

FEDERAL AGRICULTURAL MORTGAGE CORP

Form 10-Q

August 09, 2016

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

Commission File Number 001-14951

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

(Exact name of registrant as specified in its charter)

Federally chartered instrumentality
of the United States

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

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

(Address of principal executive offices) (Zip code)
(202) 872-7700

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

As of August 1, 2016, the registrant had outstanding 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,939,354 shares of Class C Non-Voting Common Stock.

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PART I

Item 1. Financial Statements

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

	As of June 30, 2016	December 31, 2015
	(in thousands)	
Assets:		
Cash and cash equivalents	\$ 1,764,626	\$ 1,210,084
Investment securities:		
Available-for-sale, at fair value	2,460,679	2,775,025
Trading, at fair value	281	491
Total investment securities	2,460,960	2,775,516
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	4,731,031	4,152,605
Held-to-maturity, at amortized cost	1,388,724	1,274,016
Total Farmer Mac Guaranteed Securities	6,119,755	5,426,621
USDA Securities:		
Available-for-sale, at fair value	1,967,759	1,888,344
Trading, at fair value	24,787	28,975
Total USDA Securities	1,992,546	1,917,319
Loans:		
Loans held for investment, at amortized cost	3,277,522	3,258,413
Loans held for investment in consolidated trusts, at amortized cost	922,666	708,111
Allowance for loan losses	(4,893)	(4,480)
Total loans, net of allowance	4,195,295	3,962,044
Real estate owned, at lower of cost or fair value	1,330	1,369
Financial derivatives, at fair value	8,242	3,816
Interest receivable (includes \$9,454 and \$7,938, respectively, related to consolidated trusts)	106,400	112,700
Guarantee and commitment fees receivable	39,653	40,189
Deferred tax asset, net	30,659	42,916
Prepaid expenses and other assets	103,724	47,780
Total Assets	\$ 16,823,190	\$ 15,540,354
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$ 10,125,269	\$ 9,111,461
Due after one year	4,722,814	4,967,036
Total notes payable	14,848,083	14,078,497
Debt securities of consolidated trusts held by third parties	928,050	713,536
Financial derivatives, at fair value	140,758	77,199
Accrued interest payable (includes \$7,936 and \$6,705, respectively, related to consolidated trusts)	47,906	47,621
Guarantee and commitment obligation	38,115	38,609
Accounts payable and accrued expenses	232,934	29,089
Reserve for losses	2,191	2,083
Total Liabilities	16,238,037	14,986,634

Commitments and Contingencies (Note 6)

Equity:

Preferred stock:

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

Common stock:

Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, \$1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, \$1 par value, no maximum authorization, 8,928,855 shares and 9,155,661 shares outstanding, respectively	8,929	9,156
Additional paid-in capital	117,989	117,862
Accumulated other comprehensive income/(loss), net of tax	12,384	(11,019)
Retained earnings	239,349	231,228
Total Stockholders' Equity	584,941	553,517
Non-controlling interest	212	203
Total Equity	585,153	553,720
Total Liabilities and Equity	\$ 16,823,190	\$ 15,540,354

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	\$6,560	\$3,094	\$13,241	\$5,959
Farmer Mac Guaranteed Securities and USDA Securities	37,299	34,484	72,809	67,606
Loans	33,377	28,814	65,077	56,778
Total interest income	77,236	66,392	151,127	130,343
Total interest expense	42,878	34,528	83,129	67,690
Net interest income	34,358	31,864	67,998	62,653
Provision for loan losses	(364)	(110)	(413)	(186)
Net interest income after provision for loan losses	33,994	31,754	67,585	62,467
Non-interest (loss)/income:				
Guarantee and commitment fees	3,655	3,388	7,281	6,765
(Losses)/gains on financial derivatives and hedging activities	(4,696)	14,389	(11,478)	10,507
Gains on trading securities	394	170	752	532
(Losses)/gains on sale of available-for-sale investment securities	—	—	(9)	6
Losses on sale of real estate owned	—	—	—	(1)
Other income	413	260	514	873
Non-interest (loss)/income	(234)	18,207	(2,940)	18,682
Non-interest expense:				
Compensation and employee benefits	5,611	5,733	11,385	11,426
General and administrative	3,757	3,374	7,283	6,197
Regulatory fees	612	600	1,225	1,200
Real estate owned operating costs, net	—	—	39	(1)
Provision for reserve for losses	94	1,146	108	374
Non-interest expense	10,074	10,853	20,040	19,196
Income before income taxes	23,686	39,108	44,605	61,953
Income tax expense	8,400	13,769	15,735	18,000
Net income	15,286	25,339	28,870	43,953
Less: Net loss/(income) attributable to non-controlling interest	16	119	44	(5,235)
Net income attributable to Farmer Mac	15,302	25,458	28,914	38,718
Preferred stock dividends	(3,296)	(3,296)	(6,591)	(6,591)
Loss on retirement of preferred stock	—	—	—	(8,147)
Net income attributable to common stockholders	\$12,006	\$22,162	\$22,323	\$23,980
Earnings per common share and dividends:				
Basic earnings per common share	\$1.15	\$2.01	\$2.13	\$2.19
Diluted earnings per common share	\$1.13	\$1.94	\$2.07	\$2.11
Common stock dividends per common share	\$0.26	\$0.16	\$0.52	\$0.32

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Net income	\$15,286	\$25,339	\$28,870	\$43,953
Other comprehensive income/(loss) before taxes:				
Net unrealized gains/(losses) on available-for sale securities	52,130	(41,851)	45,753	16,586
Net changes in held-to-maturity securities	(997)	(3,350)	(2,008)	(6,693)
Net unrealized (losses)/gains on cash flow hedges	(2,976)	1,430	(7,739)	1,183
Other comprehensive income/(loss) before tax	48,157	(43,771)	36,006	11,076
Income tax (expense)/benefit related to other comprehensive income	(16,856)	15,320	(12,603)	(3,876)
Other comprehensive income/(loss), net of tax	31,301	(28,451)	23,403	7,200
Comprehensive income/(loss)	46,587	(3,112)	52,273	51,153
Less: comprehensive loss/(income) attributable to non-controlling interest	16	119	44	(5,235)
Comprehensive income/(loss) attributable to Farmer Mac	\$46,603	\$(2,993)	\$52,317	\$45,918

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

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Non-controlling Interest	Total Equity
	(in thousands)								
Balance as of December 31, 2014	8,400	\$204,759	10,937	\$10,937	\$113,559	\$15,533	\$201,013	\$236,028	\$781,829
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	38,718	—	38,718
Attributable to non-controlling interest	—	—	—	—	—	—	—	(119)	(119)
Other comprehensive loss, net of tax	—	—	—	—	—	7,200	—	—	7,200
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(6,591)	—	(6,591)
Common stock	—	—	—	—	—	—	(3,516)	—	(3,516)
Issuance of Class C Common Stock	—	—	102	102	7	—	—	—	109
Stock-based compensation cost	—	—	—	—	1,644	—	—	—	1,644
Other stock-based award activity	—	—	—	—	888	—	—	—	888
Investment in subsidiary - non-controlling interest	—	—	—	—	—	—	—	131	131
Redemption of Farmer Mac II LLC preferred stock	—	—	—	—	—	—	(8,147)	(235,853)	(244,000)
Balance as of June 30, 2015	8,400	\$204,759	11,039	\$11,039	\$116,098	\$22,733	\$221,477	\$187	\$576,293
Balance as of December 31, 2015	8,400	\$204,759	10,687	\$10,687	\$117,862	\$(11,019)	\$231,228	\$203	\$553,720
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	28,914	—	28,914
Attributable to non-controlling interest	—	—	—	—	—	—	—	(44)	(44)

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Other comprehensive loss, net of tax	—	—	—	—	—	23,403	—	—	23,403
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(6,591)	—	(6,591)
Common stock	—	—	—	—	—	—	(5,421)	—	(5,421)
Issuance of Class C Common Stock	—	—	80	80	6	—	—	—	86
Repurchase of Class C Common Stock	—	—	(307)	(307)	—	—	(8,781)	—	(9,088)
Stock-based compensation cost	—	—	—	—	1,788	—	—	—	1,788
Other stock-based award activity	—	—	—	—	(1,667)	—	—	—	(1,667)
Investment in subsidiary - non-controlling interest	—	—	—	—	—	—	—	53	53
Balance as of June 30, 2016	8,400	\$204,759	10,460	\$10,460	\$117,989	\$12,384	\$239,349	\$212	\$585,153

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

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

	For the Six Months Ended	
	June 30, 2016	June 30, 2015
	(in thousands)	
Cash flows from operating activities:		
Net income	\$28,870	\$43,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums, and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Securities	1,035	1,604
Amortization of debt premiums, discounts and issuance costs	16,143	5,870
Net change in fair value of trading securities, hedged assets, and financial derivatives	4,314	(15,619)
Losses/(gains) on sale of available-for-sale investment securities	9	(6)
Loss on sale of real estate owned	—	1
Total provision for losses	521	560
Deferred income taxes	(1,964)	5,657
Stock-based compensation expense	1,788	1,644
Proceeds from repayment of trading investment securities	325	437
Proceeds from repayment of loans purchased as held for sale	37,460	54,728
Net change in:		
Interest receivable	6,300	5,747
Guarantee and commitment fees receivable	536	1,615
Other assets	(54,970)	9,182
Accrued interest payable	285	1,828
Other liabilities	(3,499)	(3,838)
Net cash provided by operating activities	37,153	113,363
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(341,099)	(915,614)
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(1,506,177)	(559,162)
Purchases of loans held for investment	(459,315)	(336,364)
Purchases of defaulted loans	(1,415)	(1,981)
Proceeds from repayment of available-for-sale investment securities	624,402	914,988
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	845,206	236,801
Proceeds from repayment of loans purchased as held for investment	199,357	143,804
Proceeds from sale of available-for-sale investment securities	186,769	74,998
Proceeds from sale of Farmer Mac Guaranteed Securities	278,443	112,440
Payments from sale of real estate owned	—	(1)
Net cash used in investing activities	(173,829)	(330,091)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	48,914,061	38,965,462
Proceeds from issuance of medium-term notes	2,843,542	2,690,604
Payments to redeem discount notes	(48,963,471)	(38,734,464)
Payments to redeem medium-term notes	(2,040,800)	(2,106,715)
Excess tax benefits related to stock-based awards	253	154
Payments to third parties on debt securities of consolidated trusts	(41,259)	(20,641)
Proceeds from common stock issuance	137	1,488

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Common stock repurchased	(9,286) —
Investment in subsidiary - non-controlling interest	53	131
Redemption of Farmer Mac II LLC Preferred Stock	—	(244,000)
Dividends paid - Non-controlling interest - preferred stock	—	(5,415)
Dividends paid on common and preferred stock	(12,012	) (10,107)
Net cash provided by financing activities	691,218	536,497
Net increase in cash and cash equivalents	554,542	319,769
Cash and cash equivalents at beginning of period	1,210,084	1,363,387
Cash and cash equivalents at end of period	\$1,764,626	\$1,683,156

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

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

Table 1.1

	Consolidation of Variable Interest Entities As of June 30, 2016					Total
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	\$922,666	\$	—\$	—\$	—\$	—\$922,666
Debt securities of consolidated trusts held by third parties (1)	928,050	—	—	—	—	928,050
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value (2)	—	33,447	—	30,962	—	64,409
Maximum exposure to loss (3)	—	32,886	—	30,000	—	62,886
Investment securities:						
Carrying value (4)	—	—	—	—	812,501	812,501
Maximum exposure to loss (3) (4)	—	—	—	—	813,063	813,063
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss (3) (5)	466,479	30,962	—	970,000	—	1,467,441
(1) Includes borrower remittances of \$5.4 million. The borrower remittances have not been passed through to third party investors as of June 30, 2016.						
(2) Includes \$0.6 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of \$1.0 million.						
(3) Farmer Mac uses unpaid principal balance and outstanding face amount of investment securities to represent maximum exposure to loss.						
(4) Includes auction-rate certificates, asset-backed securities, and government-sponsored enterprise ("GSE")-guaranteed mortgage-backed securities.						
(5) The amount under the Farm & Ranch line of business relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.						

