmer Mac accepts the loan into its program.

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.

Required documentation for all Farmer Mac I loans 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 Farmer Mac I 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. In addition, Farmer Mac requires appraisals to conform to the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Standards Board.

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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, adjusted for the credit quality of the loans in those particular geographic regions or commodity/product groups relative to the total principal amount of all outstanding loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

Farmer Mac is not obligated to assume credit risk on every loan that meets its underwriting and collateral valuation standards submitted by an eligible seller. Farmer Mac may consider other factors, such as its overall portfolio diversification, commodity and farming forecasts and risk management objectives, in deciding whether to accept the loans into the Farmer Mac I program. 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 regarding 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.

Sellers

As of December 31, 2011, Farmer Mac had 415 approved loan sellers eligible to participate in the Farmer Mac I program, ranging from single-office to multi-branch institutions, spanning community banks, FCS institutions, mortgage companies, commercial banks and insurance companies, compared to 381 eligible approved loan sellers as of December 31, 2010. In addition to participating directly in the Farmer Mac I

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program, some of the approved loan sellers facilitate indirect participation by other lenders in the Farmer Mac I program by managing correspondent networks of lenders from which the approved loan sellers purchase loans to sell to Farmer Mac. As of December 31, 2011, 269 lenders were participating in one or both of the Farmer Mac I or Farmer Mac II programs.

To be considered for approval as a Farmer Mac I seller, a financial institution must meet criteria that Farmer Mac establishes. Those criteria include the following requirements:

- own a requisite amount of Farmer Mac Class A or Class B voting 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 loans eligible for the Farmer Mac I program and service such 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 to comply with the terms of the Farmer Mac Seller/Servicer Guide, including 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 loans held in its portfolio, although it does act as "master servicer" for loans underlying Farmer Mac I Guaranteed Securities. Farmer Mac also may assume direct servicing for defaulted loans. Loans held by Farmer Mac or underlying Farmer Mac Guaranteed Securities (other than AgVantage securities) are serviced only by Farmer Mac-approved entities designated as "central servicers" that have entered into central servicing contracts with Farmer Mac. Sellers of eligible mortgage loans sold into the Farmer Mac I program may retain certain "field servicing" functions (typically direct borrower contacts) and may enter into contracts with Farmer Mac's central servicers that specify such servicing functions. 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.

Farmer Mac II

General

The Farmer Mac II program was initiated in 1991 and is authorized under sections 8.0(3) and 8.0(9)(B) of Farmer Mac's statutory charter (12 U.S.C. §§ 2279aa(3) and 2279aa(9)(B)), which provide that:

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

Prior to January 2010, all USDA-guaranteed portions held by Farmer Mac were held in the form of

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Farmer Mac II Guaranteed Securities. Since January 2010, nearly all purchases of USDA-guaranteed portions under the Farmer Mac II program have been, and will continue to be, made by Farmer Mac's subsidiary, Farmer Mac II LLC, which operates substantially all of the business related to the Farmer Mac II program. Farmer Mac operates only that part of the Farmer Mac II program that involves the issuance of Farmer Mac II Guaranteed Securities to investors other than Farmer Mac or Farmer Mac II LLC.

Summary of Farmer Mac II Transactions

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac II Guaranteed Securities backed by USDA-guaranteed portions. Farmer Mac does not guarantee the repayment of the USDA-guaranteed portions, only the Farmer Mac II Guaranteed Securities that are backed by USDA-guaranteed portions. In January 2010, Farmer Mac contributed substantially all of the assets comprising the Farmer Mac II program, 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 portions 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 portions. The contributed USDA-guaranteed portions 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, 2011 and 2010, Farmer Mac II LLC purchased approximately $404.4 million and $435.7 million, respectively, of USDA-guaranteed portions, 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, 2011, 2010 and 2009, Farmer Mac purchased $3.3 million, $22.1 million, and $346.4 million, respectively, of USDA-guaranteed portions. All of the USDA-guaranteed portions purchased by Farmer Mac in 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. Most of the USDA-guaranteed portions purchased by Farmer Mac in 2009 were retained on-balance sheet rather than sold to lenders or other investors. During 2011, 2010 and 2009, Farmer Mac conducted Farmer Mac II transactions with 193, 197 and 187 entities, respectively, operating throughout the United States.

As of December 31, 2011 and 2010, $1.5 billion and $1.4 billion, respectively, of Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities were outstanding. The following table presents Farmer Mac II program activity for each of the years indicated:

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Purchased and retained	$404,445	$435,744	$336,963
Purchased and sold	3,268	22,131	9,469
Total	$407,713	$457,875	$346,432

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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,	
	2011	2010
	(in thousands)	
On-balance sheet:		
USDA Guaranteed Securities	$1,435,679	$1,297,439
Farmer Mac Guaranteed Securities	35,410	39,856
Off-balance sheet:		
Farmer Mac Guaranteed Securities	42,088	48,103
Total	$1,513,177	$1,385,398

As of December 31, 2011, Farmer Mac had experienced no credit losses on any of its Farmer Mac II Guaranteed Securities or USDA Guaranteed Securities. Farmer Mac had outstanding $46,000 of principal and interest advances on Farmer Mac II Guaranteed Securities as of both December 31, 2011 and 2010, compared to $0.6 million as of December 31, 2009.

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. USDA-guaranteed portions represent up to 95 percent of the principal amount of guaranteed loans. Through its Farmer Mac II program, Farmer Mac is one of several competing purchasers of USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities loans and other loans that 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 USDA-guaranteed portion 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; or
- the lender has failed to remit to the owner the payment made by the borrower on the USDA-guaranteed portion 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.

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 be a seller in the Farmer Mac II program. During 2011, 193 sellers, consisting mostly of community and regional banks, sold USDA-guaranteed portions to Farmer Mac under the Farmer Mac II program, as compared to 197 sellers that did so during 2010. In the aggregate, 269 sellers were actively participating directly in one or both of the Farmer Mac I or Farmer Mac II programs 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 underlying guaranteed loan are to be secured by the same security with equal lien priority. The USDA-guaranteed portion 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, 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 program has involved telecommunications loans. Farmer Mac's Rural Utilities program encompasses loan purchases, Farmer Mac Guaranteed Securities – Rural Utilities, and issuance of LTSPCs, in each case with respect to eligible rural utilities loans, although no LTSPCs have been issued to date under the Rural Utilities program.

Summary of Rural Utilities Transactions

During the year ended December 31, 2011, Farmer Mac added $0.2 billion of new business under the Rural Utilities program, compared to $1.0 billion and $1.7 billion for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2011 and 2010, the aggregate outstanding principal balance of rural utilities loans held and of Farmer Mac Guaranteed Securities – Rural Utilities was $2.3 billion and $2.6 billion, respectively.

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The following table summarizes new business activity under Farmer Mac's Rural Utilities program for each of the years ended December 31, 2011, 2010 and 2009:

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
On-balance sheet:			
Loans	$203,789	$313,028	$28,644
Farmer Mac Guaranteed Securities - AgVantage	—	650,000	1,695,000
Off-balance sheet:			
Farmer Mac Guaranteed Securities - AgVantage	2,796	2,924	16,009
Total	$206,585	$965,952	$1,739,653

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,	
	2011	2010
	(in thousands)	
On-balance sheet:		
Loans	$529,227	$339,963
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	386,800	400,228
Farmer Mac Guaranteed Securities - AgVantage	1,410,800	1,887,200
Total on-balance sheet	$2,326,827	$2,627,391
Off-balance sheet:		
Farmer Mac Guaranteed Securities - AgVantage	16,271	15,292
Total	$2,343,098	$2,642,683

As of December 31, 2011, all of the Farmer Mac Guaranteed Securities – Rural Utilities in the Rural Utilities program 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, 2011, CFC held 7.9 percent of Farmer Mac's outstanding Class A voting common stock (5.3 percent of total voting shares) and 100 percent of Farmer Mac's outstanding Series C Non-Voting Cumulative Preferred Stock ("Series C Preferred Stock").

Loan Eligibility

To be eligible for Farmer Mac's Rural Utilities program, 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 rural utilities 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 Farmer Mac Rural Utilities program. To manage its credit risk, to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and underwriting to participants in the Rural Utilities program, Farmer Mac has adopted credit underwriting standards that vary by type of loan, be it to electric distribution cooperatives or electric generation and transmission ("G&T") cooperatives, and by program product under which the loan is brought to Farmer Mac. 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 sellers' 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 the Corporation's underwriting standards for rural utilities loans are met. 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 the Corporation may impose from time to time. Farmer Mac has the ability to require repurchase of the loan by the seller 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) through the Rural Utilities program 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;
- the debt to EBITDA (earnings before income taxes, depreciation and amortization) ratio does not exceed 12; and

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- 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 program, 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, guaranteeing securities backed by, or committing to purchase 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 it underwriting and collateral valuation standards submitted to Farmer Mac. Farmer Mac may consider other factors, such as portfolio diversification, in deciding whether to accept the loans into the Farmer Mac Rural Utilities program.

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 where Farmer Mac purchases a loan and another lender 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.

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 holders of those loans in accordance with those lenders' 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, currently services all of the rural utilities loans in Farmer Mac's portfolio.

Sellers

The statutory authorities that authorize Farmer Mac to create a secondary market for rural utilities loans require the loans be made by a cooperative lender to be eligible. 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, 2011, these cooperatives had approximately $18.8 billion in loans outstanding to distribution cooperatives and $6.0 billion in loans outstanding to G&T cooperatives.

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, 2011, Farmer Mac had direct credit exposure on 647 loans to electric cooperatives constituting $916.0 million across 36 states.

Farmer Mac's charter does not prescribe a maximum loan size for a loan to be eligible for the Rural Utilities program, but Farmer Mac currently limits its cumulative direct credit exposure on eligible rural utilities loans (e.g., purchases of loans or securities representing interests in loans) to any one borrower or related borrowers to $22.5 million. For indirect credit exposures on rural utilities loans (e.g., AgVantage transactions), Farmer Mac currently limits its cumulative loan exposure to any one borrower or related borrowers to $75.0 million, with the amount of any direct exposure to a borrower also counting toward the $75.0 million limit. As of December 31, 2011, Farmer Mac's direct credit exposure to rural utilities loans consisted of $888.4 million in loans to distribution cooperatives and $27.6 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 2011, Farmer Mac had net credit losses of $0.2 million, compared to $0.6 million during 2010.

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, 2011, the amount maintained as a reserve against losses arising from Farmer Mac's guarantee activities was $80.5 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 regarding 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

Section 8.6(e) of 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 portions and Farmer Mac Guaranteed Securities and to maintain reasonable amounts for business operations, including adequate liquidity. Farmer Mac funds its purchases of program and non-program 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. Debt obligations issued by Farmer Mac 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 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 $12.0 billion of discount notes and medium-term notes (of which $10.2 billion was outstanding as of December 31, 2011), subject to periodic review by Farmer Mac's board of directors of the adequacy of that level relative to Farmer Mac's borrowing needs. That authorization was increased from $10.0 billion to $12.0 billion in June 2011. Farmer Mac invests the proceeds of such issuances in loans, Farmer Mac Guaranteed Securities, and non-

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program investment assets in accordance with policies established by its board of directors that comply with FCA's Liquidity and Investment Regulations, including dollar amount, issuer concentration and credit quality limitations. Farmer Mac's regular debt issuance supports its access to the capital markets, and Farmer Mac's non-program investment assets provide an alternative source of funds should market conditions be unfavorable. Farmer Mac's current policies authorize non-program 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

Common Stock

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 programs 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 holdings of Class B voting common stock. 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 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, 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 in full at par value, plus all accrued 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.

As of December 31, 2011, the following shares of Farmer Mac common stock were outstanding:

- 1,030,780 shares of Class A voting common stock;
- 500,301 shares of Class B voting common stock; and
- 8,825,794 shares of Class C non-voting common stock.

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Farmer Mac may obtain additional capital from future issuances of voting and non-voting common stock and non-voting preferred stock.

The following table presents the dividends declared on Farmer Mac's common stock during and subsequent to 2011:

Date Dividend Declared	Per Share Amount	For Holders Of Record As Of	Date Paid
February 3, 2011	$0.05	March 15, 2011	March 31, 2011
June 1, 2011	0.05	June 15, 2011	June 30, 2011
August 3, 2011	0.05	September 15, 2011	September 30, 2011
December 1, 2011	0.05	December 15, 2011	December 30, 2011
February 2, 2012	0.10	March 15, 2012	*

* The dividend declared on February 2, 2012 is scheduled to be paid on March 30, 2012.

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

Farmer Mac has had three series of preferred stock outstanding. The first, Series A, was repurchased and retired on December 15, 2008. The second, Series B, was repurchased and retired on January 25, 2010. Farmer Mac has 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. Currently outstanding, Series C 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. CFC currently owns all of the outstanding Series C Preferred Stock.

Dividends on Series C Preferred Stock compound quarterly at an annual rate of 5.0 percent of the then-applicable liquidation preference per share. The annual rate will 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. Dividends on Series C Preferred Stock will accrue and cumulate from the applicable issue date whether or not declared by Farmer Mac's board of directors and will be payable quarterly in arrears out of legally available funds when and as declared by the board of directors on each dividend payment date—March 31, June 30, September 30 and December 31 of each year. Farmer Mac may pay dividends on Series C Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to Series C Preferred Stock.

Farmer Mac has the right, but not the obligation, to redeem some or all of the issued and outstanding shares of Series C Preferred Stock at a price equal to the then-applicable liquidation preference beginning on the first anniversary of the applicable issue date and on each subsequent dividend payment date. Farmer Mac's redemption right with respect to Series C Preferred Stock is subject to receipt of the prior written approval of FCA, if required.

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The following table presents the dividends declared on Series C Preferred Stock during and subsequent to 2011:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 3, 2011	$12.50	January 1, 2011	March 31, 2011	March 31, 2011
June 1, 2011	12.50	April 1, 2011	June 30, 2011	June 30, 2011
August 3, 2011	12.50	July 1, 2011	September 30, 2011	September 30, 2011
December 1, 2011	12.50	October 1, 2011	December 31, 2011	January 3, 2012
February 2, 2012	12.50	January 1, 2012	March 31, 2012	*

* The dividend declared on February 2, 2012 is scheduled to be paid on April 2, 2012.

During 2011 and 2010, there were no sales of Series C Preferred Stock. As of December 31, 2011 and 2010, the outstanding shares of Series C Preferred Stock was 57,578. During 2009, Farmer Mac sold 48,378 shares of Series C Preferred Stock resulting in 57,578 shares of Series C Preferred Stock outstanding as of December 31, 2009.

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.

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.

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The following table presents the dividends declared on Farmer Mac II LLC Preferred Stock during and subsequent to 2011:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 3, 2011	$22.1875	December 30, 2010	March 29, 2011	March 30, 2011
June 1, 2011	22.1875	March 30, 2011	June 29, 2011	June 30, 2011
August 3, 2011	22.1875	June 30, 2011	September 29, 2011	September 30, 2011
December 1, 2011	22.1875	September 30, 2011	December 29, 2011	December 30, 2011
February 2, 2012	22.1875	December 30, 2011	March 29, 2012	*

* The dividend declared on February 2, 2012 is scheduled to be paid on March 30, 2012.

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 described above. After consideration of the consolidated tax benefits to Farmer Mac, the net effective cost of the $250.0 million of preferred stock is 5.77 percent per year, which is $3.6 million less per year than the cost of the $150 million of Series B Preferred Stock 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.

Common Stock Repurchases

Farmer Mac did not repurchase any common stock during 2011, 2010 or 2009.

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

Farmer Mac may issue obligations to the U.S. Treasury in a cumulative amount not to exceed $1.5 billion. The proceeds of those obligations may be used solely for the purpose of fulfilling Farmer Mac's guarantee obligations under the Farmer Mac I, Farmer Mac II, and Rural Utilities programs. Farmer Mac's charter provides that the U.S. Treasury is required to purchase those obligations of the Corporation 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 $80.5 million and $72.4 million as of December 31, 2011 and 2010, respectively); and
- the proceeds of such obligations are needed to fulfill Farmer Mac's guarantee obligations.

Such obligations 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, and would be required to be repurchased from the U.S. Treasury by Farmer Mac within a "reasonable time." As of December 31, 2011, 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.

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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 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, as amended, and regulations promulgated thereunder (collectively, the "Securities Act") unless an exemption for an offering is available.

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

- in 1990 to create the Farmer Mac II program;
- 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

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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.
- 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. FCA promulgated a revised risk-based capital stress test that became effective June 15, 2011. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters."

As of December 31, 2011, Farmer Mac's statutory minimum and critical capital requirements were $348.7 million and $174.3 million, respectively, and its actual core capital level was $475.2 million, $126.5 million above the statutory minimum capital requirement and $300.9 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, 2011 was $52.9 million and Farmer Mac's regulatory capital of $492.7 million exceeded that amount by approximately $439.8 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.

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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, 2011, 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
- 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

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interest rates and overall market conditions. The following risk factors are some of the more important factors that 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.

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 program and non-program 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 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 have an impact on 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 have an impact on 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;

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- 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 agriculture that may affect the level of income for borrowers within one or more industries, including energy policy changes affecting ethanol producers or any decrease in government expenditures on agricultural programs such as support for crop insurance or other disaster recovery programs for agricultural industries;
- 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 program 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 programs, 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;

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- the acceptance by Federal Home Loan Banks of agricultural real estate mortgage loans as collateral;
- 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; and
- expanded funding alternatives available to rural utilities.

Farmer Mac is a GSE that may be materially and adversely affected by legislative, regulatory or political developments.