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

(a) Statements of Cash Flows

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

Table 1.2

	For the Six Months Ended	
	June 30, 2016	June 30, 2015
	(in thousands)	
Non-cash activity:		
Loans acquired and securitized as Farmer Mac Guaranteed Securities	\$278,443	\$112,440
Consolidation of Farm & Ranch Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts and to debt securities of consolidated trusts held by third parties	255,781	112,440

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Purchases of securities - traded, not yet settled	224,990	236,600
Issuance costs on the retirement of Farmer Mac II LLC Preferred Stock	—	8,147

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(b) Earnings Per Common Share

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

Table 1.3

	For the Three Months Ended					
	June 30, 2016			June 30, 2015		
	Net Income	Weighted-Average Shares	\$ per Share	Net Income	Weighted-Average Shares	\$ per Share
(in thousands, except per share amounts)						
Basic EPS						
Net income attributable to common stockholders	\$ 12,006	10,456	\$ 1.15	\$ 22,162	11,010	\$ 2.01
Effect of dilutive securities ⁽¹⁾						
Stock options, SARs and restricted stock	—	158	(0.02)	—	428	(0.07)
Diluted EPS	\$ 12,006	10,614	\$ 1.13	\$ 22,162	11,438	\$ 1.94

For the three months ended June 30, 2016 and 2015, stock options and SARs of 82,052 and 229,693, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they ⁽¹⁾ were anti-dilutive. For the three months ended June 30, 2016 and 2015, contingent shares of non-vested restricted stock of 37,284 and 45,034, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

	For the Six Months Ended					
	June 30, 2016			June 30, 2015		
	Net Income	Weighted-Average Shares	\$ per Share	Net Income	Weighted-Average Shares	\$ per Share
(in thousands, except per share amounts)						
Basic EPS						
Net income attributable to common stockholders	\$ 22,323	10,460	\$ 2.13	\$ 23,980	10,974	\$ 2.19
Effect of dilutive securities ⁽¹⁾						
Stock options, SARs and restricted stock	—	348	(0.06)	—	411	(0.08)
Diluted EPS	\$ 22,323	10,808	\$ 2.07	\$ 23,980	11,385	\$ 2.11

For the six months ended June 30, 2016 and 2015, stock options and SARs of 146,459 and 215,547, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they ⁽¹⁾ were anti-dilutive. For the six months ended June 30, 2016 and 2015, contingent shares of non-vested restricted stock of 37,284 and 37,774, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

(c) Comprehensive Income

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

hedges, net of related taxes.

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

Table 1.4

	As of June 30, 2016				As of June 30, 2015			
	Available-for-Sale Securities	Hold-to-Maturity Securities	Cash Flow Hedges	Total	Available-for-Sale Securities	Hold-to-Maturity Securities	Cash Flow Hedges	Total
	(in thousands)							
For the Three Months Ended:								
Beginning Balance	\$ (14,180)	\$ (1,133)	\$ (3,604)	\$ (18,917)	\$ 47,700	\$ 3,800	\$ (316)	\$ 51,184
Other comprehensive income/(loss) before reclassifications	36,469	—	(2,267)	34,202	(23,936)	—	772	(23,164)
Amounts reclassified from AOCI	(2,585)	(648)	332	(2,901)	(3,266)	(2,178)	157	(5,287)
Net other comprehensive income/(loss)	33,884	(648)	(1,935)	31,301	(27,202)	(2,178)	929	(28,451)
Ending Balance	\$ 19,704	\$ (1,781)	\$ (5,539)	\$ 12,384	\$ 20,498	\$ 1,622	\$ 613	\$ 22,733
For the Six Months Ended								
Beginning Balance	\$ (10,035)	\$ (476)	\$ (508)	\$ (11,019)	\$ 9,716	\$ 5,973	\$ (156)	\$ 15,533
Other comprehensive income/(loss) before reclassifications	34,700	—	(5,662)	29,038	17,407	—	533	17,940
Amounts reclassified from AOCI	(4,961)	(1,305)	631	(5,635)	(6,625)	(4,351)	236	(10,740)
Net other comprehensive income/(loss)	29,739	(1,305)	(5,031)	23,403	10,782	(4,351)	769	7,200
Ending Balance	\$ 19,704	\$ (1,781)	\$ (5,539)	\$ 12,384	\$ 20,498	\$ 1,622	\$ 613	\$ 22,733

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

Table 1.5

	For the Three Months Ended					
	June 30, 2016			June 30, 2015		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income/(loss):						
Available-for-sale-securities:						
Unrealized holding gains/(losses) on available-for-sale-securities	\$56,107	\$19,638	\$36,469	\$(36,826)	\$(12,890)	\$(23,936)
Less reclassification adjustments included in:						
(Losses)/gains on financial derivatives and hedging activities ⁽¹⁾	(4,016)	(1,405)	(2,611)	(4,952)	(1,733)	(3,219)
Other income ⁽²⁾	39	13	26	(73)	(26)	(47)
Total	\$52,130	\$18,246	\$33,884	\$(41,851)	\$(14,649)	\$(27,202)
Held-to-maturity securities:						
Less reclassification adjustments included in:						
Net interest income ⁽³⁾	\$(997)	\$(349)	\$(648)	\$(3,350)	\$(1,172)	\$(2,178)
Total	\$(997)	\$(349)	\$(648)	\$(3,350)	\$(1,172)	\$(2,178)
Cash flow hedges						
Unrealized (losses)/gains on cash flow hedges	\$(3,488)	\$(1,221)	\$(2,267)	\$1,186	\$414	\$772
Less reclassification adjustments included in:						
Net interest income ⁽⁴⁾	512	180	332	244	87	157
Total	\$(2,976)	\$(1,041)	\$(1,935)	\$1,430	\$501	\$929
Other comprehensive income/(loss)	\$48,157	\$16,856	\$31,301	\$(43,771)	\$(15,320)	\$(28,451)

(1) Relates to the amortization of unrealized gains on hedged items prior to the application of fair value hedge accounting.

(2) Represents amortization of deferred gains related to certain available-for-sale USDA Securities and Farmer Mac Guaranteed USDA Securities.

Relates to the amortization of unrealized gains or losses prior to the reclassification of these securities from available-for-sale to held-to-maturity. The amortization of unrealized gains or losses reported in AOCI for held-to-maturity securities will be offset by the amortization of the premium or discount created from the transfer into held-to-maturity securities, which occurred at fair value. These unrealized gains or losses will be recorded over the remaining life of the security with no impact on future net income.

(4) Relates to the recognition of unrealized gains and losses on cash flow hedges recorded in AOCI.

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	For the Six Months Ended					
	June 30, 2016			June 30, 2015		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income:						
Available-for-sale-securities:						
Unrealized holding gains on available-for-sale-securities	\$53,385	\$18,685	\$34,700	\$26,778	\$9,371	\$17,407
Less reclassification adjustments included in:						
(Losses)/gains on financial derivatives and hedging activities ⁽¹⁾	(7,939)	(2,778)	(5,161)	(9,813)	(3,434)	(6,379)
(Losses)/gains on sale of available-for-sale investment securities ⁽²⁾	9	3	6	(6)	(2)	(4)
Other income ⁽³⁾	298	104	194	(373)	(131)	(242)
Total	\$45,753	\$16,014	\$29,739	\$16,586	\$5,804	\$10,782
Held-to-maturity securities:						
Net interest income ⁽⁴⁾	\$(2,008)	\$(703)	\$(1,305)	\$(6,693)	\$(2,342)	\$(4,351)
Total	\$(2,008)	\$(703)	\$(1,305)	\$(6,693)	\$(2,342)	\$(4,351)
Cash flow hedges						
Unrealized (losses)/gains on cash flow hedges	\$(8,710)	\$(3,048)	\$(5,662)	\$820	\$287	\$533
Less reclassification adjustments included in:						
Net interest income ⁽⁵⁾	971	340	631	363	127	236
Total	\$(7,739)	\$(2,708)	\$(5,031)	\$1,183	\$414	\$769
Other comprehensive income	\$36,006	\$12,603	\$23,403	\$11,076	\$3,876	\$7,200

(1) Relates to the amortization of unrealized gains on hedged items prior to the application of fair value hedge accounting.

(2) Represents unrealized gains and losses on sales of available-for-sale investment securities.

(3) Represents amortization of deferred gains related to certain available-for-sale USDA Securities and Farmer Mac Guaranteed USDA Securities.

Relates to the amortization of unrealized gains or losses prior to the reclassification of these securities from available-for-sale to held-to-maturity. The amortization of unrealized gains or losses reported in AOCI for

(4) held-to-maturity securities will be offset by the amortization of the premium or discount created from the transfer into held-to-maturity securities, which occurred at fair value. These unrealized gains or losses will be recorded over the remaining life of the security with no impact on future net income.

(5) Relates to the recognition of unrealized gains and losses on cash flow hedges recorded in AOCI.

(d) New Accounting Standards

In January 2016, the FASB issued Accounting Standards Update ("ASU") 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases," which provides new guidance intended to improve financial reporting about leasing transactions. The ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

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In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which provides new guidance intended to simplify several aspects of accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses," which will require entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will be required to use forward-looking information to better form their credit loss estimates. The ASU will also require enhanced disclosures to help users of financial statements better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Farmer Mac is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

(e) Reclassifications

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

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2. INVESTMENT SECURITIES

The following tables set forth information about Farmer Mac's investment securities as of June 30, 2016 and December 31, 2015:

Table 2.1

	As of June 30, 2016					Fair Value
	Amount Outstanding (in thousands)	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$19,700	\$ —	\$19,700	\$ —	\$(1,970)	\$17,730
Floating rate asset-backed securities	61,070	(228)	60,842	4	(847)	59,999
Floating rate corporate debt securities	10,000	—	10,000	2	—	10,002
Floating rate Government/GSE guaranteed mortgage-backed securities	1,261,876	3,095	1,264,971	2,600	(3,254)	1,264,317
Fixed rate GSE guaranteed mortgage-backed securities ⁽¹⁾	613	2,808	3,421	4,344	—	7,765
Floating rate GSE subordinated debt	70,000	—	70,000	—	(4,896)	65,104
Fixed rate senior agency debt	175,000	(11)	174,989	9	—	174,998
Fixed rate U.S. Treasuries	860,150	(393)	859,757	1,007	—	860,764
Total available-for-sale	2,458,409	5,271	2,463,680	7,966	(10,967)	2,460,679
Trading:						
Floating rate asset-backed securities	1,887	—	1,887	—	(1,606)	281
Total investment securities	\$2,460,296	\$ 5,271	\$2,465,567	\$ 7,966	\$(12,573)	\$2,460,960

⁽¹⁾ Fair value includes \$7.1 million of an interest-only security with a notional amount of \$147.3 million.

	As of December 31, 2015					Fair Value
	Amount Outstanding (in thousands)	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$46,500	\$ —	\$46,500	\$ —	\$(1,576)	\$44,924
Floating rate asset-backed securities	74,744	(253)	74,491	14	(776)	73,729
Floating rate corporate debt securities	10,000	—	10,000	—	(9)	9,991
Fixed rate corporate debt securities	10,000	(1)	9,999	—	(5)	9,994
Floating rate Government/GSE guaranteed mortgage-backed securities	1,353,495	3,515	1,357,010	2,768	(4,319)	1,355,459
Fixed rate GSE guaranteed mortgage-backed securities ⁽¹⁾	692	3,117	3,809	4,095	—	7,904
Floating rate GSE subordinated debt	70,000	—	70,000	—	(3,751)	66,249
Fixed rate senior agency debt	214,000	(25)	213,975	12	—	213,987
Fixed rate U.S. Treasuries	993,680	(417)	993,263	2	(477)	992,788

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Total available-for-sale	2,773,111	5,936	2,779,047	6,891	(10,913)	2,775,025
Trading:						
Floating rate asset-backed securities	2,211	—	2,211	—	(1,720)	491
Total investment securities	\$2,775,322	\$ 5,936	\$2,781,258	\$ 6,891	\$(12,633)	\$2,775,516

(1) Fair value includes \$7.2 million of an interest-only security with a notional amount of \$148.5 million.

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Farmer Mac did not sell any securities from its available-for-sale investment portfolio during the three months ended June 30, 2016 and 2015. During the six months ended June 30, 2016, Farmer Mac received proceeds of \$186.8 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of \$0.1 million and gross realized losses of \$0.1 million, compared to proceeds of \$75.0 million for the same period in 2015, resulting in gross realized gains of 6,000.

As of June 30, 2016 and December 31, 2015, unrealized losses on available-for-sale investment securities were as follows:

Table 2.2

	As of June 30, 2016			
	Available-for-Sale Securities			
	Unrealized loss position		Unrealized loss position	
	for	for	for	for
	less than 12 months	more than 12 months	less than 12 months	more than 12 months
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$—	\$—	\$ 17,730	\$(1,970)
Floating rate asset-backed securities	40,217	(494)	9,061	(353)
Floating rate Government/GSE guaranteed mortgage-backed securities	473,462	(2,397)	135,301	(857)
Floating rate GSE subordinated debt	—	—	65,104	(4,896)
Total	\$513,679	\$(2,891)	\$ 227,196	\$(8,076)
	As of December 31, 2015			
	Available-for-Sale Securities			
	Unrealized loss position		Unrealized loss position	
	for	for	for	for
	less than 12 months	more than 12 months	less than 12 months	more than 12 months
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$—	\$—	\$ 18,124	\$(1,576)
Floating rate asset-backed securities	44,552	(464)	9,975	(312)
Floating rate corporate debt securities	4,991	(9)	—	—
Fixed rate corporate debt securities	9,994	(5)	—	—
Floating rate Government/GSE guaranteed mortgage-backed securities	794,959	(3,408)	100,192	(911)
Floating rate GSE subordinated debt	—	—	66,249	(3,751)
Fixed rate U.S. Treasuries	944,842	(477)	—	—
Total	\$1,799,338	\$(4,363)	\$ 194,540	\$(6,550)

The unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to June 30, 2016 and December 31, 2015, as applicable. The resulting decrease in fair values reflects an increase in the perceived risk by the financial markets related to those securities. As of June 30, 2016, all of the investment securities in an unrealized loss position either were backed by the full faith and credit of the U.S.

government or had credit ratings of at least "AA+," except one that was rated "A-." As of December 31, 2015, all of the investment securities in an unrealized loss position either were backed by the full faith and credit of the U.S. government or had credit ratings of at least "AA+," except

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three that were rated "A-." The unrealized losses were on 56 and 69 individual investment securities as of June 30, 2016 and December 31, 2015, respectively.

As of June 30, 2016, 17 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of \$8.1 million. As of December 31, 2015, 17 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of \$6.6 million. Securities in unrealized loss positions for 12 months or longer have a fair value as of June 30, 2016 that is, on average, approximately 97 percent of their amortized cost basis. Farmer Mac believes that all of these unrealized losses are recoverable within a reasonable period of time by way of maturity or changes in credit spreads. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities represents other-than-temporary impairment as of June 30, 2016 and December 31, 2015.

Farmer Mac did not own any held-to-maturity investment securities as of June 30, 2016 and December 31, 2015. As of June 30, 2016, Farmer Mac owned trading investment securities with an amortized cost of \$1.9 million, a fair value of \$0.3 million, and a weighted average yield of 4.53 percent. As of December 31, 2015, Farmer Mac owned trading investment securities with an amortized cost of \$2.2 million, a fair value of \$0.5 million, and a weighted average yield of 4.41 percent.

The amortized cost, fair value, and weighted average yield of available-for-sale investment securities by remaining contractual maturity as of June 30, 2016 are set forth below. Asset-backed and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

Table 2.3

	As of June 30, 2016		
	Available-for-Sale Securities		
	Amortized Cost	Fair Value	Weighted- Average Yield
	(dollars in thousands)		
Due within one year	\$1,039,762	\$1,040,780	0.57%
Due after one year through five years	151,635	151,911	1.19%
Due after five years through ten years	512,451	511,166	1.03%
Due after ten years	759,832	756,822	1.10%
Total	\$2,463,680	\$2,460,679	0.89%

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3. FARMER MAC GUARANTEED SECURITIES AND USDA SECURITIES

The following tables set forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Securities as of June 30, 2016 and December 31, 2015:

Table 3.1

	As of June 30, 2016					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	\$ 1,391,203	\$ (2,479)	\$ 1,388,724	\$ 15,468	\$ (143)	\$ 1,404,049
Available-for-sale:						
AgVantage	\$ 4,715,099	\$ —	\$ 4,715,099	\$ 54,623	\$ (72,138)	\$ 4,697,584
Farmer Mac Guaranteed USDA Securities	32,886	(301)	32,585	862	—	33,447
Total Farmer Mac Guaranteed Securities	4,747,985	(301)	4,747,684	55,485	(72,138)	4,731,031
USDA Securities	1,873,805	1,867	1,875,672	92,104	(17)	1,967,759
Total available-for-sale	\$ 6,621,790	\$ 1,566	\$ 6,623,356	\$ 147,589	\$ (72,155)	\$ 6,698,790
Trading:						
USDA Securities	\$ 22,705	\$ 1,533	\$ 24,238	\$ 601	\$ (52)	\$ 24,787
	As of December 31, 2015					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	\$ 1,274,431	\$ (415)	\$ 1,274,016	\$ 7,801	\$ —	\$ 1,281,817
Available-for-sale:						
AgVantage	\$ 4,164,952	\$ —	\$ 4,164,952	\$ 26,831	\$ (70,539)	\$ 4,121,244
Farmer Mac Guaranteed USDA Securities	31,554	(333)	31,221	140	—	31,361
Total Farmer Mac Guaranteed Securities	4,196,506	(333)	4,196,173	26,971	(70,539)	4,152,605
USDA Securities	1,849,322	1,890	1,851,212	37,160	(28)	1,888,344
Total available-for-sale	\$ 6,045,828	\$ 1,557	\$ 6,047,385	\$ 64,131	\$ (70,567)	\$ 6,040,949
Trading:						
USDA Securities	\$ 27,129	\$ 1,934	\$ 29,063	\$ 125	\$ (213)	\$ 28,975

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As of June 30, 2016 and December 31, 2015, unrealized losses on held-to-maturity and available-for-sale on-balance sheet Farmer Mac Guaranteed Securities and USDA Securities were as follows:

Table 3.2

	As of June 30, 2016		As of June 30, 2016	
	Held-to-Maturity and Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Held-to-maturity:				
AgVantage	\$ 154,857	\$ (143)	\$ —	\$ —
Available-for-sale:				
AgVantage	\$ 398,252	\$ (1,763)	\$ 1,891,826	\$ (70,375)
USDA Securities	—	—	103,665	(17)
Total available-for-sale	\$ 398,252	\$ (1,763)	\$ 1,995,491	\$ (70,392)

	As of December 31, 2015		As of December 31, 2015	
	Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Available-for-sale:				
AgVantage	\$ 1,193,866	\$ (41,835)	\$ 1,104,981	\$ (28,704)
USDA Securities	—	—	103,010	(28)
Total available-for-sale	\$ 1,193,866	\$ (41,835)	\$ 1,207,991	\$ (28,732)

The unrealized losses presented above are principally due to higher interest rates from the date of acquisition to June 30, 2016 and December 31, 2015, as applicable. The credit exposure related to Farmer Mac's USDA Guarantees line of business is covered by the full faith and credit guarantee of the United States. The unrealized losses from AgVantage securities were on 22 available-for-sale securities as of June 30, 2016. There were two held-to-maturity AgVantage securities with an unrealized loss as of June 30, 2016. The unrealized losses from AgVantage securities were on 22 available-for-sale securities as of December 31, 2015. There were no unrealized losses from held-to-maturity securities as of December 31, 2015. As of June 30, 2016, 16 available-for-sale AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of \$70.4 million. As of December 31, 2015, 8 available-for-sale AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of \$28.7 million. Farmer Mac has concluded that none of the unrealized losses on its held-to-maturity Farmer Mac Guaranteed Securities and available-for-sale Farmer Mac Guaranteed Securities and USDA Securities are other-than-temporary impairment as of either June 30, 2016 or December 31, 2015. Farmer Mac does not intend to sell these securities, and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

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During the three and six months ended June 30, 2016 and 2015, Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Securities.

The amortized cost, fair value, and weighted average yield of available-for-sale and held-to-maturity Farmer Mac Guaranteed Securities and USDA Securities by remaining contractual maturity as of June 30, 2016 are set forth below. The balances presented are based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

Table 3.3

As of June 30, 2016				
Available-for-Sale Securities				
	Amortized Cost	Fair Value	Weighted- Average Yield	
(dollars in thousands)				
Due within one year	\$367,261	\$367,986	1.32	%
Due after one year through five years	2,320,284	2,333,066	1.53	%
Due after five years through ten years	1,448,102	1,486,022	2.20	%
Due after ten years	2,487,709	2,511,716	2.60	%
Total	\$6,623,356	\$6,698,790	2.07	%
As of June 30, 2016				
Held-to-Maturity Securities				
	Amortized Cost	Fair Value	Weighted- Average Yield	
(dollars in thousands)				
Due within one year	\$838,099	\$838,742	2.19	%
Due after one year through five years	513,538	525,345	2.78	%
Due after five years through ten years	37,087	39,962	3.37	%
Total	\$1,388,724	\$1,404,049	2.45	%

As of June 30, 2016, Farmer Mac owned trading USDA Securities with an amortized cost of \$24.2 million, a fair value of \$24.8 million, and a weighted average yield of 5.49 percent. As of December 31, 2015, Farmer Mac owned trading USDA Securities with an amortized cost of \$29.1 million, a fair value of \$29.0 million, and a weighted average yield of 5.53 percent.

4. FINANCIAL DERIVATIVES

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows, or debt issuance, and not for trading or speculative purposes. Certain financial derivatives are designated as fair value hedges of fixed rate assets, primarily classified as available-for-sale, to protect against fair value changes in the assets related to a benchmark interest rate (i.e., LIBOR). Other financial derivatives are designated as cash flow hedges to mitigate the volatility of future interest rate payments on floating rate debt.

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All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability. Changes in the fair values of financial derivatives not designated as cash flow hedges are reported in "(Losses)/gains on financial derivatives and hedging activities" in the consolidated statements of operations. For financial derivatives designated in fair value hedging relationships, changes in the fair values of the hedged items, which are primarily fixed rate AgVantage securities, related to the risk being hedged are also reported in "(Losses)/gains on financial derivatives and hedging activities" in the consolidated statements of operations. Interest accruals on derivatives designated in fair value hedging relationships are recorded in "Net interest income" in the consolidated statements of operations. For the three and six months ended June 30, 2016, the amount of interest expense recognized on those derivatives was \$4.1 million and \$8.9 million, respectively. For the three and six months ended June 30, 2015, the amount of interest expense recognized on those derivatives was \$5.6 million and \$11.1 million, respectively. For financial derivatives designated in cash flow hedging relationships, the effective portion of the derivative gain/loss is recorded in other comprehensive income and any ineffective portion is recognized immediately in "(Losses)/gains on financial derivatives and hedging activities" in the consolidated statements of operations. Because the hedging instrument is an interest rate swap and the hedged forecasted transactions are future interest payments on variable-rate debt, amounts recorded in other comprehensive income are reclassified to "Total interest expense" in conjunction with the recognition of interest expense on the debt. During the three and six months ended June 30, 2016, \$0.5 million and \$1.0 million, respectively, was reclassified out of other comprehensive income into interest expense. For for the three and six months ended June 30, 2015, \$0.2 million and \$0.4 million, respectively, was reclassified out of other comprehensive income into interest expense. As of June 30, 2016, Farmer Mac expects to reclassify \$2.1 million pretax, or \$1.3 million after-tax, from accumulated other comprehensive income, net of tax, to earnings over the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to June 30, 2016. During the three and six months ended June 30, 2016 and 2015, there were no gains or losses from interest rate swaps designated as cash flow hedges reclassified to earnings because it became probable the original forecasted transaction would not occur.