Farmer Mac is a GSE that is governed by a statutory charter controlled by the U.S. Congress and regulated by governmental agencies. Although Farmer Mac is not aware of any pending legislative proposals that would adversely affect the Corporation at this time, Farmer Mac's GSE status and ability to effectively conduct its business are subject to risks and uncertainties related to legislative, regulatory or political developments. From time to time, legislative or regulatory initiatives are 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 or the growth or operation of the secondary market for agricultural mortgages and rural utilities loans. 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 developments or proposals 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 program assets in the future;
- legislative or regulatory actions that increase Farmer Mac's applicable capital requirements; and
- changes in GAAP.

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

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 Farmer Mac I program, repayment of eligible loans typically depends on the success of the related farming operation, which, in turn, depends

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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 program, 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 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 Farmer Mac I program or Rural Utilities program 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 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. Farmer Mac's principal sources of funds for the payment of claims under its guarantees and purchase commitments are, and may continue to be, substantially less than the amount of Farmer Mac's aggregate contingent liabilities under its guarantees and LTSPCs. Farmer Mac is required to set aside a portion of the fees it receives as a reserve against losses from its guarantee and commitment activities. Farmer Mac expects that its future contingent liabilities for its guarantee and commitment activities will continue to grow and will exceed Farmer Mac's resources, including amounts in the Corporation's allowance for losses and its limited ability to borrow from the U.S. Treasury.

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

Farmer Mac's earnings depend largely on the performance of its program assets and non-program investments, and the spread between interest earned on such assets and investments and interest paid on Farmer Mac's obligations and liabilities. As a result, Farmer Mac's earnings may be adversely affected by its exposure to credit and interest rate risks, including:

- credit risk associated with the agricultural mortgages and rural utilities loans that Farmer Mac purchases or commits to purchase or that back Farmer Mac Guaranteed Securities;
- interest rate risk on interest-earning assets and related interest-bearing liabilities due to possible timing differences in the associated cash flows;
- credit risk associated with Farmer Mac's business relationships with other institutions, such as counterparties to interest rate swap contracts and other hedging arrangements; and
- risks as to the creditworthiness of the issuers of AgVantage securities and the Corporation's non-program investments.

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 the Corporation'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 the Corporation'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. 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, 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 volatility. Farmer Mac relies on internal models to determine the fair value of certain investment securities, and those models could fail to produce reliable results. Farmer Mac also relies on the judgment of management to value certain securities, and that judgment is subject to human error. Subsequent valuations of investment securities, in light of factors then prevailing, may result in significant changes in the value of the Corporation's investment securities in the future. In addition, regulations promulgated under the Dodd–Frank Wall Street Reform and Consumer Protection Act may limit Farmer Mac's ability to rely on credit ratings for its investment securities, which may necessitate changes in the composition of Farmer Mac's investment portfolio. If Farmer Mac decides to sell any of the securities in its investment portfolio, the price ultimately realized will depend on the demand and liquidity in the market at that time and may be materially lower than their estimated fair value. Farmer Mac's inability to sell the securities in its investment portfolio at or above their estimated fair value could adversely affect the Corporation's business, operating results, financial condition and capital levels.

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 and increase interest rate risk.

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; it does not apply hedge accounting to those derivatives. 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, while a majority of the offsetting economic gains on the hedged items are not, resulting in the possibility of volatile earnings under GAAP. 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. 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 for Farmer Mac if it were unable to meet the requirement.

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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 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.

Farmer Mac relies on information systems and other technology in its business operations, and any failure or interruption in those systems, including the occurrence of cyber incidents or a deficiency in Farmer Mac's cybersecurity, 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. 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. If Farmer Mac experiences a failure or interruption in any of these systems or other technology, including any action that results in unauthorized access to Farmer Mac's systems by third parties to disrupt operations, corrupt data, or steal confidential information, Farmer Mac may consequently experience operational interruption, damage to its reputation, or liability from private data exposure. Although Farmer Mac has implemented solutions, processes, and procedures to help mitigate these risks, including a business continuity plan, 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 on Farmer Mac's business, operating results or financial condition.

If Farmer Mac's management of risk associated with its program 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 relating to volatility, 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 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.

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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 Farmer Mac II program business to Farmer Mac II LLC, including USDA-guaranteed portions in an aggregate principal amount of $1.1 billion and the primary intangible assets related to the operation of the Farmer Mac II program. 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. If Farmer Mac is 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 Farmer Mac II program 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. 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.

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 the Corporation'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 moved its principal offices from 1133 Twenty-First Street, N.W., Suite 600, Washington, D.C. 20036, the lease for which expired on November 30, 2011. Farmer Mac also maintains an office located at 5408 NW 88th, Suite 120, Johnston, Iowa 50131, under the terms of a lease that commenced on November 1, 2010 and that 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, the Corporation 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 trade 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 medium, 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	Low	High	Low
	(per share)			
2012				
First quarter (through March 1, 2012)	$14.50	$11.35	$21.49	$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
2010				
Fourth quarter	$13.40	$9.00	$17.02	$10.40
Third quarter	12.79	7.59	16.24	10.42
Second quarter	17.37	11.00	23.54	12.20
First quarter	10.00	6.41	11.33	6.85

As of March 1, 2012, Farmer Mac estimates that there were 1,131 registered owners of the Class A voting common stock, 87 registered owners of the Class B voting common stock and 1,057 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 prior to 2009. Farmer Mac expects to continue to pay comparable quarterly cash dividends for the

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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."

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, 2012. 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 pursuant to Section 3(a)(2) of the Securities Act. Two types of transactions related to Farmer Mac common stock occurred during fourth quarter 2011 that were not registered under the Securities Act and not otherwise reported on a Current Report on Form 8-K:

- On October 4, 2011, Farmer Mac granted stock appreciation rights under its 2008 Omnibus Incentive Plan with respect to an aggregate of 33,000 shares of Class C non-voting common stock, at an exercise price of $18.14 per share, to eleven employees as incentive compensation.
- On October 13, 2011, 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 200 shares of its Class C non-voting common stock to the four directors who elected to receive such stock in lieu of their cash retainers. The number of shares issued to the directors was calculated based on a price of $19.03 per share, which was the closing price of the Class C non-voting common stock on September 30, 2011 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 Div Fin") over the period from December 31, 2006 to December 31, 2011. The graph assumes that $100 was invested on December 31, 2006 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 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 such 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, as amended, and regulations promulgated thereunder (collectively, the "Exchange Act"), whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing (except to the extent Farmer Mac specifically incorporates this section by reference into such filing).

(b) Not applicable.

(c) Farmer Mac did not repurchase any shares of its common stock during 2011, 2010 or 2009.

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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, 2011 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.

	As of December 31,				
Summary of Financial Condition:	2011	2010	2009	2008	2007
	(dollars in thousands)				
Cash and cash equivalents	$817,046	$729,920	$654,794	$278,412	$101,445
Investment securities	2,184,490	1,763,329	1,131,895	1,235,859	2,624,366
Farmer Mac Guaranteed Securities	4,289,272	2,907,264	3,398,996	2,451,244	1,298,823
USDA Guaranteed Securities	1,491,905	1,317,444	—	—	—
Loans, net	2,894,156	2,558,599	753,720	774,596	766,219
Total assets	11,883,508	9,479,914	6,138,813	5,107,307	4,977,613
Notes payable:					
Due within one year	6,087,879	4,509,419	3,662,898	3,757,099	3,829,698
Due after one year	4,104,882	3,430,656	1,908,713	887,999	744,649
Total liabilities	11,328,975	9,001,037	5,798,406	4,947,743	4,754,020
Mezzanine equity	—	—	144,216	144,216	—
Stockholders' equity	312,680	237,024	196,191	15,348	223,593
Non-controlling interest - preferred stock	241,853	241,853	—	—	—
Selected Financial Ratios:					
Return on average assets (1)	0.13 %	0.28 %	1.46 %	(3.06)%	0.09 %
Return on average common equity (2)	6.34 %	13.88 %	113.70 %	(158.24)%	2.20 %
Average equity to assets (3)	2.57 %	2.77 %	1.88 %	2.37 %	4.75 %
Average total equity to assets (4)	4.84 %	5.25 %	4.45 %	3.80 %	4.75 %

(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, 2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Interest Income:					
Net interest income after (provision)/recovery for loan losses	$120,695	$94,150	$83,055	$74,184	$44,668
Non-interest (loss)/income:					
Guarantee and commitment fees	24,821	24,091	31,805	28,381	25,232
(Losses)/gains on financial derivatives and trading assets	(89,190)	(11,889)	64,570	(141,042)	(40,274)
Other-than-temporary impairment losses	—	—	(3,994)	(106,240)	—
Gains on asset sales and debt repurchases	269	266	4,934	2,689	288
Gains on the sale of real estate owned	974	10	—	—	130
Lower of cost or fair value adjustment on loans held for sale	8,887	(8,748)	(139)	—	85
Other income	6,850	1,244	1,578	1,413	1,326
Non-interest (loss)/income	(47,389)	4,974	98,754	(214,799)	(13,213)
Non-interest expense	28,659	32,627	29,692	32,612	24,877
Income/(loss) before income taxes	44,647	66,497	152,117	(173,227)	6,578
Income tax expense/(benefit)	5,797	13,797	52,517	(22,864)	(83)
Net income/(loss)	38,850	52,700	99,600	(150,363)	6,661
Less: Net income attributable to non-controlling interest - preferred stock dividends	(22,187)	(20,707)	—	—	—
Preferred stock dividends	(2,879)	(4,129)	(17,302)	(3,717)	(2,240)
Loss on retirement of preferred stock	—	(5,784)	—	—	—
Net income/(loss) attributable to common stockholders	$13,784	$22,080	$82,298	$(154,080)	$4,421
Allowance for Losses Activity:					
(Release of)/provision for losses	$(2,347)	$4,310	$5,242	$17,840	$(142)
Net charge-offs/(recoveries)	252	(1,618)	7,490	5,292	526
Ending balance	17,516	20,115	14,187	16,435	3,887
Earnings Per Common Share and Dividends:					
Basic earnings/(loss) per common share	$1.32	$2.16	$8.12	$(15.40)	$0.43
Diluted earnings/(loss) per common share	1.28	2.08	8.04	(15.40)	0.42
Common stock dividends per common share	0.20	0.20	0.20	0.40	0.40
Regulatory Capital:					
Statutory minimum capital requirement	$348,649	$300,996	$216,959	$193,476	$186,032
Core capital	475,163	460,602	337,153	206,976	226,386
Minimum capital surplus	126,514	159,606	120,194	13,500	40,354

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

Financial information as of and for each of the years ended December 31, 2011, 2010 and 2009 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 the business related to the Farmer Mac II program – primarily the acquisition of USDA-guaranteed portions. The business operations of Farmer Mac II LLC began in January 2010. Since then, Farmer Mac has operated only that part of the Farmer Mac II program that involves the issuance of Farmer Mac II Guaranteed Securities to investors other than 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, 2011, 2010 and 2009.

The discussion below is not necessarily indicative of future results.

Forward-Looking Statements

Some statements made in this Annual Report on Form 10-K 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;
- legislative or regulatory developments that could affect Farmer Mac, including those related to the Dodd-Frank Act;

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- 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 and real estate values on agricultural mortgage lending;
- developments in the financial markets, including possible investor, analyst and rating agency reactions to events involving GSEs, including Farmer Mac; and
- financial market volatility, including the future level and direction of interest rates, commodity prices, and 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 Annual Report on Form 10-K. 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

Farmer Mac continued its strong performance in 2011, as evidenced by positive earnings, increased capital, and improved asset quality. Farmer Mac's GAAP net income continued to be significantly affected by fair value changes of financial derivatives in 2011, but non-GAAP core earnings for 2011 were strong and continued to increase compared to previous years. Farmer Mac's capital position increased during 2011 as earnings continued to build, and 90-day delinquencies as of the end of the year improved compared to both the previous quarter and the prior year. This improvement in credit quality reflected the continuing strength of the agricultural economy, although the high profitability within agriculture also resulted in reduced demand for loans. The reduced demand for loans in rural America affected Farmer Mac's overall business volume, as the aggregate outstanding amount of program volume decreased by $303.4 million between the end of 2010 and the end of 2011. Despite this reduced demand in 2011, Farmer Mac believes it has opportunities for future business growth in both the agricultural and rural utilities segments of its business. See "—Outlook."

Although the general economy continued to struggle in 2011, the agricultural economy sustained its strength throughout the year as commodity prices remained high, interest rates remained low, and agricultural exports benefited from the weak dollar. Under these conditions, Farmer Mac's agricultural and rural utilities portfolios continued to perform well. As of December 31, 2011, Farmer Mac's 90-day delinquencies were $40.6 million (0.93 percent of the non-AgVantage Farmer Mac I portfolio), down from $44.8 million (1.02 percent) as of September 30, 2011 and $70.2 million (1.63 percent) as of December 31, 2010. Notably, as of December 31, 2011, there were no 90-day delinquencies in Farmer Mac's portfolio of ethanol facility loans, a segment of the portfolio that previously experienced heightened levels of delinquencies for several years.

When analyzing the overall risk profile of its program business, Farmer Mac takes into account more than the Farmer Mac I agricultural loan delinquency percentages provided above. The total program business includes AgVantage securities and rural utilities loans, neither of which have any delinquencies, and the USDA Guaranteed Securities and USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities, which are backed by the full faith and credit of the United States. Across Farmer Mac's entire

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program business, 90-day delinquencies represented 0.34 percent of the total program business as of December 31, 2011, compared to 0.58 percent as of December 31, 2010.

The combination of a strong agricultural economy, low interest rate environment, and strong lender liquidity challenged Farmer Mac's ability to increase overall program volume during 2011. Farmer Mac's new business volume totaled $3.4 billion in 2011, compared to $3.0 billion and $2.5 billion, respectively, in 2010 and 2009. As of December 31, 2011, Farmer Mac's total outstanding loans, guarantees and commitments were $11.9 billion, compared to $12.2 billion and $10.7 billion as of December 31, 2010 and 2009, respectively. Farmer Mac's overall program volume decreased in 2011 because the new business volume added during 2011 did not offset paydowns and maturities of existing program assets, primarily because of the maturity of a $475.0 million AgVantage security that was not replaced with new business.

Farmer Mac's 2011 new business volume included purchases of $1.5 billion of AgVantage securities issued by Metropolitan Life Insurance Company ("MetLife") with maturities ranging between three and ten years, which replaced maturing AgVantage securities of $1.5 billion issued by MetLife that had been held by third party investors and accounted for as off-balance sheet guarantees by Farmer Mac. New business volume for 2011 also included the purchase of $300.0 million of AgVantage securities issued by Rabo Agrifinance, Inc. with maturities ranging between two and three years. Although the 2011 MetLife transactions did not increase the overall level of outstanding program volume, they effectively extended the duration of the AgVantage securities that had matured and should provide increased future profitability because the net interest margin earned by Farmer Mac holding these securities on-balance sheet is expected to exceed the guarantee fee earned on the prior off-balance sheet guarantees. During 2011, Farmer Mac also completed a $159.9 million LTSPC transaction, which was the largest LTSPC transaction since March 2007. The expressed motivation of the counterparty in that transaction was to reduce its commodity concentration levels. Farmer Mac has recently observed increased lender interest in the LTSPC product as a tool for lenders to manage their commodity concentration and borrower exposure levels as well as overall credit risk. Farmer Mac remains well-positioned to meet the needs of expanding demand over time, as the Corporation's capital position is significantly above its statutory and regulatory requirements.

Farmer Mac's GAAP net income attributable to common stockholders for 2011 was $13.8 million, compared to $22.1 million for 2010 and $82.3 million for 2009. The decrease in Farmer Mac's GAAP net income for 2011 was almost entirely attributable to the effects of fair value changes of its financial derivatives. Although Farmer Mac's financial derivatives provide effective economic hedges of interest rate risk, they are not designated in hedge relationships for accounting purposes and are required to be reported at fair value, with changes in fair value recorded in earnings as they occur. The fair values of Farmer Mac's financial derivatives are sensitive to changes in long-term interest rates. If long-term interest rates increase, Farmer Mac's financial derivatives generally increase in fair value. Conversely, if long-term interest rates decrease, Farmer Mac's financial derivatives generally decrease in fair value. For example, the 10-year Treasury rate decreased approximately 142 basis points in 2011. During 2011, Farmer Mac recorded unrealized fair value losses on its financial derivatives of $47.6 million. Although these fair value changes are expected to have no permanent effect on earnings or capital if held to maturity, as is expected, they can contribute significant volatility in periodic GAAP earnings.

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Apart from the unrealized losses on financial derivatives described above, GAAP net income for 2011 benefited from increased net interest income, net releases from the allowance for losses and gains to adjust the carrying value of loans held for sale to the lower of cost or fair value. GAAP net income in 2010 was affected by net losses on financial derivatives and reduced gains on trading assets, offset partially by higher net interest income as compared to 2009. GAAP net income for 2009 included significant fair value gains on financial derivatives and trading assets.

Farmer Mac's non-GAAP core earnings for 2011 were $42.9 million, up from $25.4 million and $16.1 million for 2010 and 2009, respectively. Core earnings for 2011 benefited from higher net interest income of $121.3 million, compared to $96.0 million in 2010 and net releases from the allowance for losses of $2.3 million, compared to provisions of $4.3 million in the prior year. 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. 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 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."

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 in accordance with Financial Accounting Standards Board ("FASB") standards on accounting for contingencies and on measuring individual impairment of a loan. Farmer Mac's methodology for determining the allowance for losses separately considers its portfolio segments – Farmer Mac I, Farmer Mac II, 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

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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

Farmer Mac I

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 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 Farmer Mac I 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 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.