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The following tables summarize information related to Farmer Mac's financial derivatives on a gross basis without giving consideration to master netting arrangements as of June 30, 2016 and December 31, 2015 and the effects of financial derivatives on the consolidated statements of operations for the three and six months ended June 30, 2016 and 2015:

Table 4.1

	As of June 30, 2016			Weighted- Average Pay Rate	Weighted- Average Receive Rate	Weighted- Average Forward Price	Weighted- Average Remaining Life (in years)
	Notional Amount	Fair Value Asset	(Liability)				
(dollars in thousands)							
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	\$1,391,816	\$6	\$(67,960)	1.83%	0.64%		5.24
Receive fixed non-callable	30,000	862	—	0.78%	1.75%		3.96
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	157,000	—	(9,360)	2.26%	0.86%		7.21
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	442,611	—	(61,957)	4.08%	0.64%		6.31
Receive fixed non-callable	6,035,677	7,367	(1,007)	0.51%	0.60%		0.53
Receive fixed callable	30,000	—	(17)	0.57%	0.58%		0.83
Basis swaps	400,000	7	(219)	0.61%	0.58%		0.95
Agency forwards	17,586	—	(94)			101.03	
Treasury futures	28,100	—	(309)			131.89	
Credit valuation adjustment		—	165				
Total financial derivatives	\$8,532,790	\$8,242	\$(140,758)				
Collateral pledged		—	95,144				
Net amount		\$8,242	\$(45,614)				

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	As of December 31, 2015			Weighted- Average Pay Rate	Weighted- Average Receive Rate	Weighted- Average Forward Price	Weighted- Average Remaining Life (in years)
	Notional Amount	Fair Value					
	Asset	(Liability)					
(dollars in thousands)							
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	\$ 1,276,285	\$ 949	\$(26,703)	2.35%	0.37%		4.16
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	119,000	8	(1,381)	2.25%	0.64%		7.03
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	454,041	229	(44,528)	3.73%	0.33%		6.02
Receive fixed non-callable	5,590,638	2,384	(4,205)	0.31%	0.47%		0.57
Receive fixed callable	230,000	—	(421)	0.41%	0.91%		2.26
Basis swaps	725,000	232	(131)	0.22%	0.38%		2.33
Treasury futures	35,000	19	—			125.96	
Credit valuation adjustment		(5)	) 170				
Total financial derivatives	\$ 8,429,964	\$ 3,816	\$(77,199)				
Collateral pledged		—	37,986				
Net amount		\$ 3,816	\$(39,213)				

Table 4.2

	(Losses)/gains on financial derivatives and hedging activities			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Fair value hedges:				
Interest rate swaps ⁽¹⁾	\$(14,440)	\$ 14,075	\$(41,339)	\$ 8,316
Hedged items	16,541	(11,354)	46,329	(2,478)
Gains on fair value hedges	2,101	2,721	4,990	5,838
Cash flow hedges:				
Loss recognized (ineffective portion)	(105)	) (150)	(254)	) (366)
Losses on cash flow hedges	(105)	) (150)	(254)	) (366)
No hedge designation:				
Interest rate swaps	(6,345)	) 11,948	(14,487)	) 6,207
Agency forwards	10	(356)	(868)	(1,142)
Treasury futures	(357)	) 226	(859)	) (30)
(Losses)/gains on financial derivatives not designated in hedging relationships	(6,692)	) 11,818	(16,214)	) 5,035

(Losses)/gains on financial derivatives and hedging activities	\$(4,696)	\$14,389	\$(11,478)	\$10,507
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Included in the assessment of hedge effectiveness as of June 30, 2016, but excluded from the amounts in the table, were losses of \$1.8 million and \$3.3 million for the three and six months ended June 30, 2016, attributable to the fair value of the swaps at the inception of the hedging relationship. Accordingly, the amounts recognized as hedge

(1) ineffectiveness for the three and six months ended June 30, 2016 were gains of \$0.3 million and \$1.7 million, respectively. The comparable amounts as of June 30, 2015 were losses of \$2.9 million and \$5.8 million for the three and six months ended June 30, 2015, attributable to the fair value of the swaps at the inception of the hedging relationship and, accordingly, losses of \$0.2 million and gains of \$0.1 million for the three and six months ended June 30, 2015, attributable to hedge ineffectiveness.

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As of June 30, 2016 and December 31, 2015, Farmer Mac's credit exposure to interest rate swap counterparties, excluding netting arrangements and any adjustment for nonperformance risk, but including accrued interest, was \$15.6 million and \$6.4 million, respectively; however, including netting arrangements and accrued interest, Farmer Mac's credit exposure was zero and \$47,000 as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, Farmer Mac held no cash as collateral for its derivatives in net asset positions and had no uncollateralized net asset positions. As of December 31, 2015, Farmer Mac held no cash collateral for its derivatives in net asset positions, resulting in uncollateralized net asset positions of \$47,000.

As of June 30, 2016 and December 31, 2015, the fair value of Farmer Mac's derivatives in a net liability position including accrued interest but excluding netting arrangements and any adjustment for nonperformance risk, was \$152.3 million and \$90.1 million, respectively; however, including netting arrangements and accrued interest, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level, was \$135.1 million and \$83.2 million as of June 30, 2016 and December 31, 2015, respectively. Farmer Mac posted cash of \$95.1 million and no investment securities as of June 30, 2016 and posted cash of \$38.0 million and no investment securities as of December 31, 2015. Farmer Mac records posted cash as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of prepaid expenses and other assets. Any investment securities posted as collateral are included in the investment securities balances on the consolidated balance sheets. If Farmer Mac had breached certain provisions of the derivative contracts as of June 30, 2016 and December 31, 2015, it could have been required to settle its obligations under the agreements or post additional collateral of \$40.0 million and \$45.2 million, respectively. As of June 30, 2016 and December 31, 2015, there were no financial derivatives in a net payable position where Farmer Mac was required to pledge collateral which the counterparty had the right to sell or repledge.

For certain derivatives, Farmer Mac clears interest rate swaps through a clearinghouse. Farmer Mac posts initial and variation margin to the clearinghouses through which centrally-cleared derivatives and futures contracts are traded. These collateral postings expose Farmer Mac to institutional credit risk in the event that either the clearinghouse or the futures commission merchant that Farmer Mac uses to post collateral to the clearinghouse fails to meet its obligations. Conversely, the use of centrally-cleared derivatives mitigates Farmer Mac's credit risk to individual counterparties because clearinghouses assume the credit risk among counterparties in centrally-cleared derivatives transactions. Of Farmer Mac's \$8.5 billion notional amount of interest rate swaps outstanding as of June 30, 2016, \$7.5 billion were cleared through swap clearinghouses. Of Farmer Mac's \$8.4 billion notional amount of interest rate swaps outstanding as of December 31, 2015, \$6.2 billion were cleared through swap clearinghouses.

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5. LOANS AND ALLOWANCE FOR LOSSES

Loans

Farmer Mac classifies loans as either held for investment or held for sale. Loans held for investment are recorded at the unpaid principal balance, net of unamortized premium or discount and other cost adjustments. Loans held for sale are reported at the lower of cost or fair value determined on a pooled basis. As of June 30, 2016 and December 31, 2015, Farmer Mac had no loans held for sale. The following table displays the composition of the loan balances as of June 30, 2016 and December 31, 2015:

Table 5.1

	As of June 30, 2016			As of December 31, 2015		
	Unsecuritized	In Consolidated	Total	Unsecuritized	In Consolidated	Total
	Trusts			Trusts		
	(in thousands)					
Farm & Ranch	\$2,265,932	\$ 922,666	\$3,188,598	\$2,249,864	\$ 708,111	\$2,957,975
Rural Utilities	1,001,769	—	1,001,769	1,008,126	—	1,008,126
Total unpaid principal balance ⁽¹⁾	3,267,701	922,666	4,190,367	3,257,990	708,111	3,966,101
Unamortized premiums, discounts and other cost basis adjustments	9,821	—	9,821	423	—	423
Total loans	3,277,522	922,666	4,200,188	3,258,413	708,111	3,966,524
Allowance for loan losses	(4,038)	(855)	(4,893)	(3,736)	(744)	(4,480)
Total loans, net of allowance	\$3,273,484	\$ 921,811	\$4,195,295	\$3,254,677	\$ 707,367	\$3,962,044

⁽¹⁾ Unpaid principal balance is the basis of presentation in disclosures of outstanding balances for Farmer Mac's lines of business.

Allowance for Losses

Farmer Mac maintains an allowance for losses presented in two components on its consolidated balance sheets: (1) an allowance for loan losses to account for estimated probable losses on loans held, and (2) a reserve for losses to account for estimated probable losses on loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities. As of June 30, 2016 and December 31, 2015, Farmer Mac's total allowances for losses were \$7.1 million and \$6.6 million, respectively. See Note 6 for more information about off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs.

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The following is a summary of the changes in the total allowance for losses for the three and six months months ended June 30, 2016 and 2015:

Table 5.2

	As of June 30, 2016			As of June 30, 2015		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
(in thousands)						
For the Three Months Ended:						
Beginning Balance	\$4,529	\$ 2,097	\$ 6,626	\$5,940	\$ 3,491	\$ 9,431
Provision for losses	364	94	458	110	1,146	1,256
Charge-offs	—	—	—	(111)	—	(111)
Ending Balance	\$4,893	\$ 2,191	\$ 7,084	\$5,939	\$ 4,637	\$ 10,576
For the Six Months Ended:						
Beginning Balance	\$4,480	\$ 2,083	\$ 6,563	\$5,864	\$ 4,263	\$ 10,127
Provision for losses	413	108	521	186	374	560
Charge-offs	—	—	—	(111)	—	(111)
Ending Balance	\$4,893	\$ 2,191	\$ 7,084	\$5,939	\$ 4,637	\$ 10,576

During second quarter 2016, Farmer Mac recorded provisions to its allowance for loan losses of \$0.4 million and provisions to its reserve for losses of \$0.1 million. The provisions to the allowance for loan losses recorded during second quarter 2016 were attributable to the establishment of a specific reserve for a long-standing impaired permanent planting loan due to collateral shortfalls relative to the unpaid principal balance and an increase in the specific allowance for on-balance sheet impaired loans resulting from a modest increase in the outstanding balance of such loans. The provisions to the reserve for losses recorded during the three months ended June 30, 2016 were attributable to an increase in the general allowance due to downgrades in risk rating on certain unimpaired crop loans and permanent planting loans underlying LTSPCs. The provisions were partially offset by a decrease in the general allowance of Agricultural Storage and Processing loans and Agricultural Storage and Processing loans underlying LTSPCs due to paydowns of these loans. Farmer Mac recorded no charge-offs to its allowance for loan losses during second quarter 2016.

During second quarter 2015, Farmer Mac recorded provisions to its allowance for loan losses of \$0.1 million and provisions to its reserve for losses of \$1.1 million, primarily related to a specific allowance for two Agricultural Storage and Processing loans underlying an LTSPC that financed one canola facility. The establishment of a specific allowance for these loans was due to a downgrade in risk rating resulting from collateral shortfalls relative to the unpaid principal balance for such loans. Farmer Mac recorded \$0.1 million of charge-offs to its allowance for loan losses during second quarter 2015.

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The following tables present the changes in the total allowance for losses for the three and six months ended June 30, 2016 and 2015 by commodity type:

Table 5.3

	June 30, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	\$2,892	\$ 937	\$ 1,763	\$ 444	\$ 587	\$ 3	\$6,626
Provision for/(release of) losses	219	207	143	3	(114)	—	458
Ending Balance	\$3,111	\$ 1,144	\$ 1,906	\$ 447	\$ 473	\$ 3	\$7,084
For the Six Months Ended:							
Beginning Balance	\$2,791	\$ 931	\$ 1,781	\$ 408	\$ 649	\$ 3	\$6,563
Provision for/(release of) losses	320	213	125	39	(176)	—	521
Ending Balance	\$3,111	\$ 1,144	\$ 1,906	\$ 447	\$ 473	\$ 3	\$7,084
	June 30, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	\$2,640	\$ 2,284	\$ 1,343	\$ 459	\$ 2,698	\$ 7	\$9,431
Provision for/(release of) losses	13	(63)	417	85	804	—	1,256
Charge-offs	—	—	—	(111)	—	—	(111)
Ending Balance	\$2,653	\$ 2,221	\$ 1,760	\$ 433	\$ 3,502	\$ 7	\$10,576
For the Six Months Ended							
Beginning Balance	\$2,519	\$ 2,159	\$ 1,423	\$ 467	\$ 3,552	\$ 7	\$10,127
Provision for/(release of) losses	134	62	337	77	(50)	—	560
Charge-offs	—	—	—	(111)	—	—	(111)
Ending Balance	\$2,653	\$ 2,221	\$ 1,760	\$ 433	\$ 3,502	\$ 7	\$10,576

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The following tables present the unpaid principal balances of loans held and loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities and the related total allowance for losses by impairment method and commodity type as of June 30, 2016 and December 31, 2015:

Table 5.4

	As of June 30, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	\$2,016,360	\$474,431	\$485,740	\$138,786	\$11,843	\$3,155	\$3,130,315
Off-balance sheet	1,275,541	458,343	727,971	117,304	41,960	4,964	2,626,083
Total	\$3,291,901	\$932,774	\$1,213,711	\$256,090	\$53,803	\$8,119	\$5,756,398
Individually evaluated for impairment:							
On-balance sheet	\$22,481	\$22,001	\$6,301	\$7,500	\$—	\$—	\$58,283
Off-balance sheet	6,227	3,123	5,584	918	—	—	15,852
Total	\$28,708	\$25,124	\$11,885	\$8,418	\$—	\$—	\$74,135
Total Farm & Ranch loans:							
On-balance sheet	\$2,038,841	\$496,432	\$492,041	\$146,286	\$11,843	\$3,155	\$3,188,598
Off-balance sheet	1,281,768	461,466	733,555	118,222	41,960	4,964	2,641,935
Total	\$3,320,609	\$957,898	\$1,225,596	\$264,508	\$53,803	\$8,119	\$5,830,533
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	\$1,957	\$380	\$714	\$164	\$59	\$—	\$3,274
Off-balance sheet	433	260	298	57	414	3	1,465
Total	\$2,390	\$640	\$1,012	\$221	\$473	\$3	\$4,739
Individually evaluated for impairment:							
On-balance sheet	\$511	\$476	\$434	\$198	\$—	\$—	\$1,619
Off-balance sheet	210	28	460	28	—	—	726
Total	\$721	\$504	\$894	\$226	\$—	\$—	\$2,345
Total Farm & Ranch loans:							
On-balance sheet	\$2,468	\$856	\$1,148	\$362	\$59	\$—	\$4,893
Off-balance sheet	643	288	758	85	414	3	2,191
Total	\$3,111	\$1,144	\$1,906	\$447	\$473	\$3	\$7,084

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	As of December 31, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	\$1,911,039	\$433,654	\$444,320	\$92,712	\$15,944	\$3,199	\$2,900,868
Off-balance sheet	1,313,872	483,473	777,663	110,378	56,208	7,142	2,748,736
Total	\$3,224,911	\$917,127	\$1,221,983	\$203,090	\$72,152	\$10,341	\$5,649,604
Individually evaluated for impairment:							
On-balance sheet	\$12,803	\$21,247	\$5,958	\$7,261	\$9,838	\$—	\$57,107
Off-balance sheet	5,937	3,037	8,840	774	—	—	18,588
Total	\$18,740	\$24,284	\$14,798	\$8,035	\$9,838	\$—	\$75,695
Total Farm & Ranch loans:							
On-balance sheet	\$1,923,842	\$454,901	\$450,278	\$99,973	\$25,782	\$3,199	\$2,957,975
Off-balance sheet	1,319,809	486,510	786,503	111,152	56,208	7,142	2,767,324
Total	\$3,243,651	\$941,411	\$1,236,781	\$211,125	\$81,990	\$10,341	\$5,725,299
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	\$1,968	\$434	\$702	\$116	\$167	\$—	\$3,387
Off-balance sheet	347	137	292	65	482	3	1,326
Total	\$2,315	\$571	\$994	\$181	\$649	\$3	\$4,713
Individually evaluated for impairment:							
On-balance sheet	\$290	\$218	\$384	\$201	\$—	\$—	\$1,093
Off-balance sheet	186	142	403	26	—	—	757
Total	\$476	\$360	\$787	\$227	\$—	\$—	\$1,850
Total Farm & Ranch loans:							
On-balance sheet	\$2,258	\$652	\$1,086	\$317	\$167	\$—	\$4,480
Off-balance sheet	533	279	695	91	482	3	2,083
Total	\$2,791	\$931	\$1,781	\$408	\$649	\$3	\$6,563

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The following tables present by commodity type the unpaid principal balances, recorded investment, and specific allowance for losses related to impaired loans and the recorded investment in loans on nonaccrual status as of June 30, 2016 and December 31, 2015:

Table 5.5

	As of June 30, 2016					
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other Total
	(in thousands)					
Impaired Loans:						
With no specific allowance:						
Recorded investment	\$2,101	\$13,840	\$1,832	\$1,671	\$—	—\$19,444
Unpaid principal balance	2,027	13,804	1,832	1,665	—	—19,328
With a specific allowance:						
Recorded investment ⁽¹⁾	27,126	11,409	9,992	6,776	—	—55,303
Unpaid principal balance	26,681	11,320	10,053	6,753	—	—54,807
Associated allowance	721	504	894	226	—	—2,345
Total:						
Recorded investment	29,227	25,249	11,824	8,447	—	—74,747
Unpaid principal balance	28,708	25,124	11,885	8,418	—	—74,135
Associated allowance	721	504	894	226	—	—2,345
Recorded investment of loans on nonaccrual status ⁽²⁾	\$8,629	\$14,903	\$3,329	\$5,691	\$—	—\$32,552

Impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets

⁽¹⁾ and historical statistics on \$52.1 million (70 percent) of impaired loans as of June 30, 2016, which resulted in a specific reserve of \$1.3 million.

⁽²⁾ Includes \$17.4 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

	As of December 31, 2015					
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other Total
	(in thousands)					
Impaired Loans:						
With no specific allowance:						
Recorded investment	\$3,772	\$12,340	\$5,644	\$1,851	\$—	—\$23,607
Unpaid principal balance	3,720	12,346	5,645	1,851	—	—23,562
With a specific allowance:						
Recorded investment ⁽¹⁾	15,103	11,939	9,050	6,185	9,838	—52,115
Unpaid principal balance	15,020	11,938	9,153	6,184	9,838	—52,133
Associated allowance	476	360	787	227	—	—1,850
Total:						
Recorded investment	18,875	24,279	14,694	8,036	9,838	—75,722
Unpaid principal balance	18,740	24,284	14,798	8,035	9,838	—75,695
Associated allowance	476	360	787	227	—	—1,850
	\$5,105	\$16,546	\$4,313	\$5,870	\$9,838	—\$41,672

Recorded investment of loans on nonaccrual status⁽²⁾

Impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets⁽¹⁾ and historical statistics on \$46.4 million (61 percent) of impaired loans as of December 31, 2015, which resulted in a specific reserve of \$1.0 million.

⁽²⁾ Includes \$14.7 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

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The following table presents by commodity type the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2016 and 2015:

Table 5.6

	June 30, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	\$28,732	\$ 24,133	\$ 14,883	\$ 8,772	\$ —	\$ —	—\$76,520
Income recognized on impaired loans	60	509	133	105	—	—	807
For the Six Months Ended:							
Average recorded investment in impaired loans	\$26,121	\$ 29,673	\$ 13,906	\$ 9,111	\$ 7,368	\$ —	—\$86,179
Income recognized on impaired loans	62	553	148	177	—	—	940
	June 30, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	\$24,392	\$ 42,347	\$ 14,247	\$ 10,924	\$ 6,750	\$ —	—\$98,660
Income recognized on impaired loans	58	142	49	92	—	—	341
For the Six Months Ended:							
Average recorded investment in impaired loans	\$21,471	\$ 41,407	\$ 14,683	\$ 11,733	\$ 4,500	\$ —	—\$93,794
Income recognized on impaired loans	340	225	197	150	—	—	912

For the three and six months ended June 30, 2016, there were no troubled debt restructurings ("TDRs"). For the three and six months ended June 30, 2015, the recorded investment of loans determined to be TDRs was \$1.1 million both before and after restructuring. As of June 30, 2016 and 2015, there were no TDRs identified during the previous 12 months that were in default under the modified terms. The impact of TDRs on Farmer Mac's allowance for loan losses was immaterial for the three and six months ended June 30, 2016 and 2015.

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records 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. In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days delinquent (depending on the provisions of the applicable agreement) upon the request of the counterparty. Subsequent to the purchase, these defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment.

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Net credit losses and 90-day delinquencies as of and for the periods indicated for loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs are presented in the table below. As of June 30, 2016, there were no delinquencies and no probable losses inherent in Farmer Mac's Rural Utilities loan portfolio and Farmer Mac had not experienced credit losses on any Rural Utilities loans.

Table 5.8

	90-Day Delinquencies ⁽¹⁾		Net Credit Losses For the Six Months Ended	
As of	June 30, 2016	December 31, 2015	June 30, 2016	June 30, 2015
(in thousands)				
On-balance sheet assets:				
Farm & Ranch:				
Loans	\$ 15,180	\$ 26,935	\$ 39	\$ 112
Total on-balance sheet	\$ 15,180	\$ 26,935	\$ 39	\$ 112
Off-balance sheet assets:				
Farm & Ranch:				
LTSPCs	\$ 6,913	\$ 5,201	\$ —	\$ —
Total off-balance sheet	\$ 6,913	\$ 5,201	\$ —	\$ —
Total	\$ 22,093	\$ 32,136	\$ 39	\$ 112

Includes loans and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs that are

⁽¹⁾ 90 days or more past due, in foreclosure, or in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

Of the \$15.2 million of on-balance sheet loans reported as 90-day delinquencies as of June 30, 2016, \$0.3 million were loans subject to "removal-of-account" provisions. Of the \$26.9 million of on-balance sheet loans reported as 90-day delinquencies as of December 31, 2015, none were loans subject to "removal-of-account" provisions.

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Credit Quality Indicators

The following tables present credit quality indicators related to Farm & Ranch loans held and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities as of June 30, 2016 and December 31, 2015:

Table 5.9

	As of June 30, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade ⁽¹⁾							
On-balance sheet:							
Acceptable	\$ 1,982,541	\$ 473,353	\$ 453,701	\$ 136,174	\$ 11,843	\$ 3,155	\$ 3,060,767
Special mention ⁽²⁾	33,819	1,078	32,039	2,612	—	—	69,548
Substandard ⁽³⁾	22,481	22,001	6,301	7,500	—	—	58,283
Total on-balance sheet	\$ 2,038,841	\$ 496,432	\$ 492,041	\$ 146,286	\$ 11,843	\$ 3,155	\$ 3,188,598
Off-Balance Sheet:							
Acceptable	\$ 1,203,888	\$ 422,893	\$ 686,744	\$ 110,477	\$ 39,837	\$ 4,324	\$ 2,468,163
Special mention ⁽²⁾	54,224	20,489	29,565	2,786	2,123	544	109,731
Substandard ⁽³⁾	23,656	18,084	17,246	4,959	—	96	64,041
Total off-balance sheet	\$ 1,281,768	\$ 461,466	\$ 733,555	\$ 118,222	\$ 41,960	\$ 4,964	\$ 2,641,935
Total Ending Balance:							
Acceptable	\$ 3,186,429	\$ 896,246	\$ 1,140,445	\$ 246,651	\$ 51,680	\$ 7,479	\$ 5,528,930
Special mention ⁽²⁾	88,043	21,567	61,604	5,398	2,123	544	179,279
Substandard ⁽³⁾	46,137	40,085	23,547	12,459	—	96	122,324
Total	\$ 3,320,609	\$ 957,898	\$ 1,225,596	\$ 264,508	\$ 53,803	\$ 8,119	\$ 5,830,533

Commodity analysis of past due loans⁽¹⁾

On-balance sheet	\$ 5,773	\$ 6,663	\$ 639	\$ 2,105	\$ —	\$ —	\$ 15,180
Off-balance sheet	6,121	15	298	479	—	—	6,913
90 days or more past due	\$ 11,894	\$ 6,678	\$ 937	\$ 2,584	\$ —	\$ —	\$ 22,093

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans.