Farmer Mac II

No allowance for losses has been provided for USDA Guaranteed Securities or Farmer Mac II Guaranteed Securities. The USDA-guaranteed portions presented as "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 specifically analyzes certain loans in its portfolio for impairment. Farmer Mac's impaired assets generally include:

- non-performing assets (loans 90 days or more past due, in foreclosure, restructured, in bankruptcy – including loans performing under either their original loan terms or a court-approved bankruptcy plan);
- loans for which Farmer Mac has adjusted the timing of borrowers' payment schedules, but still expects to collect all amounts due and has not made economic concessions; and
- additional performing loans that have previously been delinquent or are secured by real estate that produces agricultural commodities or products currently under stress.

For loans with an updated appraised value, other updated collateral valuation or management's estimate of discounted collateral value, this analysis includes the measurement of the fair value of the underlying collateral for individual loans relative to the total recorded investment, including principal, interest and advances 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.

Further information regarding the allowance for losses is included in "—Risk Management—Credit Risk – Loans."

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

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

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

As of December 31, 2011, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $5.9 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 49 percent of total assets and 72 percent of financial instruments measured at fair value as of December 31, 2011.

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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 Farmer Mac I program.
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 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.

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 expected cash flows is less than the amortized cost basis of the security, a credit loss has occurred and the security is deemed to be other-than-temporarily impaired and the amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income, net of applicable taxes.

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Results of Operations

Farmer Mac's GAAP net income attributable to common stockholders for 2011 was $13.8 million or $1.28 per diluted common share, compared to $22.1 million or $2.08 per diluted common share for 2010, and $82.3 million or $8.04 per diluted common share for 2009.

Farmer Mac's non-GAAP core earnings were $42.9 million or $3.97 per diluted common share in 2011, compared to $25.4 million or $2.39 per diluted common share in 2010, and $16.1 million or $1.58 per diluted common share in 2009.

A reconciliation of Farmer Mac's GAAP net income attributable to common stockholders to core earnings is presented in the following table, and those reconciling items 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,		
	2011	2010	2009
	(in thousands, except per share amounts)		
GAAP net income attributable to common stockholders	$13,784	$22,080	$82,298
Less the after-tax effects of:			
Unrealized (losses)/gains on financial derivatives	(30,930)	13,046	39,949
Unrealized gains on trading assets	2,246	3,426	28,128
Amortization of premiums on assets consolidated at fair value	(7,060)	(7,617)	—
Recognition of deferred gains related to certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities	3,368	—	—
Net effects of settlements on agency forward contracts	(2,523)	(670)	(1,927)
Lower of cost or fair value adjustment on loans held for sale	5,776	(5,686)	—
Issuance costs on the retirement of preferred stock	—	(5,784)	—
Sub-total	(29,123)	(3,285)	66,150
Core earnings	$42,907	$25,365	$16,148
Core earnings per share:			
Basic	$4.15	$2.48	$1.59
Diluted	3.97	2.39	1.58
Weighted-average shares:			
Basic	10,335	10,229	10,138
Diluted	10,802	10,615	10,233

Farmer Mac excludes the after-tax effect of unrealized (losses)/gains resulting from changes in the fair values of financial derivatives and trading assets from core earnings. Changes in the fair values of financial derivatives and trading assets have historically contributed significant volatility to Farmer Mac's periodic GAAP earnings. Consistent with that trend, Farmer Mac recorded unrealized losses of $47.6 million ($30.9 million after-tax) for fair value changes on its financial derivatives for 2011, compared to unrealized gains of $20.1 million ($13.0 million after-tax) and $61.7 million ($39.9 million after-tax) for 2010 and 2009, respectively. Fair value gains on trading assets totaled $3.5 million ($2.2 million after-tax) for 2011, compared to $5.3 million ($3.4 million after-tax) and $43.3 million ($28.1 million after-tax) for 2010 and 2009, respectively. While these volatile changes in fair values may at times produce significant losses, as was the case in 2011, they may also produce significant income, as

was the case in 2009. Future changes in those values cannot be reliably predicted; however, as of December 31, 2011, the cumulative fair value after-tax losses recorded on financial derivatives was $77.9 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. Although the unrealized fair value fluctuations experienced throughout the term of the financial derivatives will temporarily impact earnings and capital, those fluctuations are not expected to have any permanent effect if the financial derivatives are held to maturity, as is expected.

Farmer Mac also excludes from core earnings the amortization of premiums on assets consolidated at fair value. Upon the adoption of consolidation guidance on January 1, 2010, Farmer Mac determined itself to be the primary beneficiary of certain variable interest entities ("VIEs") where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of rural utilities loans. Upon consolidation, Farmer Mac transferred these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts" on its consolidated balance sheet. Farmer Mac transferred these assets at their fair value, which resulted in an unamortized premium of $42.7 million. This premium is being amortized over the contractual lives of the underlying rural utilities loans. As of December 31, 2011, $38.0 million of this premium was still outstanding.

In January 2010, Farmer Mac contributed substantially all of the assets, in excess of $1.1 billion, comprising the Farmer Mac II program to a subsidiary, Farmer Mac II LLC. 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 over the estimated remaining lives of the USDA-guaranteed portions that were transferred. As of December 31, 2011, $21.1 million of this premium was still outstanding. The after-tax effect of this premium, along with the premium described above, is excluded from Farmer Mac's core earnings.

At the time of transfer of the assets to Farmer Mac II LLC, Farmer Mac had after-tax unrealized gains of $7.0 million recorded in accumulated other comprehensive income related to fair value changes of Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities designated as available-for-sale. For the year ended December 31, 2011, Farmer Mac reclassified $5.2 million ($3.4 million after-tax) of these gains into earnings based on the estimated remaining lives of the related USDA-guaranteed portions. These gains are presented as "Other income" on the consolidated statements of operations. Farmer Mac will recognize in earnings the remainder of these deferred gains over the estimated remaining lives of the USDA-guaranteed portions. These gains, along with the premium amortization described above, are excluded from Farmer Mac's core earnings because they will have no economic effect on Farmer Mac's financial performance if the assets are held to maturity, as is expected. As of December 31, 2011,
$3.6 million of these after-tax unrealized gains was 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 a reconciling item in the table above.

Unrealized gains and losses recorded to adjust the carrying value of loans held for sale to the lower of cost or fair value are also excluded from core earnings. Farmer Mac recorded gains of $8.9 million

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($5.8 million after-tax) in 2011 resulting from the reversal of all previously recorded loss adjustments as the estimated fair value of these loans increased above their cost amounts. The after-tax net effect of these adjustments is omitted from Farmer Mac's core earnings.

During 2010, Farmer Mac retired and repurchased all of the outstanding shares of Series B Preferred Stock with proceeds from the $250.0 million Farmer Mac II LLC Preferred Stock. As a result of the repurchase, Farmer Mac wrote off $5.8 million of deferred issuance costs related to the Series B Preferred Stock and excluded this amount from core earnings.

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

Net Interest Income. Net interest income was $121.3 million for 2011, $96.0 million for 2010 and $85.9 million for 2009. Beginning in 2010, net interest income includes the reclassification of guarantee fees related to certain Farmer Mac Guaranteed Securities previously reported as off-balance sheet as a result of the adoption of consolidation guidance. For the year ended December 31, 2011, this reclassification resulted in an increase in net interest income of $3.3 million and a decrease in the net interest yield of 6 basis points, compared to an increase in net interest income of $4.6 million and a decrease in the net interest yield of 15 basis points for the year ended December 31, 2010. The decrease in the net interest yield is the result of the average rate earned on guarantee fees being lower than the net interest spread earned on assets Farmer Mac purchases and holds on-balance sheet. The overall net interest yield was 120 basis points for the year ended December 31, 2011, compared to 130 basis points and 168 basis points for the years ended December 31, 2010 and 2009, respectively.

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The following table provides information regarding interest-earning assets and funding for the years ended December 31, 2011, 2010 and 2009. The 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 balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. The 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 2011 compared to 2010 and 2009. The lower average rate on loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities during 2011 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.

	For the Year Ended December 31,								
	2011			2010			2009		
	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	$2,503,513	$28,117	1.12%	$1,654,998	$27,497	1.66%	$1,419,714	$28,727	2.02%
Loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities (1)	6,858,866	209,611	3.06%	4,630,430	155,001	3.35%	3,682,166	147,766	4.01%
Total interest-earning assets	9,362,379	237,728	2.54%	6,285,428	182,498	2.90%	5,101,880	176,493	3.46%
Funding:									
Notes payable due within one year	4,232,118	9,218	0.22%	3,111,464	9,752	0.31%	3,104,198	24,150	0.78%
Notes payable due after one year (2)	4,658,829	110,474	2.37%	2,748,805	81,330	2.96%	1,781,974	66,435	3.73%
Total interest-bearing liabilities (3)	8,890,947	119,692	1.35%	5,860,269	91,082	1.55%	4,886,172	90,585	1.85%
Net non-interest-bearing funding	471,432	—		425,159	—		215,708	—	
Total funding	9,362,379	119,692	1.28%	6,285,428	91,082	1.45%	5,101,880	90,585	1.78%
Net interest income/yield prior to consolidation of certain trusts	9,362,379	118,036	1.26%	6,285,428	91,416	1.45%	5,101,880	85,908	1.68%
Net effect of consolidated trusts (4)	747,577	3,269	0.44%	1,078,027	4,627	0.43%	—	—	—
	$10,109,956	$121,305	1.20%	$7,363,455	$96,043	1.30%	$5,101,880	$85,908	1.68%

Adjusted net interest
income/yield

(1) Excludes interest income of $37.0 million and $56.2 million in 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 $33.7 million and $51.6 million in 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 party investors.

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

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in the debt markets. The increases due to changes in volume reflect the increase in on-balance sheet assets during 2011 and 2010.

	2011 vs. 2010			2010 vs. 2009		
	Increase/(Decrease) Due to			Increase/(Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
	(in thousands)					
Income from interest-earning assets:						
Cash and investments	$(10,680)	$11,300	$620	$(5,581)	$4,351	$(1,230)
Loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(14,486)	69,097	54,611	(26,980)	34,215	7,235
Total	(25,166)	80,397	55,231	(32,561)	38,566	6,005
Expense from interest-bearing liabilities	(13,486)	42,096	28,610	(15,950)	16,447	497
Change in net interest income prior to consolidation of certain trusts (1)	$(11,680)	$38,301	$26,621	$(16,611)	$22,119	$5,508

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

In addition to the guarantee fees described above, 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. The following paragraphs describe the effects of these items on the net interest yield and the table below presents them as adjustments to reconcile to the net effective spread Farmer Mac earns on the difference between its interest-earning assets and its net funding costs, including payments for income and expense related to financial derivatives.

Farmer Mac uses interest rate swap contracts to manage its interest rate risk exposure by modifying the interest rate reset or maturity characteristics of certain assets and liabilities. Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. Accordingly, the Corporation presents the income or expense related to the contractual amounts due on financial derivatives in "(Losses)/gains on financial derivatives" on the consolidated statements of operations. Farmer Mac includes the effect of these items in its calculation of net effective spread. For the years ended December 31, 2011, 2010 and 2009, expenses related to financial derivatives were $38.7 million (41 basis points), $34.1 million (54 basis points) and $35.7 million (70 basis points), respectively.

Net interest income and net interest yields for 2011, 2010 and 2009 include the benefits of yield maintenance payments of $0.8 million (1 basis point), $1.1 million (2 basis points) and $0.5 million (1 basis point), 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, 2011 and 2010 also include expenses of $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 Farmer Mac II program 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

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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 in 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.

The following table presents the net effective spread between Farmer Mac's interest-earning assets and its net funding costs. This spread is measured by including income or expense related to financial derivatives and 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 throughout 2011 and 2010 increased Farmer Mac's net effective spread to $89.4 million in 2011 compared to $66.5 million in 2010. However, the net yield was reduced to 0.96 percent in 2011 compared to 1.06 percent in 2010. The decline in the net yield 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. The new AgVantage securities issued by MetLife and purchased by Farmer Mac during 2011 effectively replaced the business volume of maturing AgVantage securities issued by MetLife previously accounted for as off-balance sheet guarantees that did not previously contribute to net interest income and net yield. These new AgVantage securities should provide increased future profitability because the net interest margin earned by Farmer Mac holding these securities on-balance sheet is expected to exceed the guarantee fee earned on the prior off-balance sheet guarantees. 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,					
	2011		2010		2009	
	Dollars	Yield	Dollars	Yield	Dollars	Yield
	(dollars in thousands)					
Net interest income/yield prior to consolidation of certain trusts	$118,036	1.26 %	$91,416	1.45 %	$85,908	1.68 %
Expense related to financial derivatives	(38,663)	(0.41)%	(34,146)	(0.54)%	(35,676)	(0.70)%
Yield maintenance payments	(816)	(0.01)%	(1,090)	(0.02)%	(454)	(0.01)%
Amortization of premiums on assets consolidated at fair value	10,862	0.12 %	11,719	0.19 %	—	—
Amortization of discounts on certain prepaid loans (1)	—	—	(1,421)	(0.02)%	—	—
Net effective spread	$89,419	0.96 %	$66,478	1.06 %	$49,778	0.97 %

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

Provision for Loan Losses. During 2011, Farmer Mac recorded provisions to its allowance for loan losses of $0.6 million and charge-offs of $0.3 million. Farmer Mac purchased two defaulted loans pursuant to the terms of an LTSPC agreement during 2011. This resulted in a reclassification of $1.8 million of specific allowance, which had been recorded in 2010, from the reserve for losses to the allowance for loan losses. The provision for loan losses in

2011 included this reclassification, which was partially offset by a

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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. During 2009, Farmer Mac recorded provisions to its allowance for loan losses of $2.9 million, charge-offs of $8.5 million and recoveries of $1.0 million. The activity in the allowance for loan losses in 2009 was largely attributable to defaulted ethanol loans previously purchased from AgStar Financial Services, a related party at the time of purchase, pursuant to the terms of an LTSPC agreement. As of December 31, 2011, Farmer Mac's total allowance for loan losses was $10.2 million, compared to $9.8 million as of December 31, 2010. See "—Risk Management—Credit Risk – Loans."

Release of and Provision for Losses. During 2011, Farmer Mac recorded releases from its reserve for losses of $3.0 million, compared to provisions of $2.4 million for both 2010 and 2009. The releases recorded in 2011 primarily resulted from the reclassification of the $1.8 million specific 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 pursuant to 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. The provisions recorded during 2009 were largely attributable to Farmer Mac's exposure to the ethanol industry. As of December 31, 2011, Farmer Mac's reserve for losses was $7.4 million, compared to $10.3 million as of December 31, 2010. 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 $24.8 million for 2011, compared to $24.1 million for 2010 and $31.8 million for 2009. Guarantee and commitment fees for 2011 and 2010 reflect the reclassification of $3.3 million and $4.6 million, respectively, to net interest income related to Farmer Mac Guaranteed Securities previously reported as off-balance sheet as a result of the adoption of the new consolidation guidance.

Gains and Losses on Financial Derivatives. Farmer Mac accounts for its financial derivatives as undesignated financial derivatives and does not apply hedge accounting. The net effect of gains and losses on financial derivatives recorded in Farmer Mac's consolidated statements of operations was net losses of $92.6 million for 2011, net losses of $17.2 million for 2010 and net gains of $21.3 million for 2009. The components of gains and losses on financial derivatives for the years ended December 31, 2011, 2010 and 2009 are summarized in the following table:

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Realized:			
Expense related to financial derivatives	$(38,663)	$(34,146)	$(35,676)
Losses due to terminations or net settlements	(6,404)	(3,074)	(4,463)
Unrealized (losses)/gains due to fair value changes	(47,578)	20,131	61,670
Amortization of financial derivatives transition adjustment	—	(70)	(234)
(Losses)/gains on financial derivatives	$(92,645)	$(17,159)	$21,297

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The accrual of periodic cash settlements for interest paid or received from Farmer Mac's interest rate swap contracts is shown as expense related to financial derivatives in the table above. Payments or receipts to terminate derivative positions or net cash settle forward sales contracts on the debt of other GSEs and U.S. Treasury futures are included in losses due to terminations or net settlements. Changes in the fair value of Farmer Mac's open derivative positions are captured in unrealized (losses)/gains due to fair value changes and are primarily the result of fluctuations in long-term interest rates. The amortization of the financial derivatives transition adjustment reflects the reclassification into earnings of the unrealized gains and losses on financial derivatives included in accumulated other comprehensive income as a result of the adoption of accounting guidance on derivatives. Farmer Mac reclassified the remaining derivatives transition adjustment into earnings during 2010.

For the years ended December 31, 2011, 2010 and 2009, Farmer Mac was a party to interest rate swap contracts with one related party, Zions First National Bank. Farmer Mac realized expenses of $1.9 million, $2.9 million and $3.3 million during 2011, 2010 and 2009, respectively, related to these interest rate swap contracts. Farmer Mac recognized unrealized gains of $2.1 million, $0.3 million and $0.1 million during 2011, 2010 and 2009, respectively, due to changes in the fair values of these interest rate swap contracts. See Note 3 to the consolidated financial statements for more information on related party transactions.

Gains on Trading Assets. During 2011, Farmer Mac recorded unrealized gains on trading assets of $3.5 million, compared to unrealized gains of $5.3 million for 2010 and $43.3 million for 2009. Of the total unrealized gains recognized on trading assets during 2011, 2010 and 2009, $2.2 million, $4.9 million and $42.9 million, respectively, relate to assets selected for the fair value option during 2008. Farmer Mac made no fair value option elections during 2011, 2010 and 2009.

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. The trading gains recorded during 2009 were primarily the result of increases in the fair values of Farmer Mac's investments in GSE preferred stock, Farmer Mac II Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities of $18.4 million, $3.7 million and $20.8 million, respectively.

Other-than-Temporary Impairment Losses. During 2011 and 2010, Farmer Mac did not recognize any other-than-temporary impairment losses, compared to $4.0 million in 2009. The other-than-temporary impairment losses in 2009 were recognized in earnings because they were deemed to be credit losses or management had the intent to sell the security as of the balance sheet date.

Gains on Sale of Available-for-Sale Investment Securities. During 2011, 2010 and 2009, Farmer Mac realized net gains of $0.3 million, $0.3 million and $3.4 million, respectively, from the sale of securities from its available-for-sale investment portfolio. The gains in 2009 were primarily attributable to Farmer Mac's sale of all of its remaining investment in Lehman Brothers Holdings Inc. senior debt securities as to which the Corporation had recorded $54.5 million in other-than-temporary impairment losses during 2008. Upon the sale of these securities in first quarter 2009, Farmer Mac recognized a recovery of $3.2 million.

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Gains on Sale of Loans. During 2011 and 2010, Farmer Mac did not realize any gains or losses on the sale of loans. During 2009 Farmer Mac realized gains of $1.6 million on the sale of $354.5 million of loans to one of its central servicers.

Lower of Cost or Fair Value Adjustment on Loans Held for Sale. During 2011, Farmer Mac recorded unrealized gains of $8.9 million, compared to unrealized losses of $8.7 million and $0.1 million, during 2010 and 2009, respectively, to adjust the carrying value of loans held for sale to the lower of cost or fair value. The unrealized gains recorded during 2011 resulted from the reversal of previously recognized losses as the fair value of these loans increased above their cost amounts. The increase in unrealized losses during 2010 was 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 $6.9 million in 2011, compared to $1.2 million and $1.6 million in 2010 and 2009, respectively. The increase in other income during 2011 was due to the recognition of $5.2 million of gains previously deferred in accumulated other comprehensive income related to fair value changes of certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities contributed to Farmer Mac II LLC in January 2010.

Compensation and Employee Benefits. Compensation and employee benefits were $17.9 million, $17.2 million and $13.7 million for 2011, 2010 and 2009, respectively. The increase in compensation and employee benefits during 2011 compared to 2010 was due to increased employee headcount offset partially by lower accruals for officer incentive compensation. The increase in 2010 from 2009 was due to increased employee headcount, higher accruals for incentive compensation due to improved results compared to prior years, and a change in the non-officer short-term incentive compensation structure from a two year vesting schedule to a one-time payment.

General and Administrative Expenses. General and administrative expenses, including legal, audit and consulting fees, were $9.7 million, $8.6 million and $11.2 million for 2011, 2010 and 2009, respectively. The increase in general and administrative expenses in 2011 compared to 2010 was 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 and consulting fees. The higher expenses in 2009 were largely attributable to advisory fees related to the issuance of Series B Preferred Stock and to legal and other advisory fees related to the development of Farmer Mac programs and corporate governance matters in 2008, which continued in 2009 in connection with the sale of Farmer Mac II LLC Preferred Stock.

Regulatory Fees. Regulatory fees were $2.3 million, $2.2 million and $2.1 million for 2011, 2010 and 2009, respectively. FCA has advised Farmer Mac that its estimated fees for the federal fiscal year ending September 30, 2012 will be $2.3 million, unchanged from the federal fiscal year ended September 30, 2011. The regulatory assessments from FCA for each of the examination periods corresponding approximately with each of the years ended December 31, 2011, 2010 and 2009 include both their originally estimated assessments and revisions to those estimates that reflect actual costs incurred. These revisions have resulted in both additional assessments and refunds in the past.

REO Operating Costs. During 2011, Farmer Mac recorded REO operating costs of $0.8 million, compared to $2.2 million and $0.4 million in 2010 and 2009, respectively. The decreased REO operating costs in 2011 were due mainly to lower write-downs of REO properties to their fair value (less estimated costs to sell) compared to 2010.

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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 Farmer Mac I assets. Farmer Mac incurred no comparable termination charge in prior periods. During 2010, Farmer Mac paid $0.5 million in fees to the third-party service provider. Farmer Mac is currently performing those services internally and expects to continue to do so in the future.

Income Tax Expense. Income tax expense totaled $5.8 million in 2011, compared to $13.8 million and $52.5 million in 2010 and 2009, respectively. Income tax expense decreased in 2011 from 2010 primarily due to the decrease in pre-tax book income. Farmer Mac's effective tax rates for 2011, 2010 and 2009 were approximately 13.0 percent, 20.7 percent and 34.5 percent, respectively. The reduction in the effective tax rates for 2011 and 2010 was due primarily to the income attributed to the non-controlling interest in Farmer Mac II LLC, for which Farmer Mac does not incur income tax expense.

As of December 31, 2011, 2010 and 2009, Farmer Mac recorded a valuation allowance of $40.6 million, $40.9 million and $41.1 million, respectively, against the deferred tax assets arising primarily from capital loss carryforwards related to Farmer Mac's investments in Fannie Mae preferred stock, Lehman Brothers Holdings Inc. senior debt securities and other GSE preferred stock. Because 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 2011, Farmer Mac added $3.4 billion of program volume, compared to $3.0 billion and $2.5 billion in 2010 and 2009, respectively. Farmer Mac's outstanding program volume as of December 31, 2011 was $11.9 billion, compared to $12.2 billion and $10.7 billion as of December 31, 2010 and 2009, respectively. During 2011, Farmer Mac:

- purchased $495.5 million of newly originated Farmer Mac I eligible loans;
- added $472.0 million of Farmer Mac I eligible loans under LTSPCs;
- purchased $1.8 billion of Farmer Mac I AgVantage securities;
- purchased $203.8 million of loans under the Rural Utilities program;
- guaranteed $2.8 million of Rural Utilities AgVantage securities; and
- purchased $407.7 million of Farmer Mac II USDA-guaranteed portions.

Farmer Mac's outstanding program volume was $11.9 billion as of December 31, 2011, a decrease of $303.4 million from December 31, 2010. The decrease in overall outstanding program volume was primarily attributable to the maturity of a $475.0 million AgVantage security that was not replaced with new business, as the $3.4 billion of new program volume added in 2011 only partially replaced maturing AgVantage securities and principal paydowns on other program assets. The AgVantage securities purchased from MetLife in 2011 that replaced maturing AgVantage securities should provide increased future profitability because the net interest margin earned by Farmer Mac holding these securities on-balance sheet is expected to exceed the guarantee fee earned on the prior off-balance sheet guarantees.

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The following table sets forth Farmer Mac I, Farmer Mac II 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,		
	2011	2010	2009
	(in thousands)		
Farmer Mac I:			
Loans	$495,455	$382,669	$195,318
LTSPCs	471,994	263,741	234,166
Farmer Mac Guaranteed Securities - AgVantage	1,801,500	900,000	—
Farmer Mac II:			
USDA Guaranteed Securities	404,445	437,751	—
Farmer Mac Guaranteed Securities	3,268	20,124	346,432
Rural Utilities:			
Loans	203,789	313,028	28,644
Farmer Mac Guaranteed Securities - AgVantage	2,796	652,924	1,711,009
Total purchases, guarantees and commitments	$3,383,247	$2,970,237	$2,515,569

The increase in new business volume under the Farmer Mac I program 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, which was the largest LTSPC transaction since March 2007. The expressed motivation of the counterparty in that transaction was to reduce its commodity concentration limits. The increases in Farmer Mac I business volume activity were partially offset by decreases in Farmer Mac II and rural utilities activity. The increase in business volume under the Farmer Mac I program during 2010 compared to 2009 was attributable to the aggregate purchase of $900.0 million of Farmer Mac I AgVantage securities, as well as increased loan purchase activity in the Farmer Mac I program due to attractive interest rates offered by Farmer Mac and farmers and ranchers reaching Farmer Mac's commercial bank business partner's sector or borrower exposure limits.   Similarly, during 2010, USDA Guaranteed Securities purchased by Farmer Mac were at increased levels compared to similar purchases classified as Farmer Mac II Guaranteed Securities in prior periods.

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, which 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 Farmer Mac I newly originated and current seasoned loans purchased and retained (excluding the purchases of defaulted loans) during 2011 and 2010 was one year and less than one year, respectively. Of those loans, 61 percent and 73 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 16.0 years and 15.8 years, respectively.

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During 2011, 2010 and 2009, Farmer Mac securitized loans it purchased and sold the resulting Farmer Mac Guaranteed Securities in the amount of $22.4 million, $8.6 million and $28.7 million, respectively. The 2011 transactions were sold to AgStar Financial Services, ACA ("AgStar"), which was a related party to Farmer Mac until June 2010. Of the 2010 transactions, $5.7 million were sold to Zions First National Bank ("Zions"), which is a related party to Farmer Mac, and $2.9 million were sold to AgStar. Of the 2009 transactions, $27.8 million was sold to Zions and $0.9 million was sold to AgStar. See Note 3 to the consolidated financial statements for more information about related party transactions.

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

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Loans securitized and sold as Farmer Mac I Guaranteed Securities	$22,406	$8,594	$28,736
Farmer Mac Guaranteed Securities - AgVantage	1,801,500	900,000	—
Conversions of LTSPCs into Farmer Mac I Guaranteed Securities	—	351,847	—
Total Farmer Mac I Guaranteed Securities Issuances	$1,823,906	$1,260,441	$28,736

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

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

	As of December 31,		
	2011	2010	2009
	(in thousands)		
Farmer Mac I:			
Loans	$1,251,370	$972,206	$733,422
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	181	3,697	5,307
Beneficial interests owned by third party investors	696,554	821,411	—
Farmer Mac Guaranteed Securities	621,871	750,217	1,492,239
Farmer Mac Guaranteed Securities - AgVantage	3,711,000	3,886,500	2,993,800
LTSPCs	1,776,051	1,754,597	2,165,706
Farmer Mac II:			
USDA Guaranteed Securities	1,435,679	1,297,439	—
Farmer Mac Guaranteed Securities	77,498	87,959	1,199,798
Rural Utilities:			
Loans	529,227	339,963	28,644
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	386,800	400,228	412,948
Farmer Mac Guaranteed Securities - AgVantage	1,427,071	1,902,492	1,689,240
Total	$11,913,302	$12,216,709	$10,721,104

Of the $11.9 billion outstanding principal balance included in Farmer Mac's three programs as of December 31, 2011, $5.1 billion are 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

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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 do not pay down principal based on amortization schedules and instead have fixed maturity dates when the secured general obligation is due.

The following table summarizes by maturity date the outstanding principal amount of both on- and off-balance sheet AgVantage securities as of December 31, 2011:

AgVantage Balances by Year of Maturity

	As of December 31, 2011 (in thousands)
2012	$498,500
2013	407,250
2014	1,060,900
2015	550,250
2016	1,002,000
Thereafter	1,619,171
Total	$5,138,071

As shown in the table above, $498.5 million of the outstanding $5.1 billion of AgVantage securities matures in 2012. If the issuer of a maturing AgVantage security does not issue a new series of 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 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.

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. See "—Risk Management—Credit Risk – Loans."

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

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Farmer Mac I newly originated and current seasoned loan purchases	$495,455	$382,669	$195,318
Defaulted loans purchased underlying Farmer Mac I Guaranteed Securities owned by third party investors	7,471	3,456	1,157
Defaulted loans purchased underlying LTSPCs	14,192	2,626	17,896
Defaulted loans underlying on-balance sheet Farmer Mac I Guaranteed Securities	—	—	2,216
Total loan purchases	$517,118	$388,751	$216,587

The purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs are pursuant to Farmer Mac's obligations as guarantor and under its contractual commitments, respectively. Farmer Mac may, in its sole discretion, purchase the defaulted loans underlying Farmer Mac Guaranteed Securities and is obligated to purchase defaulted loans underlying an LTSPC if requested by the counterparty. With respect to the transfer of loans from on-balance sheet Farmer Mac I Guaranteed Securities to loans, when particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac I Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs during 2011, 2010 and 2009 was 5 years, 5 years and 3 years, respectively.

For information regarding sellers in the Farmer Mac I and Farmer Mac II programs, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer Mac Programs—Farmer Mac II—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 Farmer Mac II program (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 portions 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 portions. The contributed USDA-guaranteed portions had previously been presented as "Farmer Mac Guaranteed Securities" on the consolidated financial statements of Farmer Mac and are now presented as "USDA Guaranteed Securities" on the consolidated balance sheets. 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.

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, 2011, Farmer Mac II LLC held assets with a fair value of $1.6 billion, had debt outstanding of $218.0

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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. As of December 31, 2010, Farmer Mac II LLC held assets with a fair value of $1.4 billion, had debt outstanding of $124.0 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 5, 9, 12 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 statutory 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 group of institutions. Approximately 97 percent of the voting power of the Class B voting common stock is held by four institutions of the FCS. Approximately 45 percent of the Class A voting common stock is held by three financial institutions, with 31 percent held by one institution.

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 while at the same time 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 Farmer Mac Class A or Class B voting common stock, based on the size and type of institution, to participate in the Farmer Mac I program. 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 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 program participant not related to Farmer Mac.

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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 AgFirst and CoBank or the investments of related parties in Farmer Mac's Series B Preferred Stock or Series C Preferred Stock:

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)	Farmer Mac director John Dan Raines, Jr. was a director of AgFirst from 1990 to 2009	In both 2011 and 2010, Farmer Mac earned approximately $1.4 million and $1.9 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 director Brian J. O'Keane is the Executive Vice President, Banking and Finance, and Chief Financial Officer of AgriBank; Farmer Mac director Richard Davidson is a director of AgriBank	No Farmer Mac program business conducted between the parties.
CoBank, ACB	163,253 shares of Class B voting common stock (32.63% of outstanding Class B stock and 10.66% of total voting common stock outstanding)	Former Farmer Mac director Brian P. Jackson is the former Chief Financial and Administrative Officer of CoBank (and was a non-officer employee until July 2010)	No Farmer Mac program business conducted between the parties.
Farm Credit Bank of Texas (FCBT)	38,503 shares of Class B voting common stock (7.70% of outstanding Class B stock and 2.52% of total voting common stock outstanding)	None	In 2011 and 2010, Farmer Mac earned approximately $0.3 million and $1.7 million, respectively, in fees attributable to transactions with FCBT, primarily commitment fees for LTSPCs.
Farm Credit West, ACA (FCW)	750 shares of Class B Voting Common Stock (0.15% of outstanding Class B stock and 0.05% of total voting	Farmer Mac director Ernest M. Hodges is an Executive Vice President of Farm Credit West	In 2011 and 2010, Farmer Mac received approximately $2.6 million and $2.9 million, respectively, in fees attributable to transactions with FCW, primarily guarantee fees for Farmer Mac I

common stock outstanding)	Guaranteed Securities and commitment fees for LTSPCs. In 2011 and 2010, Farmer Mac paid FCW approximately $1.0 million and $1.9 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.

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Name of Institution	Ownership of Farmer Mac Voting Common Stock	Affiliation with Any Farmer Mac Directors	Primary Aspects of Institutions Business Relationship with Farmer Mac
National Rural Utilities Cooperative Finance Corporation (CFC)	81,500 shares of Class A Voting Common Stock (7.91% of outstanding Class A stock and 5.32% of total voting common stock outstanding)	None	Transactions with CFC represent 100 percent of business volume under the Farmer Mac Rural Utilities program since the program's inception in May 2008. Transactions with CFC during 2011 and 2010 represented 6.1 percent and 32.5 percent, respectively, of Farmer Mac's total new program volume for those years. Transactions with CFC represented 19.7 percent and 21.6 percent, respectively, of Farmer Mac's total outstanding program assets as of December 31, 2011 and 2010. In 2011 and 2010, Farmer Mac earned guarantee fees of approximately $5.4 million and $6.0 million, respectively, attributable to transactions with CFC. In 2011 and 2010, Farmer Mac earned interest income of $30.9 million and $32.7 million, respectively, attributable to transactions with CFC. CFC is currently the only servicer of rural utilities loans in Farmer Mac's Rural Utilities program.
The Vanguard Group, Inc.	56,295 shares of Class A Voting Common Stock (5.46% of outstanding Class A stock and 3.68% of total voting common stock outstanding)	None	No Farmer Mac program business conducted between the parties.
Zions First National Bank	322,100 shares of Class A Voting Common Stock (31.25% of outstanding Class A stock and 21.04% of total voting common stock outstanding)	None	In 2011 and 2010, Farmer Mac's purchases of loans from Zions under the Farmer Mac I program represented approximately 25.2 percent and 46.1 percent, respectively, of Farmer Mac I loan purchase volume for those years. Those purchases represented 4.5 percent and 11.4 percent, respectively, of total Farmer Mac I purchases for those years. Transactions with Zions represented 4.7 percent and 4.2 percent, respectively, of Farmer Mac's total outstanding program assets as of December 31, 2011 and 2010. In 2011 and 2010, Farmer Mac received approximately $0.9 million and $1.2

million, respectively, in guarantee fees attributable to transactions with Zions. In 2011 and 2010, Farmer Mac paid Zions approximately $1.9 million and $1.7 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.

For more information about related party transactions, see Note 3 to the consolidated financial statements.

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Outlook

The recent high profitability within agriculture has resulted in reduced demand from borrowers for loans, as an increased number of farmland purchases over the past year have been made in all cash or with little borrowing. Lenders in rural America have also experienced increased liquidity compared to the previous few years, which, combined with the prevailing low interest rate environment, has resulted in a higher retention rate of farm loans by lenders rather than using the secondary market tools available from Farmer Mac. Guidance from the Federal Reserve Board about expectations for short-term interest rates during the next several years has diminished the incentive for borrowers to lock in longer-term rates on their loans. In addition, continued weakness in the general economy, including a soft housing market, has reduced demand for rural electric power and, consequently, the need for rural utilities cooperatives to borrow money. All of these factors present challenges to Farmer Mac's ability to increase overall program volume.