(2) Assets in the "Special mention" category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured.

(3) Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

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	As of December 31, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade ⁽¹⁾							
On-balance sheet:							
Acceptable	\$ 1,888,762	\$ 431,038	\$ 409,003	\$ 89,541	\$ 15,944	\$ 3,199	\$ 2,837,487
Special mention ⁽²⁾	22,255	2,616	35,317	2,918	—	—	63,106
Substandard ⁽³⁾	12,825	21,247	5,958	7,514	9,838	—	57,382
Total on-balance sheet	\$ 1,923,842	\$ 454,901	\$ 450,278	\$ 99,973	\$ 25,782	\$ 3,199	\$ 2,957,975
Off-Balance Sheet							
Acceptable	\$ 1,279,454	\$ 473,335	\$ 753,472	\$ 102,990	\$ 56,208	\$ 6,517	\$ 2,671,976
Special mention ⁽²⁾	24,422	7,226	13,121	2,938	—	523	48,230
Substandard ⁽³⁾	15,933	5,949	19,910	5,224	—	102	47,118
Total off-balance sheet	\$ 1,319,809	\$ 486,510	\$ 786,503	\$ 111,152	\$ 56,208	\$ 7,142	\$ 2,767,324
Total Ending Balance:							
Acceptable	\$ 3,168,216	\$ 904,373	\$ 1,162,475	\$ 192,531	\$ 72,152	\$ 9,716	\$ 5,509,463
Special mention ⁽²⁾	46,677	9,842	48,438	5,856	—	523	111,336
Substandard ⁽³⁾	28,758	27,196	25,868	12,738	9,838	102	104,500
Total	\$ 3,243,651	\$ 941,411	\$ 1,236,781	\$ 211,125	\$ 81,990	\$ 10,341	\$ 5,725,299
Commodity analysis of past due loans ⁽¹⁾							
On-balance sheet	\$ 4,656	\$ 7,405	\$ 2,517	\$ 2,519	\$ 9,838	\$ —	\$ 26,935
Off-balance sheet	511	—	4,542	148	—	—	5,201
90 days or more past due	\$ 5,167	\$ 7,405	\$ 7,059	\$ 2,667	\$ 9,838	\$ —	\$ 32,136

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans.

(2) Assets in the "Special mention" category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured.

(3) Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

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Concentrations of Credit Risk

The following table sets forth the geographic and commodity/collateral diversification, as well as the range of original loan-to-value ratios, for all Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs as of June 30, 2016 and December 31, 2015:

Table 5.10

	As of	
	June 30, 2016	December 31, 2015
	(in thousands)	
By commodity/collateral type:		
Crops	\$3,320,609	\$3,243,651
Permanent plantings	957,898	941,411
Livestock	1,225,596	1,236,781
Part-time farm	264,508	211,125
Ag. Storage and Processing	53,803	81,990
Other	8,119	10,341
Total	\$5,830,533	\$5,725,299
By geographic region ⁽¹⁾ :		
Northwest	\$613,508	\$582,127
Southwest	1,722,509	1,726,927
Mid-North	2,045,422	2,009,654
Mid-South	794,257	769,831
Northeast	225,405	215,883
Southeast	429,432	420,877
Total	\$5,830,533	\$5,725,299
By original loan-to-value ratio:		
0.00% to 40.00%	\$1,632,950	\$1,594,818
40.01% to 50.00%	1,339,807	1,279,321
50.01% to 60.00%	1,603,174	1,593,025
60.01% to 70.00%	1,086,716	1,107,710
70.01% to 80.00%	150,822	126,860
80.01% to 90.00%	17,064	23,565
Total	\$5,830,533	\$5,725,299

Geographic regions: Northwest (AK, ID, MT, OR, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT);

⁽¹⁾ Mid-North (IA, IL, IN, MI, MN, NE, ND, SD, WI); Mid-South (AR, KS, LA, MO, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NH, NJ, NY, OH, PA, RI, VA, VT, WV); Southeast (AL, FL, GA, MS, NC, SC, TN).

The original loan-to-value ratio is 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, the updated appraised value at the time of guarantee, purchase, or commitment. Current loan-to-value ratios may be higher or lower than the original loan-to-value ratios.

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6. OFF-BALANCE SHEET GUARANTEES AND LONG-TERM STANDBY PURCHASE COMMITMENTS

Farmer Mac offers two credit enhancement alternatives to direct loan purchases that allow approved lenders the ability to retain the cash flow benefits of their loans and increase their liquidity and lending capacity: (1) Farmer Mac Guaranteed Securities, which are available through the Farm & Ranch, USDA Guarantees, or Rural Utilities lines of business, and (2) LTSPCs, which are available through the Farm & Ranch or Rural Utilities lines of business.

The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of June 30, 2016 and December 31, 2015, not including offsets provided by any recourse provisions, recoveries from third parties, or collateral for the underlying loans:

Table 6.1

Outstanding Balance of Off-Balance Sheet Farmer Mac Guaranteed Securities

	As of June 30, 2016	As of December 31, 2015
	(in thousands)	
Farm & Ranch:		
Guaranteed Securities	\$466,479	\$514,051
USDA Guarantees:		
Farmer Mac Guaranteed USDA Securities	30,962	10,272
Institutional Credit:		
AgVantage Securities	984,871	984,871
Revolving floating rate AgVantage facility ⁽¹⁾	300,000	300,000
Total off-balance sheet Farmer Mac Guaranteed Securities	\$1,782,312	\$1,809,194

⁽¹⁾ Relates to a revolving floating rate AgVantage facility subject to specified contractual terms. Farmer Mac receives a fixed fee based on the full dollar amount of the facility.

Eligible loans and other eligible assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. The following table summarizes the significant cash flows received from and paid to trusts used for Farmer Mac securitizations:

Table 6.2

	For the Six Months Ended	
	June 30, 2016	June 30, 2015
	(in thousands)	
Proceeds from new securitizations	\$278,443	\$112,440
Guarantee fees received	1,823	2,082
Purchases of assets from the trusts	(1,267)	(1,981)

Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated \$7.0 million as of June 30, 2016 and \$8.3 million as of December 31, 2015. As of June 30, 2016 and December 31, 2015, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 11.0 years and 11.3 years, respectively. As of

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June 30, 2016 and December 31, 2015, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 1.2 years and 1.7 years, respectively.

Long-Term Standby Purchase Commitments

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

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties, or collateral for the underlying loans, was \$3.1 billion as of June 30, 2016 and \$2.8 billion as of December 31, 2015.

As of June 30, 2016 and December 31, 2015, the weighted-average remaining maturity of all loans underlying LTSPCs was 15.2 years and 14.6 years, respectively. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated \$31.1 million as of June 30, 2016 and \$30.3 million as of December 31, 2015.

7. EQUITY

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of \$250.0 million of securities issued by a newly formed Delaware statutory trust. The trust securities, called Farm Asset-Linked Capital Securities or "FALConS," represented undivided beneficial ownership interests in 250,000 shares of non-cumulative perpetual preferred stock (the "Farmer Mac II LLC Preferred Stock") of Farmer Mac's subsidiary, Farmer Mac II LLC, a Delaware limited liability company. The Farmer Mac II LLC Preferred Stock had a liquidation preference of \$1,000 per share. On May 14, 2014, Farmer Mac purchased \$6.0 million of FALConS from certain holders. On March 30, 2015, Farmer Mac II LLC redeemed all of the outstanding shares of Farmer Mac II LLC Preferred Stock which, in turn, triggered the redemption of all of the outstanding FALConS on that same day. Farmer Mac recognized an expense of \$8.1 million in deferred issuance costs upon the retirement of the Farmer Mac II LLC Preferred Stock.

Common Stock

On September 8, 2015, Farmer Mac's board of directors approved a share repurchase program authorizing Farmer Mac to repurchase up to \$25 million of its outstanding Class C non-voting common stock through September 8, 2017. As of June 30, 2016, Farmer Mac had repurchased approximately 668,000 shares of Class C non-voting common stock at a cost of approximately \$19.6 million pursuant to the share repurchase program.

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Capital Requirements

Farmer Mac is subject to the following capital requirements:

Statutory minimum capital requirement – Farmer Mac's statutory minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income) equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, 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 requirement – Farmer Mac's 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. As of June 30, 2016 and December 31, 2015, the minimum capital requirement was greater than the risk-based capital requirement. Farmer Mac's ability to declare and pay dividends could be restricted if it fails to comply with applicable capital requirements.

As of June 30, 2016, Farmer Mac's minimum capital requirement was \$497.1 million and its core capital level was \$572.6 million, which was \$75.5 million above the minimum capital requirement as of that date. As of December 31, 2015, Farmer Mac's minimum capital requirement was \$462.1 million and its core capital level was \$564.5 million, which was \$102.4 million above the minimum capital requirement as of that date.

In accordance with FCA's rule on Farmer Mac's capital planning, and as part of Farmer Mac's capital plan, Farmer Mac has adopted a policy for maintaining a sufficient level of Tier 1 capital (consisting of retained earnings, paid-in-capital, common stock, qualifying preferred stock, and accumulated other comprehensive income allocable to investments not included in one of the four operating lines of business) and imposing restrictions on Tier 1-eligible dividends and any discretionary bonus payments in the event that this capital falls below specified thresholds.

8. FAIR VALUE DISCLOSURES

As of June 30, 2016, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at \$6.7 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 40 percent of total assets and 72 percent of financial instruments measured at fair value as of June 30, 2016. As of December 31, 2015, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at \$6.1 billion whose fair values were estimated by management in the absence of readily determinable fair values. These financial instruments measured as level 3 represented 39 percent of total assets and 69 percent of financial instruments measured at fair value as of December 31, 2015.

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Net transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets and liabilities as of the beginning of the reporting period. There were no transfers within the fair value hierarchy for fair value measurements of Farmer Mac's investment securities, Farmer Mac Guaranteed Securities, USDA Securities, and financial derivatives during the first six months of 2016 and 2015.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2016 and December 31, 2015, respectively, and indicate the fair value hierarchy of the valuation techniques used by Farmer Mac to determine such fair value:

Table 8.1

Assets and Liabilities Measured at Fair Value as of June 30, 2016

	Level 1 (in thousands)	Level 2	Level 3	Total
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$—	\$—	\$17,730	\$17,730
Floating rate asset-backed securities	—	59,999	—	59,999
Floating rate corporate debt securities	—	10,002	—	10,002
Floating rate Government/GSE guaranteed mortgage-backed securities	—	1,264,317	—	1,264,317
Fixed rate GSE guaranteed mortgage-backed securities	—	7,765	—	7,765
Floating rate GSE subordinated debt	—	65,104	—	65,104
Fixed rate senior agency debt	—	174,998	—	174,998
Fixed rate U.S. Treasuries	860,764	—	—	860,764
Total available-for-sale	860,764	1,582,185	17,730	2,460,679
Trading:				
Floating rate asset-backed securities	—	—	281	281
Total trading	—	—	281	281
Total Investment Securities	860,764	1,582,185	18,011	2,460,960
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
AgVantage	—	—	4,697,584	4,697,584
Farmer Mac Guaranteed USDA Securities	—	—	33,447	33,447
Total Farmer Mac Guaranteed Securities	—	—	4,731,031	4,731,031
USDA Securities:				
Available-for-sale				
Trading	—	—	1,967,759	1,967,759
Total USDA Securities	—	—	1,992,546	1,992,546
Financial derivatives	—	8,242	—	8,242
Total Assets at fair value	\$860,764	\$1,590,427	\$6,741,588	\$9,192,779
Liabilities:				
Financial derivatives	\$309	\$140,449	\$—	\$140,758
Total Liabilities at fair value	\$309	\$140,449	\$—	\$140,758
Nonrecurring:				
Assets:				
Loans held for investment	\$—	\$—	\$2,227	\$2,227
REO	—	—	630	630