As a result of its continued strong performance, Farmer Mac is well-positioned to meet the needs of expanding demand that is expected over time. With a capital position significantly above applicable statutory and regulatory requirements, Farmer Mac continues to represent a potential source of liquidity, capital, and risk management to help lenders meet the borrowing needs of their customers. Farmer Mac foresees opportunities for continued business growth in both the agricultural and rural utilities segments, though the pace of growth will be dictated by the capital and liquidity demands of lenders, lenders' commodity concentrations and Farmer Mac's borrower exposure limits.

As market conditions change, Farmer Mac believes that there will again be a movement toward longer-term mortgage financing by farmland owners and increased demand for Farmer Mac's secondary market tools as rural lenders make more loans and adapt to the changing regulatory environment, which could require more liquidity and capital. Also, domestic economic indicators have recently improved, and industry sources have forecast increased capital expenditures within the rural utilities industry as the economy recovers, which would increase rural utilities cooperatives' demand for loans. Any of these conditions would benefit Farmer Mac's business volume initiatives.

Agricultural Sector: The agricultural sector includes many diverse industries that respond in different ways to changes in economic conditions. Those individual industries often are affected differently, sometimes positively and sometimes negatively, by prevailing economic conditions, which results in cycles where one or more industries may be under stress at the same time that others are not. These industries are also affected by commodity inventories, which can vary largely as a result of weather patterns and harvest conditions. For example, volatility in the prices of feed grains such as corn, soybeans, and wheat continued during 2011. The price increase of feed grains is positive for producers of these commodities but also has the potential to put pressure on the profit margins in the protein sector due to increased feed costs. In addition, producers that rely on non-farm sources of income as a significant percentage of overall income may experience stress if the weakness in the general economy persists.

Farmer Mac continues to closely monitor agricultural land value trends and the underlying economic effects, and to tailor underwriting practices to these conditions. Land values have continued to increase based on the solid returns for agricultural producers. Concern over land value increases is mitigated somewhat by the amount of cash being used to make purchases and the consideration that a majority of agricultural land purchases are being made by producers rather than investors. Although Farmer Mac underwrites loans with an emphasis on the borrower's repayment capacity, it is noteworthy that the weighted average original LTV (based on original appraised value that has not been indexed to provide a current market value) for loans in the Farmer Mac I program (excluding loans pledged to secure

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AgVantage bonds) was approximately 52 percent and 55 percent as of December 31, 2011 and 2010, respectively. Farmer Mac also monitors the establishment and evolution of governmental policies and regulations that affect farmers, ranchers, and lenders, including agricultural polices contained in the current Farm Bill due to expire in 2012. The cyclical credit issues related to the agricultural sector are expected to remain within Farmer Mac's historical experience.

Renewable Energy Sector: Farmer Mac's support of the renewable energy sector is centered in ethanol production, an industry that continues to adjust to high input costs and a changed federal support policy, resulting in narrow or uneven profit margins in many cases. Support for this industry in the form of an excise tax credit and an import tariff expired at the end of 2011, and it is too early to determine how this will affect profitability within the industry. The Renewable Fuel Standard currently mandates targeted use of fuel from renewable sources. However, it is uncertain whether the Renewable Fuel Standard will remain in place or be revised in the near term, especially in light of opposition from various legislators and the protein sector due to resulting increased feed costs. It is also uncertain how price volatility of both corn feedstock and oil will ultimately impact the ethanol industry. Profit margins at the ethanol production level will likely remain narrow for the foreseeable future.

Rural Utilities Industry: Farmer Mac believes that the rural utilities industry is strong, with significant needs for future financing during the next five to ten years, as capital will be needed for industry growth, modernization, and compliance with environmental regulations. The rural utilities industry's demand for loans tends to follow the state of the general economy. Recently, electric consumption has been reduced, which has slowed loan demand. Farmer Mac expects that loan demand will increase as the economy strengthens.

Much of the electrical power generated by rural utilities uses coal as a fuel. The industry is expected to require additional capital as it invests in transmission system improvements, demand-side management, and clean energy projects such as natural gas-fired generating projects in response to low natural gas fuel costs. The industry would also require capital to deal with any future public policy initiatives such as environmental regulations and any clean energy initiatives that may develop. Farmer Mac's ability to grow the rural utilities portion of its business may depend on the effects that any such initiatives may have on borrowers' profitability, and may also be limited by Farmer Mac's limits on borrower exposures and its overall risk tolerance.

Balance Sheet Review

Assets. Total assets as of December 31, 2011 were $11.9 billion, compared to $9.5 billion as of December 31, 2010. The increase in total assets was primarily attributable to Farmer Mac's purchases of $1.8 billion of Farmer Mac I AgVantage securities during 2011, all of which are held on-balance sheet and accounted for as Farmer Mac Guaranteed Securities.

As of December 31, 2011, Farmer Mac had $817.0 million of cash and cash equivalents, compared to $729.9 million as of December 31, 2010. As of December 31, 2011, Farmer Mac had $2.2 billion of investment securities, $4.3 billion of Farmer Mac Guaranteed Securities, and $1.5 billion of USDA Guaranteed Securities, compared to $1.8 billion of investment securities, $2.9 billion of Farmer Mac Guaranteed Securities and $1.3 billion of USDA Guaranteed Securities as of December 31, 2010.

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Liabilities. Total liabilities increased to $11.3 billion as of December 31, 2011 from $9.0 billion as of December 31, 2010. The increase in liabilities was due primarily to an overall increase in notes payable used to purchase program assets.

Equity. As of December 31, 2011, Farmer Mac had total equity of $554.5 million comprised of stockholders' equity of $312.6 million and non-controlling interest – preferred stock of $241.9 million. As of December 31, 2010 Farmer Mac had total equity of $478.9 million comprised of stockholders' equity of $237.0 million and non-controlling interest - preferred stock of $241.9 million. The increase in total equity during 2011 was primarily the result of increased accumulated other comprehensive income which was due to an increase in the fair value of Farmer Mac I and USDA Guaranteed Securities designated as available-for-sale due to a decline in long-term interest rates.

Farmer Mac was in compliance with its statutory minimum capital requirement and its risk-based capital standard as of December 31, 2011. Farmer Mac is required to hold capital at the higher of its statutory minimum capital requirement and the amount required by its risk-based capital stress test. As of December 31, 2011, Farmer Mac's core capital totaled $475.2 million and exceeded its statutory minimum capital requirement of $348.7 million by $126.5 million. As of December 31, 2010, Farmer Mac's core capital totaled $460.6 million and exceeded its statutory minimum capital requirement of $301.0 million by $159.6 million. On April 27, 2011, FCA published a final rule implementing changes to the method for calculating Farmer Mac's risk-based capital requirement, which was effective in second quarter 2011. As of December 31, 2011, Farmer Mac's new risk-based capital stress test generated a risk-based capital requirement of $52.9 million. Farmer Mac's regulatory capital of $492.7 million exceeded that amount by approximately $439.8 million. Accumulated other comprehensive income is not a component of Farmer Mac's core capital or regulatory capital. For further discussion of this regulatory change and for more information, see "—Liquidity and Capital Resources—Capital Requirements" and "—Regulatory Matters."

Risk Management

Credit Risk – Loans. Farmer Mac is exposed to credit risk resulting from the inability of borrowers to repay their loans in conjunction with a deficiency in the value of the collateral relative to the outstanding balance of the loan and the costs of liquidation. Farmer Mac is exposed to credit risk on:

- loans held;
- loans underlying Farmer Mac Guaranteed Securities; and
- loans underlying LTSPCs.

Farmer Mac generally assumes 100 percent of the credit risk on loans held and loans underlying Farmer Mac I Guaranteed Securities, LTSPCs and Farmer Mac Guaranteed Securities – Rural Utilities. Farmer Mac has direct credit exposure to loans in non-AgVantage transactions and indirect credit exposure to loans that secure AgVantage transactions, which involve a general obligation of a lender secured by qualified loans. The credit exposure of Farmer Mac and Farmer Mac II LLC on USDA-guaranteed portions is covered by the full faith and credit of the United States. Farmer Mac believes that the Corporation and Farmer Mac II LLC have little or no credit risk exposure to USDA-guaranteed portions because of the USDA guarantee. As of December 31, 2011, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any business under the Farmer Mac II program and does not expect that the Corporation or Farmer Mac II LLC will incur any such losses in the future.

Farmer Mac has established underwriting, collateral valuation and documentation standards (including

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interest rate shock tests for adjustable rate mortgages with initial reset periods of five years or less) for agricultural real estate mortgage loans and rural utilities loans. Farmer Mac believes that these standards mitigate the risk of loss from borrower defaults and provide guidance about the management, administration, and conduct of underwriting and appraisals to all participating sellers and potential sellers in its programs. These standards were developed on the basis of industry norms for agricultural real estate mortgage loans and rural utilities loans and are designed to assess the creditworthiness of the borrower, as well as the value of the collateral securing the loan. Farmer Mac evaluates and adjusts these standards on an ongoing basis based on current and anticipated market conditions. Farmer Mac also requires sellers to make representations and warranties regarding the conformity of eligible mortgage and rural utilities loans to these standards, the accuracy of loan data provided to Farmer Mac and other requirements related to the loans. Sellers are responsible to Farmer Mac for breaches of those representations and warranties, and Farmer Mac has the ability to require a seller to cure, replace or repurchase a loan sold or transferred to Farmer Mac if any breach of a representation or warranty is discovered that was material to Farmer Mac's decision to purchase the loan or that directly or indirectly causes a default or potential loss on a loan sold or transferred by the seller to Farmer Mac. Pursuant to contracts with Farmer Mac and in consideration for servicing fees, Farmer Mac-approved central servicers service mortgage loans in accordance with Farmer Mac requirements. Central servicers are responsible to Farmer Mac for serious errors in the servicing of those mortgage loans. Detailed information regarding Farmer Mac's underwriting and collateral valuation standards and seller eligibility requirements are presented in "Business—Farmer Mac Programs—Farmer Mac I—Underwriting and Collateral Valuation (Appraisal) Standards," "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer Mac Programs—Rural Utilities."

Farmer Mac AgVantage securities are general obligations of institutions approved by Farmer Mac and are secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As such, all AgVantage securities are secured by current loans representing at least 100 percent of the outstanding amount of the security. As of December 31, 2011, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. See "—Credit Risk—Institutional" for more information about Farmer Mac's credit risk on AgVantage securities.

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. As of December 31, 2011, there were no delinquencies or non-performing assets in Farmer Mac's portfolio of rural utilities loans, which includes rural utilities loans held and rural utilities loans underlying or securing Farmer Mac Guaranteed Securities - Rural Utilities. Farmer Mac's direct credit exposure to rural utilities loans as of December 31, 2011 was $916.0 million, of which $888.4 million were loans to electric distribution cooperatives and $27.6 million were loans to G&T cooperatives. Farmer Mac also had indirect credit exposure to the rural utilities loans securing Farmer Mac Guaranteed Securities - Rural Utilities structured as AgVantage securities, some of which were secured by loans to G&T cooperatives. For more information, see "—Credit Risk—Institutional."

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities. The methodology that Farmer Mac uses to determine the level of its allowance for losses is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Allowance

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for Losses." Management believes that this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans held and loans underlying Farmer Mac Guaranteed Securities and LTSPCs, in accordance with FASB standards on accounting for contingencies and on measuring impairment of individual loans.

The following table summarizes the components of Farmer Mac's allowance for losses as of December 31, 2011 and 2010:

	As of December 31,	
	2011	2010
	(in thousands)	
Allowance for loan losses	$10,161	$9,803
Reserve for losses:		
Off-balance sheet Farmer Mac I Guaranteed Securities	364	635
LTSPCs	6,991	9,677
Total allowance for losses	$17,516	$20,115

The following table summarizes the changes in the components of Farmer Mac's allowance for losses for each year in the five-year period ended December 31, 2011:

	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)		
Balance as of January 1, 2007	$1,945	$2,610	$4,555
(Release of)/provision for losses	(215)	73	(142)
Charge-offs	(60)	(486)	(546)
Recoveries	20	—	20
Balance as of December 31, 2007	$1,690	$2,197	$3,887
Provision for losses	14,531	3,309	17,840
Charge-offs	(5,308)	—	(5,308)
Recoveries	16	—	16
Balance as of December 31, 2008	$10,929	$5,506	$16,435
Provision for losses	2,853	2,389	5,242
Charge-offs	(8,491)	—	(8,491)
Recoveries	1,001	—	1,001
Balance as of December 31, 2009	$6,292	$7,895	$14,187
Provision for losses	1,893	2,417	4,310
Charge-offs	(605)	—	(605)
Recoveries	2,223	—	2,223
Balance as of December 31, 2010	$9,803	$10,312	$20,115
Provision for/(release of) losses	610	(2,957)	(2,347)
Charge-offs	(252)	—	(252)
Balance as of December 31, 2011	$10,161	$7,355	$17,516

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Farmer Mac recorded releases of $2.3 million from the allowance for losses during 2011, compared to provisions of $4.3 million in 2010. During 2011 and 2010, Farmer Mac charged off $0.3 million and $0.6 million, respectively, in losses against the allowance for losses. The charge-offs for 2011 and 2010 did not include any amounts related to previously accrued or advanced interest on loans or Farmer Mac I Guaranteed Securities. Farmer Mac had no recoveries in 2011 compared to recoveries of $2.2 million during 2010.

As of December 31, 2011, Farmer Mac's allowance for losses totaled $17.5 million, or 40 basis points of the outstanding principal balance of loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities), compared to $20.1 million (47 basis points) as of December 31, 2010.

As of December 31, 2011, Farmer Mac's 90-day delinquencies were $40.6 million (0.93 percent), compared to $70.2 million (1.63 percent) as of December 31, 2010. As of December 21, 2011, there were no ethanol loans in the 90-day delinquencies, compared to $10.9 million as of December 31, 2010. As of December 31, 2011, Farmer Mac's non-performing assets totaled $56.7 million (1.30 percent), compared to $81.8 million (1.90 percent) as of December 31, 2010. Loans that have been restructured were insignificant and are included within the reported 90-day delinquency and non-performing asset disclosures. The decrease in non-performing assets as of December 31, 2011 compared to December 31, 2010 was primarily due to decreased delinquencies in the ethanol, crops and permanent plantings segments. From quarter to quarter, Farmer Mac anticipates that 90-day delinquencies and non-performing assets will fluctuate, both in dollars and as a percentage of the outstanding portfolio, with higher levels likely at the end of the first and third quarters of each year corresponding to the semi-annual (January 1 and July 1) payment characteristics of most Farmer Mac I loans.

When analyzing the overall risk profile of its program business, Farmer Mac takes into account more than the Farmer Mac I agricultural loan delinquency percentages provided above. The total program business includes AgVantage securities and rural utilities loans, neither of which have any delinquencies, and the USDA Guaranteed Securities and USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities, which are backed by the full faith and credit of the United States. Across Farmer Mac's entire program business, 90-day delinquencies represented 0.34 percent of total program business as of December 31, 2011, compared to 0.58 percent as of December 31, 2010.

As of December 31, 2011, Farmer Mac's ethanol exposure, which includes loans held and loans subject to LTSPCs, was $161.4 million on 27 different plants, with an additional $44.5 million of undisbursed commitments. As of December 31, 2010, Farmer Mac's ethanol exposure was $233.8 million on 29 different plants, with an additional $22.0 million of undisbursed commitments. There were no ethanol 90-day delinquencies as of December 31, 2011, compared to $10.9 million as of December 31, 2010. Other than the undisbursed commitments, Farmer Mac does not expect to add additional ethanol loans to its portfolio.

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The following table presents historical information regarding Farmer Mac's non-performing assets and 90-day delinquencies in the Farmer Mac I program compared to the principal balance of all Farmer Mac I loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs:

	Outstanding Loans, Guarantees (1), LTSPCs and REO	Non-performing Assets	Percentage	Less: REO and Performing Bankruptcies	90-day Delinquencies	Percentage
	(dollars in thousands)					
As of:						
December 31, 2011	$4,349,163	$56,691	1.30%	$16,069	$40,622	0.93%
September 30, 2011	4,381,264	64,137	1.46%	19,289	44,848	1.02%
June 30, 2011	4,315,987	67,254	1.56%	12,621	54,633	1.27%
March 31, 2011	4,314,328	69,706	1.62%	12,382	57,324	1.33%
December 31, 2010	4,304,120	81,778	1.90%	11,530	70,248	1.63%
September 30, 2010	4,225,346	78,448	1.86%	13,648	64,800	1.53%
June 30, 2010	4,299,417	71,300	1.66%	15,289	56,011	1.30%
March 31, 2010	4,303,663	83,977	1.95%	13,542	70,435	1.64%
December 31, 2009	4,396,642	62,020	1.41%	12,494	49,526	1.13%

(1) Excludes loans pledged to secure AgVantage securities.

As of December 31, 2011, Farmer Mac individually analyzed $64.1 million of its $88.4 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. For the remaining $24.3 million of impaired assets for which updated valuations were not available, Farmer Mac evaluated them in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac recorded specific allowances of $7.3 million and $7.4 million for undercollateralized assets as of December 31, 2011 and 2010, respectively. Farmer Mac's non-specific or general allowances were $10.2 million and $12.7 million as of December 31, 2011 and 2010, respectively.

Loans in the Farmer Mac I program are all first mortgage agricultural real estate loans. Accordingly, Farmer Mac's exposure on a loan is limited to the difference between the total of the accrued interest, advances and the principal balance of a loan and the value of the property less the cost to sell. Measurement of that excess or shortfall is the best predictor and determinant of loss, compared to other measures that evaluate the efficiency of a particular farm operator. Debt service ratios depend upon farm operator efficiency and leverage, which can vary widely within a geographic region, commodity type, or an operator's business and farming skills. Original LTVs (calculated by dividing the loan principal balance at the time of guarantee, purchase or commitment by the appraised value at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase or commitment) are one of many factors Farmer Mac considers in evaluating loss severity. Other factors include, but are not limited to, other underwriting standards, commodity and farming forecasts and regional economic and agricultural conditions.

LTVs depend upon the market value of a property, as determined in accordance with Farmer Mac's collateral valuation standards. As of December 31, 2011, the weighted-average original LTV for Farmer Mac I loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) was 52 percent, and the weighted-average original LTV for all non-performing assets was 50 percent.

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The following table presents outstanding Farmer Mac I loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and non-performing assets as of December 31, 2011 by year of origination, geographic region and commodity/collateral type:

Farmer Mac I Non-performing Assets as of December 31, 2011

	Distribution of Outstanding Loans, Guarantees, LTSPCs and REO	Outstanding Loans, Guarantees, LTSPCs and REO (1)	Non- performing Assets (2)	Non-performing Asset Rate
	(dollars in thousands)			
By year of origination:				
Before 2000	12%	$509,899	$10,019	1.96%
2000	2%	95,264	325	0.34%
2001	4%	170,104	7,217	4.24%
2002	5%	229,422	4,508	1.96%
2003	6%	266,545	3,486	1.31%
2004	6%	284,594	1,434	0.50%
2005	8%	348,856	2,185	0.63%
2006	9%	398,092	7,405	1.86%
2007	9%	372,280	13,183	3.54%
2008	9%	388,948	5,191	1.33%
2009	7%	297,429	1,738	0.58%
2010	11%	467,320	—	—
2011	12%	520,410	—	—
Total	100%	$4,349,163	$56,691	1.30%
By geographic region (3):				
Northwest	17%	$761,078	$12,344	1.62%
Southwest	37%	1,597,369	5,715	0.36%
Mid-North	20%	857,659	8,410	0.98%
Mid-South	11%	484,176	10,713	2.21%
Northeast	7%	294,854	2,948	1.00%
Southeast	8%	354,027	16,561	4.68%
Total	100%	$4,349,163	$56,691	1.30%
By commodity/collateral type:				
Crops	43%	$1,864,959	$18,737	1.00%
Permanent plantings	19%	824,345	24,027	2.91%
Livestock	28%	1,224,111	5,462	0.45%
Part-time farm	6%	245,120	8,465	3.45%
AgStorage and processing (including ethanol facilities)	4%	173,692	—	—
Other	—	16,936	—	—
Total	100%	$4,349,163	$56,691	1.30%

(1) Excludes loans pledged to secure AgVantage securities.
(2) Includes loans 90 days or more past due, in foreclosure, restructured after delinquency, in bankruptcy (including loans performing under either their original loan terms or a court-approved bankruptcy plan) and real estate owned.
(3) Geographic regions - Northwest (AK, ID, MT, ND, NE, OR, SD, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, MO, WI); Mid-South (KS, OK, TX); Northeast (CT, DE, KY, MA,

MD, ME, NC, NH, NJ, NY, OH, PA, RI, TN, VA, VT, WV); and Southeast (AL, AR, FL, GA, LA, MS, SC).

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The following table presents Farmer Mac's cumulative net credit losses relative to the cumulative original balance for all Farmer Mac I loans purchased and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of December 31, 2011 by year of origination, geographic region and commodity/collateral type. The purpose of this information is to present information regarding losses relative to original Farmer Mac I purchases, guarantees, and commitments.

Farmer Mac I Credit Losses Relative to all Cumulative
Original Loans, Guarantees and LTSPCs as of December 31, 2011

	Cumulative Original Loans, Guarantees and LTSPCs (1)	Cumulative Net Credit Losses	Cumulative Loss Rate
	(dollars in thousands)		
By year of origination:			
Before 2000	$6,551,831	$8,803	0.13%
2000	771,789	2,924	0.38%
2001	1,136,512	177	0.02%
2002	1,161,960	—	—
2003	972,222	58	0.01%
2004	705,459	167	0.02%
2005	839,615	74	0.01%
2006	862,903	7,722	0.89%
2007	637,058	1,523	0.24%
2008	636,638	3,236	0.51%
2009	418,248	1,249	0.30%
2010	530,155	—	—
2011	548,988	—	—
Total	$15,773,378	$25,933	0.16%
By geographic region (2):			
Northwest	$3,012,601	$10,804	0.36%
Southwest	5,922,361	7,492	0.13%
Mid-North	2,702,049	6,918	0.26%
Mid-South	1,431,835	(358)	(0.03)%
Northeast	1,413,250	83	0.01%
Southeast	1,291,282	994	0.08%
Total	$15,773,378	$25,933	0.16%
By commodity/collateral type:			
Crops	$6,490,394	$2,718	0.04%
Permanent plantings	3,457,695	9,492	0.27%
Livestock	4,079,063	3,719	0.09%
Part-time farm	1,039,071	503	0.05%
AgStorage and processing (including ethanol facilities) (3)	566,247	9,501	1.68%
Other	140,908	—	—
Total	$15,773,378	$25,933	0.16%

(1) Excludes loans pledged to secure AgVantage securities.
(2) Geographic regions - Northwest (AK, ID, MT, ND, NE, OR, SD, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, MO, WI); Mid-South (KS, OK, TX);Northeast (CT, DE, KY, MA, MD,

ME, NC, NH, NJ, NY, OH, PA, RI, TN, VA, VT, WV); and Southeast (AL, AR, FL, GA, LA, MS, SC).

(3) Several of the loans underlying agricultural storage and processing LTSPCs are for facilities under construction and, as of December 31, 2011, approximately $44.5 million of the loans were not yet disbursed by the lender.

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In Farmer Mac's experience, a significant determinant of ultimate losses on loans is the degree to which the collateral is specialized or highly improved, such as permanent plantings and facilities. As adverse economic conditions persist for the agricultural commodities or products related to those types of collateral, the prospective sale value of the collateral is likely to decrease and the related loans may become undercollateralized. This analysis is consistent with corresponding commodity analyses, which indicate that Farmer Mac has experienced higher loss and collateral deficiency rates in its loans classified as permanent plantings as well as storage and processing loans, including Farmer Mac's exposure to loans on ethanol plants, for which the collateral is typically highly improved and specialized. In addition, most of the loans classified as permanent plantings do not receive significant government support, and are therefore more susceptible to adverse commodity-specific economic trends, although the level of government support for any particular industry is not necessarily a primary factor to forecast future losses and collateral deficiencies. Farmer Mac anticipates that one or more particular commodity groups will be under economic pressure at any one time and actively manages its portfolio to mitigate concentration risks while preserving Farmer Mac's ability to meet the financing needs of all commodity groups. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook."

Analysis of portfolio performance by geographic distribution indicates that, while commodities are the primary determinant of exposure to loss, within most commodity groups certain geographic areas allow greater economies of scale or proximity to markets than others and, consequently, result in more successful farms within the commodity group. Likewise, certain geographic areas offer better growing conditions than others and, consequently, result in more versatile and more successful operators within a given commodity group – and the ability to switch crops among commodity groups. As of December 31, 2011, the properties that secure Farmer Mac's non-performing assets were not concentrated in any region of the country, and many of these borrowers have experienced reduced profit margins caused by rapidly rising operating expenses or expanding business segments followed by a decline in demand for their products.

Farmer Mac's methodologies for pricing its guarantee and commitment fees, managing credit risks and providing adequate allowances for losses consider all of the foregoing factors and information.

Credit Risk – Institutional. Farmer Mac is exposed to credit risk arising from its business relationships with other institutions including:

- issuers of AgVantage securities and other investments held or guaranteed by Farmer Mac;
- sellers and servicers; and
- interest rate swap contract counterparties.

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 securities. The required collateralization level is established at the time of issuance and does not change during the life of the security. In AgVantage transactions, the corporate obligor is required 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. In the event of a default on the general obligation, Farmer Mac would have recourse to the pledged collateral and have rights to the ongoing borrower payments of principal and interest.

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Outstanding AgVantage on-balance sheet Farmer Mac I Guaranteed Securities totaled $2.7 billion as of December 31, 2011 and $941.5 million as of December 31, 2010. Farmer Mac Guaranteed Securities— Rural Utilities structured as AgVantage transactions issued by CFC and held by Farmer Mac totaled $1.4 billion as of December 31, 2011, and $1.9 billion as of December 31, 2010. In addition, outstanding off-balance sheet AgVantage transactions totaled $1.0 billion and $3.0 billion as of December 31, 2011 and 2010, respectively. See "—Business Volume" for information about off-balance sheet AgVantage securities that matured during 2011. As of December 31, 2011, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. The following table provides information about the issuers of AgVantage securities, as well as the required collateralization levels for those transactions as of December 31, 2011 and 2010:

	December 31, 2011			December 31, 2010		
Counterparty	Balance	Credit Rating	Required Collateralization	Balance	Credit Rating	Required Collateralization
	(dollars in thousands)					
MetLife (1)	$2,750,000	AA-	103%	$2,750,000	AA-	103%
CFC	1,427,071	A	100%	1,902,492	A	100%
M&I Bank (2)	—	—	—	475,000	BBB- *+	106%
Rabo Agrifinance, Inc.	900,000	N/A	106%	600,000	N/A	106%
Rabobank N.A.	50,000	N/A	106%	50,000	N/A	106%
Other (3)	11,000	N/A	111% to 120	11,500	N/A	111% to 120
Total outstanding	$5,138,071			$5,788,992		

(1) Includes securities issued by Metropolitan Life Insurance Company and MetLife Insurance Company of Connecticut.

(2) Securities issued by M&I Bank matured in 2011. As of December 31, 2010, M&I Bank was on credit watch positive (*+).

(3) Consists of AgVantage securities issued by 4 different issuers as of December 31, 2011 and 2010.

Farmer Mac manages institutional credit risk related to sellers and servicers by requiring those institutions to meet Farmer Mac's standards for creditworthiness. Farmer Mac monitors the financial condition of those institutions by evaluating financial statements and bank credit rating agency reports. For more information on Farmer Mac's approval of sellers, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers." Credit risk related to interest rate swap contracts is discussed in "—Risk Management—Interest Rate Risk" and Note 6 to the consolidated financial statements.

Credit Risk – Other Investments. As of December 31, 2011, Farmer Mac had $817.0 million of cash and cash equivalents and $2.2 billion of investment securities. The management of the credit risk inherent in these investments is governed by Farmer Mac's own policies and FCA's Liquidity and Investment Regulations. In addition to assuring that Farmer Mac maintains a portfolio of highly liquid investments as an available source of cash, the goals of Farmer Mac's investment policies are designed to minimize the Corporation's exposure to financial market volatility, preserve capital, and support the Corporation's access to the debt markets.

FCA's current Liquidity and Investment Regulations and Farmer Mac's policies generally require each investment or issuer of an investment to be highly rated by an NRSRO. Investments in mortgage securities and asset-backed securities are required to have a rating in the highest NRSRO category. Corporate debt securities with maturities of no more than five years but more than three years are required to be rated in one of the two highest categories; corporate debt securities with maturities of three years or less are required to be rated in one of the three highest categories. There are investments for which a rating is not required, such as obligations of the United States or diversified investment funds regulated under the Investment Company Act of 1940. Investments in diversified investment funds are further

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limited to those funds that are holding only instruments approved for direct investment by Farmer Mac. FCA has recently sought public comment regarding its use of credit ratings in its Liquidity and Investment Regulations for purposes of a final rule to be published at a later date. For more information on proposed changes to the Liquidity and Investment Regulations, see "—Regulatory Matters."

FCA's Liquidity and Investment Regulations and Farmer Mac's policies also establish concentration limits, which are intended to limit exposure to any one counterparty. FCA's Liquidity and Investment Regulations limit Farmer Mac's total credit exposure to any single issuer of securities and uncollateralized financial derivatives to 25 percent of the Corporation's regulatory capital (as of December 31, 2011, 25 percent of Farmer Mac's regulatory capital was $123.2 million). This limitation is not applied to the obligations of the United States or to qualified investment funds. The limitation applied to the obligations of any GSE is 100 percent of Farmer Mac's regulatory capital. Since June 2010, Farmer Mac's policy applicable to new investments limits the Corporation's total exposure to any single issuer of securities (other than GSEs and Government Agencies) and uncollateralized financial derivatives to 5 percent of the Corporation's regulatory capital.

Interest Rate Risk. Farmer Mac is subject to interest rate risk on all assets held for investment because of possible timing differences in the cash flows of the assets and related liabilities. This risk is primarily related to loans held and on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities due to the ability of borrowers to prepay their mortgages before the scheduled maturities, thereby increasing the risk of asset and liability cash flow mismatches. Cash flow mismatches in a changing interest rate environment can reduce the earnings of the Corporation if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments when Farmer Mac's funding costs cannot be correspondingly reduced, or if assets repay more slowly than expected and the associated debt must be replaced by higher-cost debt.

Yield maintenance provisions and other prepayment penalties contained in many agricultural mortgage and rural utilities loans reduce, but do not eliminate, prepayment risk, particularly in the case of a defaulted loan where yield maintenance may not be collected. Those provisions require borrowers to make an additional payment when they prepay their loans so that, when reinvested with the prepaid principal, yield maintenance payments generate substantially the same cash flows that would have been generated had the loan not prepaid. Those provisions create a disincentive to prepayment and compensate the Corporation for some of its interest rate risks. As of December 31, 2011, 8 percent of the total outstanding balance of loans in the Farmer Mac I program where Farmer Mac either owned the loan or the beneficial interest in the underlying loan had yield maintenance provisions and 5 percent had other forms of prepayment protection (together covering 22 percent of all loans with fixed interest rates). Of the Farmer Mac I new and current loans purchased in 2011, less than one percent had yield maintenance or another form of prepayment protection (covering less than one percent of all loans with fixed interest rates). As of December 31, 2011, none of the USDA Guaranteed Securities or USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities had yield maintenance provisions; however, 10 percent contained prepayment penalties. Of the USDA-guaranteed portions purchased in 2011, 5 percent contained various forms of prepayment penalties. As of December 31, 2011, 68 percent of the rural utilities loans owned by Farmer Mac had yield maintenance provisions. Of the rural utilities loans purchased in 2011, 31 percent had yield maintenance provisions. As of December 31, 2011, all of the rural utilities loans held in trusts where Farmer Mac owned the beneficial interest in the underlying loan had yield maintenance provisions.

Taking into consideration the prepayment provisions and the default probabilities associated with its mortgage assets, Farmer Mac uses prepayment models to project and value cash flows associated with

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these assets. Because borrowers' behaviors in various interest rate environments may change over time, Farmer Mac periodically evaluates the effectiveness of these models compared to actual prepayment experience and adjusts and refines the models as necessary to improve the precision of subsequent prepayment forecasts.

The following table presents Farmer Mac's on-balance sheet program assets based on their interest rate characteristics:

	As of December 31,	
	2011	2010
	(in thousands)	
Fixed rate (10-yr. wtd. avg. term)	$5,288,687	$3,662,363
5- to 10-year ARMs and resets	1,230,374	1,907,266
1-Month to 3-Year ARMs	1,967,960	1,133,871
Total held in portfolio	$8,487,021	$6,703,500

The goal of interest rate risk management at Farmer Mac is to create and maintain a portfolio that generates stable earnings and value across a variety of interest rate environments. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar durations and cash flows so that they will perform similarly as interest rates change. To achieve this match, Farmer Mac issues discount notes and both callable and non-callable medium-term notes across a spectrum of maturities. Farmer Mac issues callable debt to offset the prepayment risk associated with some loans. By using a blend of liabilities that includes callable debt, the interest rate sensitivities of the liabilities tend to increase or decrease as interest rates change in a manner similar to changes in the interest rate sensitivities of the assets. Farmer Mac also uses financial derivatives to better match the durations of the Corporation's assets and liabilities, thereby reducing overall interest rate sensitivity.

Farmer Mac's $817.0 million of cash and cash equivalents mature within three months and are funded with discount notes having similar maturities. As of December 31, 2011, $1.8 billion of the $2.1 billion of investment securities (83 percent) were floating rate securities with rates that adjust within one year or fixed rate securities with original maturities between three months and one year. Those securities are funded with floating rate medium-term notes or discount notes that closely match the rate adjustment dates of the associated investments. As of December 31, 2011, Farmer Mac had outstanding discount notes of $5.1 billion, medium-term notes that mature within one year of $1.0 billion and medium-term notes that mature after one year of $4.1 billion. See Note 4 to the consolidated financial statements for more information on investment securities. These investments are funded using:

- a series of discount note issuances in which each successive discount note is issued and matures on or about the corresponding interest rate reset date of the related investment;
- floating rate notes having similar interest rate reset provisions as the related investment; or
- fixed rate notes swapped to floating rates having similar interest rate reset provisions as the related investment.

Farmer Mac is also subject to interest rate risk on loans, including loans that Farmer Mac has committed to acquire (other than through LTSPCs) but has not yet purchased. When Farmer Mac commits to

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purchase such loans, it is exposed to interest rate risk between the time it commits to purchase the loans and the time it either:

- sells Farmer Mac Guaranteed Securities backed by the loans; or
- issues debt to retain the loans in its portfolio.

Issuing debt to fund the loans as investments does not fully eliminate interest rate risk due to the possible timing differences in the cash flows of the assets and related liabilities, as discussed above. Farmer Mac manages the interest rate risk related to such loans, and any related Farmer Mac Guaranteed Securities or debt issuance, through the use of forward sale contracts on the debt of other GSEs and futures contracts involving U.S. Treasury securities. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both Treasury rates and spreads on Farmer Mac debt and certain Farmer Mac Guaranteed Securities.