Total Nonrecurring Assets at fair value	\$—	\$—	\$2,857	\$2,857
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Assets and Liabilities Measured at Fair Value as of December 31, 2015

	Level 1 (in thousands)	Level 2	Level 3	Total
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$—	\$—	\$44,924	\$44,924
Floating rate asset-backed securities	—	73,729	—	73,729
Floating rate corporate debt securities	—	9,991	—	9,991
Fixed rate corporate debt	—	9,994	—	9,994
Floating rate Government/GSE guaranteed mortgage-backed securities	—	1,355,459	—	1,355,459
Fixed rate GSE guaranteed mortgage-backed securities	—	7,904	—	7,904
Floating rate GSE subordinated debt	—	66,249	—	66,249
Fixed rate senior agency debt	—	213,987	—	213,987
Fixed rate U.S. Treasuries	992,788	—	—	992,788
Total available-for-sale	992,788	1,737,313	44,924	2,775,025
Trading:				
Floating rate asset-backed securities	—	—	491	491
Total trading	—	—	491	491
Total Investment Securities	992,788	1,737,313	45,415	2,775,516
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
AgVantage	—	—	4,121,244	4,121,244
Farmer Mac Guaranteed USDA Securities	—	—	31,361	31,361
Total Farmer Mac Guaranteed Securities	—	—	4,152,605	4,152,605
USDA Securities:				
Available-for-sale	—	—	1,888,344	1,888,344
Trading	—	—	28,975	28,975
Total USDA Guaranteed Securities	—	—	1,917,319	1,917,319
Financial derivatives	19	3,797	—	3,816
Total Assets at fair value	\$992,807	\$1,741,110	\$6,115,339	\$8,849,256
Liabilities:				
Financial derivatives	\$—	\$77,199	\$—	\$77,199
Total Liabilities at fair value	\$—	\$77,199	\$—	\$77,199
Nonrecurring:				
Assets:				
Loans held for investment	\$—	\$—	\$11,443	\$11,443
REO	\$—	\$—	\$388	\$388
Total Nonrecurring Assets at fair value	\$—	\$—	\$11,831	\$11,831

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The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which Farmer Mac has used significant unobservable inputs to determine fair value. Net transfers in and/or out of level 3 are based on the fair values of the assets and liabilities as of the beginning of the reporting period. There were no liabilities measured at fair value using significant unobservable inputs during the three and six months ended June 30, 2016 and 2015.

Table 8.2

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2016

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
(in thousands)							
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$ 17,730	\$—	\$—	\$—	\$—	\$ —	\$ 17,730
Total available-for-sale	17,730	—	—	—	—	—	17,730
Trading:							
Floating rate asset-backed securities ⁽¹⁾	383	—	—	(120)	18	—	281
Total trading	383	—	—	(120)	18	—	281
Total Investment Securities	18,113	—	—	(120)	18	—	18,011
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	4,534,810	163,845	—	(16,699)	13,137	2,491	4,697,584
Farmer Mac Guaranteed USDA Securities	30,694	4,100	—	(2,238)	—	891	33,447
Total Farmer Mac Guaranteed Securities	4,565,504	167,945	—	(18,937)	13,137	3,382	4,731,031
USDA Securities:							
Available-for-sale	1,908,014	129,645	(19,014)	(97,303)	—	46,417	1,967,759
Trading ⁽²⁾	26,869	—	—	(2,459)	377	—	24,787
Total USDA Securities	1,934,883	129,645	(19,014)	(99,762)	377	46,417	1,992,546
Total Assets at fair value	\$ 6,518,500	\$ 297,590	\$ (19,014)	\$ (118,819)	\$ 13,532	\$ 49,799	\$ 6,741,588

(1) Unrealized gains are attributable to assets still held as of June 30, 2016 and are recorded in "Gains on trading securities."

(2) Includes unrealized gains of \$0.3 million attributable to assets still held as of June 30, 2016 that are recorded in "Gains on trading securities."

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Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2015

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
(in thousands)							
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$40,379	\$—	\$	—\$—	\$—	\$ (197	) \$40,182
Total available-for-sale	40,379	—	—	—	—	(197	) 40,182
Trading:							
Floating rate asset-backed securities ⁽¹⁾	638	—	—	(190	) 158	—	606
Total trading	638	—	—	(190	) 158	—	606
Total Investment Securities	41,017	—	—	(190	) 158	(197	) 40,788
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	3,818,704	249,260	—	(9,245	) (11,354	) (31,165	) 4,016,200
Farmer Mac Guaranteed USDA Securities	23,505	12,512	—	(1,766	) —	757	35,008
Total Farmer Mac Guaranteed Securities	3,842,209	261,772	—	(11,011	) (11,354	) (30,408	) 4,051,208
USDA Securities:							
Available-for-sale	1,794,844	111,421	—	(69,192	) —	(11,667	) 1,825,406
Trading ⁽²⁾	37,593	—	—	(3,834	) 11	—	33,770
Total USDA Securities	1,832,437	111,421	—	(73,026	) 11	(11,667	) 1,859,176
Total Assets at fair value	\$5,715,663	\$373,193	\$	—\$(84,227	) \$(11,185	) \$ (42,272	) \$5,951,172

(1) Unrealized gains are attributable to assets still held as of June 30, 2015 and are recorded in "Gains on trading securities."

(2) Includes unrealized gains of \$0.1 million attributable to assets still held as of June 30, 2015 that are recorded in "Gains on trading securities."

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Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2016

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
(in thousands)							
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$44,924	\$—	\$(26,806)	\$—	\$ 6	\$ (394)	\$17,730
Total available-for-sale	44,924	—	(26,806)	—	6	(394)	17,730
Trading:							
Floating rate asset-backed securities ⁽¹⁾	491	—	—	(326)	116	—	281
Total trading	491	—	—	(326)	116	—	281
Total Investment Securities	45,415	—	(26,806)	(326)	122	(394)	18,011
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	4,121,244	1,079,376	—	(529,229)	37,435	(11,242)	4,697,584
Farmer Mac Guaranteed USDA Securities	31,361	4,100	—	(2,736)	—	722	33,447
Total Farmer Mac Guaranteed Securities	4,152,605	1,083,476	—	(531,965)	37,435	(10,520)	4,731,031
USDA Securities:							
Available-for-sale	1,888,344	228,613	(22,662)	(181,490)	—	54,954	1,967,759
Trading ⁽²⁾	28,975	—	—	(4,824)	636	—	24,787
Total USDA Securities	1,917,319	228,613	(22,662)	(186,314)	636	54,954	1,992,546
Total Assets at fair value	\$6,115,339	\$1,312,089	\$(49,468)	\$(718,605)	\$ 38,193	\$ 44,040	\$6,741,588

(1) Unrealized gains are attributable to assets still held as of June 30, 2016 and are recorded in "Gains on trading securities."

(2) Includes unrealized gains of \$0.6 million attributable to assets still held as of June 30, 2016 that are recorded in "Gains on trading securities."

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Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2015

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
(in thousands)							
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$40,576	\$—	\$	—\$—	\$—	\$ (394	) \$40,182
Total available-for-sale	40,576	—	—	—	—	(394	) 40,182
Trading:							
Floating rate asset-backed securities ⁽¹⁾	689	—	—	(437	) 354	—	606
Total trading	689	—	—	(437	) 354	—	606
Total Investment Securities	41,265	—	—	(437	) 354	(394	) 40,788
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	3,631,662	464,175	—	(66,997	) (2,478	) (10,162	) 4,016,200
Farmer Mac Guaranteed USDA Securities	27,619	12,512	—	(6,418	) —	1,295	35,008
Total Farmer Mac Guaranteed Securities	3,659,281	476,687	—	(73,415	) (2,478	) (8,867	) 4,051,208
USDA Securities:							
Available-for-sale	1,731,222	200,607	—	(133,383	) —	26,960	1,825,406
Trading ⁽²⁾	40,310	—	—	(6,717	) 177	—	33,770
Total USDA Securities	1,771,532	200,607	—	(140,100	) 177	26,960	1,859,176
Total Assets at fair value	\$5,472,078	\$677,294	\$	—\$(213,952)	\$(1,947	) \$ 17,699	\$5,951,172

(1) Unrealized gains are attributable to assets still held as of June 30, 2015 and are recorded in "Gains on trading securities."

(2) Includes unrealized gains of \$0.2 million attributable to assets still held as of June 30, 2015 that are recorded in "Gains on trading securities."

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The following tables present additional information about the significant unobservable inputs, such as discount rates and constant prepayment rates ("CPR"), used in the fair value measurements categorized in level 3 of the fair value hierarchy as of June 30, 2016 and December 31, 2015.

Table 8.3

Financial Instruments	As of June 30, 2016		Unobservable Input	Range (Weighted-Average)
	Fair Value (in thousands)	Valuation Technique		
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$17,730	Indicative bids	Range of broker quotes	90.0% - 90.0% (90.0%)
Floating rate asset-backed securities	\$281	Discounted cash flow	Discount rate CPR	29.7% - 32.0% (31.2%) 10.0%
Farmer Mac Guaranteed Securities:				
AgVantage	\$4,697,584	Discounted cash flow	Discount rate	1.2% - 2.5% (1.7%)
Farmer Mac Guaranteed USDA Securities	\$33,447	Discounted cash flow	Discount rate CPR	1.2% - 4.1% (1.7%) 9% - 23% (12%)
USDA Securities	\$1,992,546	Discounted cash flow	Discount rate CPR	1.8% - 5.0% (3.0%) 0% - 22% (10%)
As of December 31, 2015				
Financial Instruments	Fair Value (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$44,924	Indicative bids	Range of broker quotes	92.0% - 99.6% (96.6%)
Floating rate asset-backed securities	\$491	Discounted cash flow	Discount rate CPR	18.3% - 23.9% (21.5%) 10.0%
Farmer Mac Guaranteed Securities:				
AgVantage	\$4,121,244	Discounted cash flow	Discount rate	1.1% - 3.3% (1.8%)
Farmer Mac Guaranteed USDA Securities	\$31,361	Discounted cash flow	Discount rate CPR	1.0% - 3.9% (1.8%) 9% - 20% (10.0%)
USDA Securities	\$1,917,319	Discounted cash flow	Discount rate CPR	1.3% - 5.1% (3.1%) 0% - 19% (7.0%)

The significant unobservable inputs used in the fair value measurements of Farmer Mac Guaranteed Securities and USDA Securities are prepayment rates and discount rates commensurate with the risks involved. Typically, significant

increases (decreases) in any of these inputs in isolation may result in materially lower (higher) fair value measurements. Generally, in a rising interest rate environment, Farmer Mac would expect average discount rates to increase and would likely expect a corresponding decrease in forecasted prepayment rates. Conversely, in a declining interest rate environment, Farmer Mac would expect average discount rates to decrease and would likely expect a corresponding increase in forecasted prepayment rates. Prepayment rates are not presented in the table above for AgVantage securities because they generally do not pay down principal based on amortization schedules but instead typically have fixed maturity dates when the secured general obligations are due.