Recognizing that interest rate sensitivity may change with the passage of time and as interest rates change, Farmer Mac assesses this exposure on a regular basis and, if necessary, readjusts its portfolio of assets and liabilities by:

- purchasing mortgage assets in the ordinary course of business;
- refunding existing liabilities; or
- using financial derivatives to alter the characteristics of existing assets or liabilities.

An important "stress test" of Farmer Mac's exposure to long-term interest rate risk is the measurement of the sensitivity of its market value of equity ("MVE") to yield curve shocks. MVE represents management's estimate of the present value of all future cash flows from on- and off-balance sheet assets, liabilities and financial derivatives, discounted at current interest rates and appropriate spreads. The following schedule summarizes the results of Farmer Mac's MVE sensitivity analysis as of December 31, 2011 and 2010 to an immediate and instantaneous uniform or "parallel" shift in the yield curve:

	Percentage Change in MVE from Base Case	
Interest Rate	As of December 31,	
Scenario	2011	2010
+300 bp	(1.3)%	(1.0)%
+200 bp	2.3%	1.9%
+100 bp	2.9%	2.6%
-100 bp	*	*
-200 bp	*	*
-300 bp	*	*

* As of the date indicated, a parallel shift of the U.S. Treasury yield curve by the number of basis points indicated produced negative interest rates for all or portions of this curve.

As of December 31, 2011, Farmer Mac's effective duration gap, another standard measure of interest rate risk that measures the difference between the sensitivities of assets compared to that of liabilities, was minus 1.5 months, compared to minus 1.6 months as of December 31, 2010. Duration matching of assets and the corresponding liabilities helps maintain the correlation of cash flows and stabilizes portfolio earnings even when interest rates are not stable. During 2011, Farmer Mac's interest rate sensitivity has remained relatively stable and at relatively low levels, despite significant market volatility, a sharp decrease in interest rates and a much flatter yield curve.

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Farmer Mac also calculates sensitivity of net interest income ("NII") to changes in interest rates which represents a shorter-term measure of interest rate risk. As of December 31, 2011, a parallel increase of 100 basis points would have decreased Farmer Mac's NII by 6.4 percent, while a parallel decrease of 25 basis points would have decreased NII by 7.3 percent. Farmer Mac also measures the sensitivity of both MVE and NII to a variety of non-parallel interest rate shocks, including flattening and steepening yield curve scenarios. As of December 31, 2011, both MVE and NII showed similar or lesser sensitivity to non-parallel shocks than to the parallel shocks.

The economic effects of financial derivatives are included in the Corporation's MVE, NII and duration gap analyses. Farmer Mac enters into the following financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of assets, future cash flows, credit exposure and debt issuance, not for trading or speculative purposes:

- "pay-fixed" interest rate swaps, in which Farmer Mac pays fixed rates of interest to, and receives floating rates of interest from, counterparties;
- "receive-fixed" interest rate swaps, in which Farmer Mac receives fixed rates of interest from, and pays floating rates of interest to, counterparties;
- "basis swaps," in which Farmer Mac pays variable rates of interest based on one index to, and receives variable rates of interest based on another index from, counterparties; and
- "credit default swaps," in which Farmer Mac pays a periodic fee to a counterparty in exchange for the counterparty's agreement to make payments in the event of an instrument's default or other credit event.

As of December 31, 2011, Farmer Mac had $6.6 billion combined notional amount of interest rate and credit default swaps, with terms ranging from one to fifteen years, of which $1.9 billion were pay-fixed interest rate swaps, $4.2 billion were receive-fixed interest rate swaps, $0.5 billion were basis swaps and $10.0 million were credit default swaps.

Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Specifically, interest rate swaps convert the variable cash flows related to the forecasted issuance of short-term debt into effectively fixed rate medium-term notes that match the anticipated duration and interest rate characteristics of the corresponding assets. Farmer Mac evaluates the overall cost of using the swap market as an alternative to issuing medium-term notes in the capital markets and uses pay-fixed interest rate swaps to manage specific interest rate risks for specific transactions.

Farmer Mac has used callable interest rate swaps (in conjunction with the issuance of short-term debt) as an alternative to callable medium-term notes with equivalently structured maturities and call options. The call options on the swaps are designed to match the prepayment options on those mortgage assets without prepayment protection. The blended durations of the swaps are also designed to match the duration of the related mortgages over their estimated lives. If the mortgages prepay, the swaps can be called and the short-term debt repaid; if the mortgages do not prepay, the swaps remain outstanding and the short-term debt is rolled over, effectively providing fixed rate callable funding over the lives of the related mortgages. Thus, the economics of the assets are closely matched to the economics of the interest rate

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swap and funding combination.

As discussed in Note 6 to the consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. All of Farmer Mac's financial derivative transactions are conducted under standard collateralized agreements that limit Farmer Mac's potential credit exposure to any counterparty. As of December 31, 2011, Farmer Mac had uncollateralized net exposures of $1.0 million to one counterparty.

Liquidity and Capital Resources

Farmer Mac regularly accesses the capital markets for liquidity, and Farmer Mac maintained access to the capital markets at favorable rates throughout 2011. The capital markets experienced increased volatility during the second half of 2011, which was widely attributed to global economic conditions, continued weak U.S. economic data, and concerns surrounding Standard & Poor's downgrade of the credit rating of the United States. To date, Farmer Mac's access to the capital markets at favorable rates has not been negatively affected by this market volatility. Assuming continued access to the capital markets, Farmer Mac believes it has sufficient liquidity and capital resources to support its operations for the next 12 months and for the foreseeable future. Farmer Mac also has a liquidity contingency plan to manage unanticipated disruptions in its access to the capital markets. That plan involves borrowing through repurchase agreement arrangements and the sale of liquid assets. In accordance with the calculation prescribed by FCA regulations, Farmer Mac maintains a minimum of 60 days of liquidity and a target of 90 days of liquidity. In accordance with the methodology prescribed by those regulations, Farmer Mac maintained an average of 169 days of liquidity during 2011 and had 151 days of liquidity as of December 31, 2011.

Debt Issuance. Farmer Mac funds its purchases of program and non-program assets primarily by issuing debt obligations of various maturities in the public capital markets. Debt obligations issued by Farmer Mac include discount notes and fixed and floating rate medium-term notes, including callable notes. Farmer Mac also issues discount notes and medium-term notes to obtain funds to finance investment activities, transaction costs, guarantee payments and LTSPC purchase obligations. See "Business—Financing—Debt Issuance" for more information regarding Farmer Mac's debt issuance.

Farmer Mac's board of directors has authorized the issuance of up to $12.0 billion of discount notes and medium-term notes (of which $10.2 billion was outstanding as of December 31, 2011), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing requirements. That authorization was increased from $10.0 billion to $12.0 billion in June 2011. Farmer Mac invests the proceeds of such issuances in loans, Farmer Mac Guaranteed Securities, and liquidity investment assets in accordance with policies established by its board of directors and subject to regulations established by FCA.

Liquidity. The funding and liquidity needs of Farmer Mac's business programs are driven by the purchase and retention of eligible loans, USDA-guaranteed portions, and Farmer Mac Guaranteed Securities; the maturities of Farmer Mac's discount notes and medium-term notes; and payment of principal and interest on Farmer Mac Guaranteed Securities. Farmer Mac's primary sources of funds to meet these needs are the fees for its guarantees and commitments, net effective spread, proceeds of debt issuances, loan repayments and maturities of AgVantage securities.

Farmer Mac's borrowing costs have remained at favorable levels despite continued market volatility. Farmer Mac uses a combination of pay-fixed interest rate swaps and receive-fixed interest rate swaps to mitigate its exposure to interest rate risk and monitors the effects of actual and potential fair value changes on its regulatory capital surplus. From time to time, Farmer Mac uses pay-fixed interest rate swaps, combined with a planned series of discount note issuances, as an alternative source of effectively fixed rate funding. While the swap market may provide favorable effectively fixed rates, interest rate swap transactions expose Farmer Mac to the risk of future variability of its own issuance spreads versus corresponding LIBOR rates. If the spreads on the Farmer Mac discount notes were to deteriorate relative to LIBOR, Farmer Mac would be exposed to a commensurate reduction on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets. Conversely, if the rates on the Farmer Mac discount notes were to improve relative to LIBOR, Farmer Mac would benefit from a commensurate increase on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets. Further, the use of pay-fixed interest rate swaps subject the Corporation's regulatory capital surplus to the potential adverse effects of a reduction in the fair values of those interest rate swaps. Farmer Mac routinely enters into receive-fixed interest rate swaps that may provide some offset to the fair value movements of the pay-fixed interest rate swaps. These transactions reduce the susceptibility of Farmer Mac's regulatory capital surplus to changes in the fair values of its financial derivatives and often times result in lower effective borrowing costs.

Farmer Mac maintains cash, cash equivalents (including U.S. Treasury bills and other short-term money market instruments) and other investment securities that can be drawn upon for liquidity needs. The following table presents these assets as of December 31, 2011 and 2010:

	As of December 31	
	2011	2010
	(in thousands)	
Cash and cash equivalents	$817,046	$729,920
Investment securities:		
Guaranteed by U.S. Government and its agencies	1,125,823	929,793
Guaranteed by GSEs	700,442	405,631
Preferred stock issued by GSEs	84,878	169,524
Corporate debt securities	122,532	163,188
Asset-backed securities principally backed by Government-guaranteed student loans	150,815	95,193
Total	$3,001,536	$2,493,249

Farmer Mac's asset-backed investment securities include callable, AAA-rated auction-rate certificates ("ARCs"), the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates as set forth in the related transaction documents in the event of a failed auction. These formula-based floating rates, which may at times reset to zero, are intended to preserve the underlying principal balance of the securities and avoid overall cash shortfalls. Accordingly, payments of accrued interest may also be delayed and are ultimately subject to cash availability. Beginning in mid-February 2008, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac continues to believe that the credit quality of these securities is high, based on the underlying collateralization and the securities' continued AAA ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so. Farmer Mac does not believe that the auction failures will affect the Corporation's liquidity or its ability to fund its operations or make dividend payments. All ARCs held by Farmer Mac are callable by the issuers at par at any time.

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Farmer Mac held $60.2 million of ARCs as of December 31, 2011, compared to $64.3 million as of December 31, 2010. As of December 31, 2011, Farmer Mac's carrying value of its ARCs was 81 percent of par. The discounted carrying value reflects uncertainty regarding the ability to obtain par in the absence of any active market trading. See Note 13 to the consolidated financial statements for more information on the carrying value of ARCs.

The following table presents Farmer Mac's largest holdings as of December 31, 2011. These holdings are presented as either "Cash and cash equivalents" or "Investment securities" on the consolidated balance sheets.

Investment	Issuer	Credit Rating	Amount (1) (in thousands)
Senior Agency Debt	Federal Home Loan Bank	AA+	$221,900
Senior Agency Debt	Federal Home Loan Mortgage Corp.	AA+	109,000
Senior Agency Debt	Fannie Mae	AA+	86,100
GSE Preferred Stock	CoBank, ACB (2)	A	78,500
GSE Subordinated Debt	CoBank, ACB (2)	A	70,000

(1) Investment balance does not include premiums paid or unrealized gains or losses on the securities.
(2) CoBank, ACB is an institution of the Farm Credit System, a government-sponsored enterprise.

Capital Requirements. Farmer Mac's charter establishes three capital standards for the Corporation—minimum, critical and risk-based. The minimum capital requirement is expressed as a percentage of on-balance sheet assets and off-balance sheet obligations. The critical capital requirement is equal to one-half of the minimum capital amount. The charter does not specify the required level of risk-based capital but directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters. For a discussion of the risk-based capital stress test, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—General" and "—Regulatory Matters." Certain enforcement powers are given to FCA depending upon Farmer Mac's compliance with the capital standards. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcemen Levels."

As of December 31, 2011 and 2010, Farmer Mac was classified as within "level I" (the highest compliance level). The following table sets forth Farmer Mac's minimum capital requirements and surpluses as of December 31, 2011 and 2010:

	As of December 31, 2011			2010		
	Amount	Ratio	Capital Required	Amount	Ratio	Capital Required
	(dollars in thousands)					
On-balance sheet assets (1)	$11,730,989	2.75%	$322,602	$9,428,781	2.75%	$259,291
Outstanding balance of off-balance sheet program assets	3,426,281	0.75%	25,697	5,513,209	0.75%	41,349
Financial derivatives (1)	46,632	0.75%	350	47,434	0.75%	356
Minimum capital requirement			348,649			300,996
Core capital			475,163			460,602
Capital surplus			$126,514			$159,606

(1) As defined for determining statutory minimum capital.

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Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2011 was $52.9 million and Farmer Mac's regulatory capital of $492.7 million exceeded that amount by approximately $439.8 million. Farmer Mac's risk-based capital requirement as of December 31, 2010 was $42.1 million and Farmer Mac's regulatory capital of $480.7 million exceeded that amount by approximately $438.6 million.

Contractual Obligations. The following table presents the amount and timing of Farmer Mac's known fixed and determinable contractual obligations by payment date as of December 31, 2011. The payment amounts represent those amounts contractually due to the recipient (including return of discount and interest on debt) and do not include unamortized premiums or discounts or other similar carrying value adjustments.

	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
	(in thousands)				
Discount notes (1)	$5,133,564	$—	$—	$—	$5,133,564
Medium-term notes (1)	958,000	2,218,000	1,402,000	497,000	5,075,000
Interest payments on fixed rate medium-term notes (2)	107,391	173,986	81,861	107,464	470,702
Interest payments on floating rate medium-term notes (3)	1,105	236	—	—	1,341
Operating lease obligations (4)	1,220	2,510	2,570	11,016	17,316
Purchase obligations (5)	744	167	—	—	911

(1) Future events, including additional issuance of discount notes and medium-term notes and refinancing of those notes, could cause actual payments to differ significantly from these amounts. For more information regarding discount notes and medium-term notes, see Note 7 to the consolidated financial statements.

(2) Interest payments on callable medium-term notes are calculated based on contractual maturity. Future calls of these notes could cause actual interest payments to differ significantly from the amounts presented.

(3) Calculated using the effective interest rates as of December 31, 2011. As a result, these amounts do not reflect the effects of changes in the contractual interest rates effective on future interest rate reset dates.

(4) Includes amounts due under non-cancelable operating leases for office space and office equipment. See Note 12 to the consolidated financial statements for more information regarding Farmer Mac's minimum lease payments for office space.

(5) Includes minimum amounts due under non-cancelable agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. These agreements include agreements for the provision of consulting services, information technology support, equipment maintenance, and financial analysis software and services. The amounts actually paid under these agreements will likely be higher due to the variable components of some of these agreements under which the ultimate obligation owed is determined by reference to actual usage or hours worked. The table does not include amounts due under agreements that are cancelable without penalty or further payment as of December 31, 2011 and therefore do not represent enforceable and legally binding obligations. The table also does not include amounts due under the terms of employment agreements with members of senior management; nor does it include payments that are based on a varying outstanding loan volume (such as servicing and bond administration fees), as those payments are not known, fixed and determinable contractual obligations.

Farmer Mac enters into financial derivative contracts under which it either receives cash from counterparties, or is required to pay cash to them, depending on changes in interest rates. Financial derivatives are carried on the consolidated balance sheets at fair value, representing the net present value of expected future cash payments or receipts based on market interest rates as of the balance sheet date adjusted for the consideration of credit risk of

Farmer Mac and its counterparties. The fair values of the contracts change daily as market interest rates change. Because the financial derivative liabilities recorded on the consolidated balance sheet as of December 31, 2011 do not represent the amounts that may ultimately be paid under the financial derivative contracts, those liabilities are not included in the table of contractual obligations presented above. Further information regarding financial derivatives is included in Note 2(h) and Note 6 to the consolidated financial statements.

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Contingent Liabilities. In conducting its loan purchase activities, Farmer Mac enters into mandatory delivery commitments to purchase agricultural real estate mortgage loans and USDA-guaranteed portions. In conducting its LTSPC activities, Farmer Mac enters into arrangements whereby it commits to buy eligible loans under certain conditions at an undetermined future date. The following table presents these significant commitments.

	As of December 31,	
	2011	2010
	(in thousands)	
LTSPCs	$1,776,051	$1,754,597
Mandatory commitments to purchase loans and USDA-guaranteed portions	66,125	80,390

Further information regarding Farmer Mac's commitments to purchase loans is included in Note 12 to the consolidated financial statements.

Off-Balance Sheet Arrangements. Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) LTSPCs, and (2) Farmer Mac Guaranteed Securities. Prior to the adoption of new accounting guidance on January 1, 2010 related to the consolidation of off-balance sheet assets, both of these products 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 judged to be 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 judged to be the primary beneficiary still result in the creation of off-balance sheet obligations for Farmer Mac. In performing its obligations related to LTSPCs and Farmer Mac Guaranteed Securities, Farmer Mac would have the right to enforce the underlying loans, and in the event of the default under the terms of those loans, would have access to the underlying collateral.

As of December 31, 2011 and 2010, outstanding off-balance sheet LTSPCs and Farmer Mac Guaranteed Securities totaled $3.4 billion and $5.5 billion, respectively. The following table presents the balance of outstanding LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities as of December 31, 2011 and 2010:

Outstanding Balance of LTSPCs and
Off-Balance Sheet Farmer Mac Guaranteed Securities

	As of December 31,	
	2011	2010
	(in thousands)	
Farmer Mac I obligations:		
Farmer Mac I Guaranteed Securities	$1,591,871	$3,695,217
LTSPCs	1,776,051	1,754,597
Total Farmer Mac I obligations	3,367,922	5,449,814
Farmer Mac II Guaranteed Securities	42,088	48,103
Farmer Mac Guaranteed Securities - Rural Utilities	16,271	15,292
Total off-balance sheet	$3,426,281	$5,513,209

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See "—Risk Management—Credit Risk – Loans" and Notes 2(c), 2(e), 5 and 12 to the consolidated financial statements for more information on Farmer Mac Guaranteed Securities and Notes 2(o) and 12 to the consolidated financial statements for more information on LTSPCs.

Regulatory Matters

In the April 27, 2011 issue of the Federal Register, FCA published a final rule (the "Final RBC 4.0 Rule") that revises certain FCA regulations governing the risk-based capital stress test applicable to Farmer Mac. In its announcement of the Final RBC 4.0 Rule, FCA stated that the purpose of the changes was to update the risk-based capital model to address the addition of rural utilities loans to Farmer Mac's program authorities, to revise the existing treatment of risk mitigations of general obligations in the AgVantage structure, and to revise the treatment of counterparty risk on Farmer Mac's non-program investments. The Final RBC 4.0 Rule became effective June 15, 2011. For more information about Farmer Mac's capital position, see "—Balance Sheet Review—Equity."

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") contains a variety of provisions designed to regulate financial markets, including credit and derivatives transactions. Certain provisions of the Dodd-Frank Act, such as the requirement to retain a five percent credit risk in any securitized loan, do not apply to Farmer Mac or, with respect to any loan sold to Farmer Mac, the seller of such loan. In addition, Farmer Mac's equity and debt securities are excluded from the Dodd-Frank Act's prohibitions on proprietary trading by banking entities. However, certain provisions of the Dodd-Frank Act, such as those regarding derivatives regulation, corporate governance and executive compensation, do not contain specific exemptions for Farmer Mac. Until various studies are completed and all applicable final regulations are promulgated pursuant to the Dodd-Frank Act, the full effect of the legislation on the Corporation's business activities and operations cannot be completely assessed, particularly how it will affect the Corporation's hedging operations and costs. Farmer Mac does not expect that any of the final rules that have been passed under the Dodd-Frank Act to date will have a material impact on the Corporation's business activities and operations or financial condition. Farmer Mac will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act and expects to be able to adapt successfully to any new applicable legislative and regulatory requirements.

On May 11, 2011, the FCA, together with other prudential regulators, published in the Federal Register a proposed rule under the Dodd-Frank Act titled "Margin and Capital Requirements for Covered Swap Entities." The proposed rule provides for margin and capital requirements for non-cleared derivatives transactions among various categories of counterparties, including Farmer Mac. Farmer Mac submitted comments during the comment period for the proposed rule, which closed on July 11, 2011. The final rule has not yet been published.

On June 16, 2011, the FCA published in the Federal Register an advance notice of proposed rulemaking (the "ANPRM"), seeking public comment on revising Farmer Mac's risk-based capital stress test (1) to eliminate reliance on credit ratings from NRSROs as a measure of the creditworthiness of Farmer Mac's assets, as mandated under the Dodd-Frank Act and (2) to include a capital charge for counterparty risk related to derivatives transactions. In addition, the ANPRM solicited comment on ways to revise Farmer Mac's operational and strategic business planning requirements to place greater emphasis on diversity and inclusion in both Farmer Mac's personnel as well as the borrowers and lenders who benefit from Farmer Mac's secondary market activities. Farmer Mac submitted a comment letter on the ANPRM on August 15, 2011.

On November 18, 2011, the FCA published in the Federal Register a proposed rule to revise the Liquidity

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and Investment Regulations in response to the requirement under the Dodd-Frank Act for all federal agencies to review their respective regulations that refer to or require the use of credit ratings, to remove those references and requirements, and to substitute other appropriate standards of creditworthiness. In addition, the proposed rule outlines for comment three possible approaches for substituting the use of credit ratings in the Liquidity and Investment Regulations, including the use of benchmark indices, the use of internal assessment by Farmer Mac, or the use of third-party assessments of creditworthiness. The proposed rule includes among FCA's proposed changes to the Liquidity and Investment Regulations requirements for due diligence and stress testing of non-program assets, increased liquidity levels and enhancements to interest rate risk management. The proposed rule would also establish new parameters for investment eligibility, including pre-approved investments that complement Farmer Mac's mission to serve rural America. Farmer Mac submitted a comment letter on the proposed rule on January 17, 2012. The final rule has not yet been published.

Other Matters

The expected effects of recently issued accounting pronouncements on the consolidated financial statements are presented in Note 2(r) to the consolidated financial statements.

Item 7A.   Quantitative and Qualitative Disclosures About Market Risk

Farmer Mac is exposed to market risk from changes in interest rates. Farmer Mac manages this market risk by entering into various financial transactions, including financial derivatives, and by monitoring and measuring its exposure to changes in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk" for more information about Farmer Mac's exposure to interest rate risk and its strategies to manage such risk. For information regarding Farmer Mac's use of financial derivatives and related accounting policies, see Note 2(h) and Note 6 to the consolidated financial statements.

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Item 8. Financial Statements

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Farmer Mac is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed under the supervision of Farmer Mac's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Farmer Mac's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, Farmer Mac's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2011. In making this assessment, the Corporation's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on its evaluation under the COSO criteria, management concluded that the Corporation's internal control over financial reporting as of December 31, 2011 was effective.

Farmer Mac's independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2011, as stated in their report appearing below.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of the Federal Agricultural Mortgage Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equity, and of cash flows present fairly, in all material respects, the financial position of the Federal Agricultural Mortgage Corporation and its subsidiaries ("Farmer Mac") at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Farmer Mac maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Farmer Mac's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and on Farmer Mac's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, Farmer Mac changed the manner in which it accounts for transfers of financial assets and consolidation of variable interest entities in 2010.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP
McLean, Virginia
March 15, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Federal Agricultural Mortgage Corporation
Washington, DC

We have audited the consolidated statements of operations, equity, and cash flows of the Federal Agricultural Mortgage Corporation and subsidiaries ("Farmer Mac") for the year ended December 31, 2009. These financial statements are the responsibility of Farmer Mac's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects the results of the operations and cash flows of Farmer Mac for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the consolidated financial statements, Farmer Mac revised its Segment Information to reflect the manner in which its chief operating decision maker had begun assessing Farmer Mac's performance and making resource allocation decisions. Farmer Mac's Segment Information from prior periods has been reclassified in accordance with the new segment financial reporting.

As discussed in Note 16 to the consolidated financial statements, the consolidated statement of cash flows for the year ended December 31, 2009 has been restated.

/s/ Deloitte & Touche LLP

McLean, Virginia
March 16, 2010
(August 4, 2010 as to Note 14 and June 1, 2011 as to the last paragraph of Note 2(b) and Note 16)

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2011	2010
	(in thousands)	
Assets:		
Cash and cash equivalents	$817,046	$729,920
Investment securities:		
Available-for-sale, at fair value	2,182,694	1,677,233
Trading, at fair value	1,796	86,096
Total investment securities	2,184,490	1,763,329
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	4,289,272	2,907,264
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,279,546	1,005,679
Trading, at fair value	212,359	311,765
Total USDA Guaranteed Securities	1,491,905	1,317,444
Loans:		
Loans held for sale, at lower of cost or fair value	541,447	1,212,065
Loans held for investment, at amortized cost	1,241,311	90,674
Loans held for investment in consolidated trusts, at amortized cost	1,121,559	1,265,663
Allowance for loan losses	(10,161)	(9,803)
Total loans, net of allowance	2,894,156	2,558,599
Real estate owned, at lower of cost or fair value	3,136	1,992
Financial derivatives, at fair value	40,250	41,492
Interest receivable (includes $15,578 and $22,845, respectively, related to consolidated trusts)	110,339	90,295
Guarantee and commitment fees receivable	31,384	34,752
Deferred tax asset, net	—	14,530
Prepaid expenses and other assets	21,530	20,297
Total Assets	$11,883,508	$9,479,914
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$6,087,879	$4,509,419
Due after one year	4,104,882	3,430,656
Total notes payable	10,192,761	7,940,075
Debt securities of consolidated trusts held by third parties	701,583	827,411
Financial derivatives, at fair value	160,024	113,687
Accrued interest payable (includes $7,659 and $14,439, respectively, related to consolidated trusts)	60,854	57,131
Guarantee and commitment obligation	27,440	30,308
Accounts payable and accrued expenses	178,708	22,113
Deferred tax liability, net	250	—
Reserve for losses	7,355	10,312
Total Liabilities	11,328,975	9,001,037
Commitments and Contingencies (Note 12)		

Equity:		
Preferred stock:		
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	57,578	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 8,825,794 shares and 8,752,711 shares outstanding as of December 31, 2011 and 2010, respectively	8,826	8,753
Additional paid-in capital	102,821	100,050
Accumulated other comprehensive income	79,370	18,275
Retained earnings	62,554	50,837
Total Stockholders' Equity	312,680	237,024
Non-controlling interest - preferred stock	241,853	241,853
Total Equity	554,533	478,877
Total Liabilities and Equity	$11,883,508	$9,479,914

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands, except per share amounts)		
Interest income:			
Investments and cash equivalents	$28,117	$27,497	$28,727
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	127,394	86,742	109,779
Loans	119,176	124,472	37,987
Total interest income	274,687	238,711	176,493
Total interest expense	153,382	142,668	90,585
Net interest income	121,305	96,043	85,908
Provision for loan losses	(610)	(1,893)	(2,853)
Net interest income after provision for loan losses	120,695	94,150	83,055
Non-interest (loss)/income:			
Guarantee and commitment fees	24,821	24,091	31,805
(Losses)/gains on financial derivatives	(92,645)	(17,159)	21,297
Gains on trading assets	3,455	5,270	43,273
Other-than-temporary impairment losses	—	—	(3,994)
Gains on sale of available-for-sale investment securities	269	266	3,353
Gains on sale of loans	—	—	1,581
Gain on sale of real estate owned	974	10	—
Lower of cost or fair value adjustment on loans held for sale	8,887	(8,748)	(139)
Other income	6,850	1,244	1,578
Non-interest (loss)/income	(47,389)	4,974	98,754
Non-interest expense:			
Compensation and employee benefits	17,884	17,232	13,683
General and administrative	9,732	8,564	11,167
Regulatory fees	2,277	2,243	2,100
Real estate owned operating costs, net	823	2,171	353
(Release of)/provision for losses	(2,957)	2,417	2,389
Other expense	900	—	—
Non-interest expense	28,659	32,627	29,692
Income before income taxes	44,647	66,497	152,117
Income tax expense	5,797	13,797	52,517
Net income	38,850	52,700	99,600
Less: Net income attributable to non-controlling interest - preferred stock dividends	(22,187)	(20,707)	—
Net income attributable to Farmer Mac	16,663	31,993	99,600
Preferred stock dividends	(2,879)	(4,129)	(17,302)
Loss on retirement of preferred stock	—	(5,784)	—
Net income attributable to common stockholders	$13,784	$22,080	$82,298
Earnings per common share and dividends:			
Basic earnings per common share	$1.33	$2.16	$8.12
Diluted earnings per common share	$1.28	$2.08	$8.04
Common stock dividends per common share	$0.20	$0.20	$0.20

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	For the Year Ended December 31,					
	2011		2010		2009	
	Shares	Amount	Shares	Amount	Shares	Amount
	(in thousands)					
Preferred stock:						
Balance, beginning of period	58	$57,578	58	$57,578	9	$9,200
Issuance of Series C preferred stock	—	—	—	—	49	48,378
Balance, end of period	58	$57,578	58	$57,578	58	$57,578
Common stock:						
Balance, beginning of period	10,284	$10,284	10,142	$10,142	10,132	$10,132
Issuance of Class C common stock	59	59	127	127	10	10
Exercise of stock options and SARs	14	14	15	15	—	—
Balance, end of period	10,357	$10,357	10,284	$10,284	10,142	$10,142
Additional paid-in capital:						
Balance, beginning of period		$100,050		$97,090		$95,572
Stock-based compensation expense		2,929		2,774		2,694
Issuance of Class C common stock		22		40		32
Tax effect of stock-based awards		(180)		146		(1,208)
Balance, end of period		$102,821		$100,050		$97,090
Retained earnings/(accumulated deficit):						
Balance, beginning of period		$50,837		$28,127		$(52,144)
Net income attributable to Farmer Mac		16,663		31,993		99,600
Cash dividends:						
Preferred stock, Series B ($8.33 and $102.67 per share in 2010 and 2009, respectively)		—		(1,250)		(15,400)
Preferred stock, Series C ($50.00 per share in 2011 and 2010 and $33.03 per share in 2009)		(2,879)		(2,879)		(1,902)
Common stock ($0.20 per share)		(2,067)		(2,049)		(2,027)
Loss on retirement of preferred stock		—		(5,784)		—
Cumulative effect of adoption of new accounting standard, net of tax		—		2,679		—
Balance, end of period		$62,554		$50,837		$28,127
Accumulated other comprehensive income/(loss):						
Balance, beginning of period		$18,275		$3,254		$(47,412)
Change in unrealized gain on available-for-sale securities, net of tax and reclassification adjustments		61,095		14,975		50,514
Change in unrealized gain on financial derivatives, net of tax and reclassification adjustments		—		46		152
Balance, end of period		$79,370		$18,275		$3,254
Total Stockholders' Equity		$312,680		$237,024		$196,191
Non-controlling interest:						
Balance, beginning of period		$241,853		$—		$—
Preferred stock - Farmer Mac II LLC		—		241,853		—
Balance, end of period		$241,853		$241,853		$—
Total Equity		$554,533		$478,877		$196,191

Comprehensive income:			
Net income	$38,850	$52,700	$99,600
Change in accumulated other comprehensive income, net of tax	61,095	15,021	50,666
Comprehensive income	99,945	67,721	150,266
Less: Comprehensive income attributable to non-controlling interest	22,187	20,707	—
Total comprehensive income	$77,758	$47,014	$150,266

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
	2011	2010	2009
	(in thousands)		
Cash flows from operating activities:			
Net income	$38,850	$52,700	$99,600
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Net amortization of premiums and discounts on loans, investments, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	19,506	11,845	3,926
Amortization of debt premiums, discounts and issuance costs	12,800	7,982	12,876
Net change in fair value of trading securities, financial derivatives and loans held for sale	44,124	(16,653)	(105,060)
Amortization of deferred gains on certain Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(5,180)	—	—
Other-than-temporary impairment losses	—	—	3,994
Gains on sale of loans	—	—	(1,581)
Gains on the sale of available-for-sale investment securities	(269)	(266)	(3,353)
Gains on the sale of real estate owned	(974)	(10)	—
Total (release of)/provision for losses	(2,347)	4,310	5,242
Deferred income taxes	(18,939)	(524)	35,615
Stock-based compensation expense	2,929	2,774	2,694
Proceeds from repayment and sale of trading investment securities	83,858	747	787
Purchases of loans held for sale	(214,116)	(661,310)	(164,335)
Proceeds from repayment of loans purchased as held for sale	95,991	43,820	30,664
Proceeds from sale of loans purchased as held for sale	—	—	73,641
Net change in:			
Interest receivable	(19,982)	(23,117)	5,880
Guarantee and commitment fees receivable	3,368	20,264	6,093
Other assets	(9,623)	19,299	76,534
Accrued interest payable	3,723	17,569	(908)
Other liabilities	(6,899)	(18,243)	(9,019)
Net cash provided by/(used in) operating activities	26,820	(538,813)	73,290
Cash flows from investing activities:			
Purchases of available-for-sale investment securities	(1,694,794)	(1,075,852)	(325,871)
Purchases of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(2,209,604)	(2,010,991)	(2,047,954)
Purchases of loans held for investment	(489,483)	(34,387)	(59,627)
Purchases of defaulted loans	(21,663)	(6,082)	(21,269)
Proceeds from repayment of available-for-sale investment securities	891,108	350,197	195,589
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	749,399	711,462	725,761
Proceeds from repayment of loans purchased as held for investment	292,484	291,778	72,759
Proceeds from sale of available-for-sale investment securities	447,864	100,833	306,506
Proceeds from sale of trading securities - fair value option	—	5,013	—
Proceeds from sale of Farmer Mac Guaranteed Securities	25,674	30,725	188,204
Proceeds from sale of real estate owned	4,201	1,055	40,955

Proceeds from sale of loans purchased as held for investment	—	—	285,312
Net cash used in investing activities	(2,004,814)	(1,636,249)	(639,635)
Cash flows from financing activities:			
Proceeds from issuance of discount notes	68,770,286	66,804,224	54,840,697
Proceeds from issuance of medium-term notes	2,295,579	2,729,530	3,475,856
Payments to redeem discount notes	(67,459,368)	(65,300,682)	(54,675,917)
Payments to redeem medium-term notes	(1,366,275)	(1,872,590)	(2,727,000)
Excess tax benefits related to stock-based awards	243	763	—
Payments to third parties on debt securities of consolidated trusts	(148,234)	(176,260)	—
Proceeds from common stock issuance	22	172	42
Issuance costs on retirement of preferred stock	—	(5,784)	—
Proceeds from preferred stock issuance - Farmer Mac II LLC	—	241,853	—
Proceeds from preferred stock issuance	—	—	48,378
Retirement of Series B Preferred stock	—	(144,216)	—
Dividends paid - Non-controlling interest - preferred stock	(22,187)	(20,644)	—
Dividends paid on common and preferred stock	(4,946)	(6,178)	(19,329)
Net cash provided by financing activities	2,065,120	2,250,188	942,727
Net increase in cash and cash equivalents	87,126	75,126	376,382
Cash and cash equivalents at beginning of period	729,920	654,794	278,412
Cash and cash equivalents at end of period	$817,046	$729,920	$