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Disclosures on Fair Value of Financial Instruments

The following table sets forth the estimated fair values and carrying values for financial assets, liabilities, and guarantees and commitments as of June 30, 2016 and December 31, 2015:

Table 8.4

	As of June 30, 2016		As of December 31, 2015	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	\$1,764,626	\$1,764,626	\$1,210,084	\$1,210,084
Investment securities	2,460,960	2,460,960	2,775,516	2,775,516
Farmer Mac Guaranteed Securities	6,135,080	6,119,755	5,434,422	5,426,621
USDA Securities	1,992,546	1,992,546	1,917,319	1,917,319
Loans	4,343,577	4,195,295	4,027,660	3,962,044
Financial derivatives	8,242	8,242	3,816	3,816
Guarantee and commitment fees receivable:				
LTSPCs	29,518	31,968	31,953	31,240
Farmer Mac Guaranteed Securities	7,248	7,685	8,872	8,949
Financial liabilities:				
Notes payable:				
Due within one year	10,128,930	10,125,269	9,108,468	9,111,461
Due after one year	4,875,304	4,722,814	5,009,310	4,967,036
Debt securities of consolidated trusts held by third parties	953,120	928,050	713,316	713,536
Financial derivatives	140,758	140,758	77,199	77,199
Guarantee and commitment obligations:				
LTSPCs	28,680	31,130	31,015	30,301
Farmer Mac Guaranteed Securities	6,548	6,985	8,230	8,308

The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value and is classified as level 1 within the fair value hierarchy. Investment securities primarily are valued based on unadjusted quoted prices in active markets and are classified as level 2 within the fair value hierarchy. Farmer Mac internally models the fair value of its loan portfolio, including loans held for sale, loans held for investment and loans held for investment in consolidated trusts, Farmer Mac Guaranteed Securities, and USDA Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. These fair value measurements do not take into consideration the fair value of the underlying property and are classified as level 3 within the fair value hierarchy. Financial derivatives primarily are valued using unadjusted counterparty valuations and are classified as level 2 within the fair value hierarchy. The fair value of the guarantee fees receivable/obligation and debt securities of consolidated trusts are estimated based on the present value of expected future cash flows of the underlying mortgage assets using management's best estimate of certain key assumptions, which include prepayments speeds, forward yield curves, and discount rates commensurate with the risks involved and are classified as level 3 within the fair value hierarchy. Notes payable are valued by discounting the expected cash flows of these instruments using a yield curve derived from market prices observed for similar agency securities and are

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also classified as level 3 within the fair value hierarchy. Because the cash flows of Farmer Mac's financial instruments may be interest rate path dependent, estimated fair values and projected discount rates for level 3 financial instruments are derived using a Monte Carlo simulation model. Different market assumptions and estimation methodologies could significantly affect estimated fair value amounts.

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9. BUSINESS SEGMENT REPORTING

The following tables present core earnings for Farmer Mac's reportable operating segments and a reconciliation to consolidated net income for the three and six months ended June 30, 2016 and 2015:

Table 9.1

Core Earnings by Business Segment

For the Three Months Ended June 30, 2016

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
	(in thousands)						
Net interest income	\$11,606	\$4,938	\$2,855	\$12,109	\$2,850	\$—	\$34,358
Less: reconciling adjustments ⁽¹⁾⁽²⁾⁽³⁾	(1,731	) (350	) (293	) (702	) (256	) 3,332	—
Net effective spread	9,875	4,588	2,562	11,407	2,594	3,332	—
Guarantee and commitment fees ⁽²⁾	3,965	14	373	458	—	(1,155	) 3,655
Other income/(expense) ⁽³⁾⁽⁴⁾	78	25	—	—	(228	) (3,764	) (3,889
Non-interest income/(loss)	4,043	39	373	458	(228	) (4,919	) (234
Provision for loan losses	(364	) —	—	—	—	—	(364
Provision for losses	(94	) —	—	—	—	—	(94
Other non-interest expense	(4,112	) (1,092	) (830	) (538	) (3,408	) —	(9,980
Non-interest expense ⁽⁵⁾	(4,206	) (1,092	) (830	) (538	) (3,408	) —	(10,074
Core earnings before income taxes	9,348	3,535	2,105	11,327	(1,042	) (1,587) ⁽⁶⁾ 23,686
Income tax (expense)/benefit	(3,272	) (1,237	) (737	) (3,964	) 254	556	(8,400
Core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends	6,076	2,298	1,368	7,363	(788	) (1,031) ⁽⁶⁾ 15,286
Preferred stock dividends	—	—	—	—	(3,296	) —	(3,296
Non-controlling interest - preferred stock dividends	—	—	—	—	16	—	16
Segment core earnings/(losses)	\$6,076	\$2,298	\$1,368	\$7,363	\$(4,068) \$(1,031) ⁽⁶⁾ \$12,006

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Total assets at carrying value	\$3,311,270	\$2,046,516	\$1,023,630	\$6,071,924	\$4,369,850	\$—	\$16,823,190
Total on- and off-balance sheet program assets at principal balance	\$5,830,533	\$1,960,358	\$1,934,473	\$7,391,172		—	\$17,116,536

(1) Excludes the amortization of premiums and discounts on assets consolidated at fair value, originally included in interest income, to reflect core earnings amounts.

(2) Includes the reclassification of interest income and interest expense from consolidated trusts owned by third parties to guarantee and commitment fees, to reflect management's view that the net interest income Farmer Mac earns is effectively a guarantee fee.

(3) Includes the reclassification of interest expense related to interest rate swaps not designated as hedges, which are included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements, to determine the effective funding cost for each operating segment.

(4) Includes reconciling adjustments for fair value adjustments on financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(5) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(6) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Core Earnings by Business Segment

For the Three Months Ended June 30, 2015

	Farm & Ranch (in thousands)	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
Net interest income	\$10,757	\$4,643	\$3,153	\$11,312	\$1,999	\$—	\$31,864
Less: reconciling adjustments ⁽¹⁾⁽²⁾⁽³⁾	(1,076)	(177)	(315)	(452)	(57)	2,077	—
Net effective spread	9,681	4,466	2,838	10,860	1,942	2,077	—
Guarantee and commitment fees ⁽²⁾	3,693	8	—	384	—	(697)	3,388
Other income/(expense) ⁽³⁾⁽⁴⁾	160	28	—	—	(212)	14,843	14,819
Non-interest income/(loss)	3,853	36	—	384	(212)	14,146	18,207
Provision for loan losses	(110)	—	—	—	—	—	(110)
Provision for losses	(1,146)	—	—	—	—	—	(1,146)
Other non-interest expense	(4,304)	(1,025)	(860)	(532)	(2,986)	—	(9,707)
Non-interest expense ⁽⁵⁾	(5,450)	(1,025)	(860)	(532)	(2,986)	—	(10,853)
Core earnings before income taxes	7,974	3,477	1,978	10,712	(1,256)	16,223	⁽⁶⁾ 39,108
Income tax (expense)/benefit	(2,791)	(1,216)	(691)	(3,749)	356	(5,678)	(13,769)
Core earnings before preferred stock dividends and attribution of income to non-controlling interest	5,183	2,261	1,287	6,963	(900)	10,545	⁽⁶⁾ 25,339
- preferred stock dividends	—	—	—	—	(3,296)	—	(3,296)
Preferred stock dividends	—	—	—	—	119	—	119
Non-controlling interest - preferred stock dividends	—	—	—	—	—	—	—
Segment core earnings/(losses)	\$5,183	\$2,261	\$1,287	\$6,963	\$(4,077)	\$10,545	⁽⁶⁾ \$22,162
Total assets at carrying value	\$2,780,018	\$1,913,390	\$962,702	\$5,874,088	\$3,614,399	\$—	\$15,144,597
Total on- and off-balance sheet program assets at principal balance ⁽¹⁾	\$5,485,570	\$1,862,430	\$954,188	\$6,827,939	—	—	\$15,130,127

Excludes the amortization of premiums and discounts on assets consolidated at fair value, originally included in interest income, to reflect core earnings amounts.

(2) Includes the reclassification of interest income and interest expense from consolidated trusts owned by third parties to guarantee and commitment fees, to reflect management's view that the net interest income Farmer Mac earns is effectively a guarantee fee.

(3) Includes the reclassification of interest expense related to interest rate swaps not designated as hedges, which are included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements, to determine the effective funding cost for each operating segment.

(4) Includes reconciling adjustments for fair value adjustments on financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(5) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(6) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Core Earnings by Business Segment

For the Six Months Ended June 30, 2016

	Farm & Ranch (in thousands)	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
Net interest income	\$22,733	\$9,990	\$5,719	\$23,858	\$5,698	\$—	\$67,998
Less: reconciling adjustments ⁽¹⁾⁽²⁾⁽³⁾	(3,397	) (1,094	) (619	) (1,361	) (552	) 7,023	—
Net effective spread	19,336	8,896	5,100	22,497	5,146	7,023	—
Guarantee and commitment fees ⁽²⁾	7,874	21	668	916	—	(2,198	) 7,281
Other income/(expense) ⁽³⁾⁽⁴⁾	175	83	—	—	(900	) (9,579	) (10,221
Non-interest income/(loss)	8,049	104	668	916	(900	) (11,777	) (2,940
Provision for loan losses	(413	) —	—	—	—	—	(413
Provision for losses	(108	) —	—	—	—	—	(108
Other non-interest expense	(8,273	) (2,185	) (1,661	) (1,077	) (6,736	) —	(19,932
Non-interest expense ⁽⁵⁾	(8,381	) (2,185	) (1,661	) (1,077	) (6,736	) —	(20,040
Core earnings before income taxes	18,591	6,815	4,107	22,336	(2,490	) (4,754) ⁽⁶⁾ 44,605
Income tax (expense)/benefit	(6,508	) (2,385	) (1,438	) (7,816	) 747	1,665	(15,735
Core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends	12,083	4,430	2,669	14,520	(1,743	) (3,089) ⁽⁶⁾ 28,870
Preferred stock dividends	—	—	—	—	(6,591	) —	(6,591
Non-controlling interest - preferred stock dividends	—	—	—	—	44	—	44
Segment core earnings/(losses)	\$12,083	\$4,430	\$2,669	\$14,520	\$(8,290	) \$(3,089) ⁽⁶⁾ \$22,323
Total assets at carrying value	\$3,311,270	\$2,046,516	\$1,023,630	\$6,071,924	\$4,369,850	\$—	\$16,823,190
Total on- and off-balance sheet program assets at principal balance ⁽¹⁾	\$5,830,533	\$1,960,358	\$1,934,473	\$7,391,172	—	—	\$17,116,536

Excludes the amortization of premiums and discounts on assets consolidated at fair value, originally included in interest income, to reflect core earnings amounts.

(2) Includes the reclassification of interest income and interest expense from consolidated trusts owned by third parties to guarantee and commitment fees, to reflect management's view that the net interest income Farmer Mac earns is effectively a guarantee fee.

(3) Includes the reclassification of interest expense related to interest rate swaps not designated as hedges, which are included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements, to determine the effective funding cost for each operating segment.

(4) Includes reconciling adjustments for fair value adjustments on financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(5) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(6) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Core Earnings by Business Segment

For the Six Months Ended June 30, 2015

	Farm & Ranch (in thousands)	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
Net interest income	\$21,988	\$8,987	\$5,611	\$22,304	\$3,763	\$ —	\$62,653
Less: reconciling adjustments ⁽¹⁾⁽²⁾⁽³⁾	(2,193)	(296)	31	(1,019)	(132)	3,609	—
Net effective spread	19,795	8,691	5,642	21,285	3,631	3,609	
Guarantee and commitment fees ⁽²⁾	7,326	2	—	769	—	(1,332)	6,765
Other income/(expense) ⁽³⁾⁽⁴⁾	247	87	—	—	(764)	12,347	11,917
Non-interest income/(loss)	7,573	89	—	769	(764)	11,015	18,682
Provision for loan losses ^(186)	—	—	—	—	—	—	(186)
Provision for losses ^(374)	—	—	—	—	—	—	(374)
Other non-interest expense ^(8,630)	(1,410)	(1,726)	(1,067)	(5,989)	—	(18,822)	
Non-interest expense ⁽⁵⁾	(9,004)	(1,410)	(1,726)	(1,067)	(5,989)	—	(19,196)
Core earnings before income taxes	18,178	7,370	3,916	20,987	(3,122)	14,624	⁽⁶⁾ 61,953
Income tax (expense)/benefit ^(6,362)	(2,579)	(1,369)	(7,345)	2,872	(3,217)	(18,000)	
Core earnings before preferred stock dividends and attribution of income to non-controlling interest	11,816	4,791	2,547	13,642	(250)	11,407	⁽⁶⁾ 43,953
- preferred stock dividends	—	—	—	—	(6,591)	—	(6,591)
Preferred stock dividends	—	—	—	—	(5,235)	—	(5,235)
Non-controlling interest - preferred stock dividends	—	—	—	—	—	(8,147)	(8,147)
Loss on retirement of preferred stock	—	—	—	—	—	(8,147)	(8,147)
Segment core earnings/(losses)	\$11,816	\$4,791	\$2,547	\$13,642	\$(12,076)	\$ 3,260	⁽⁶⁾ \$23,980
Total assets at carrying value	\$2,780,018	\$1,913,390	\$962,702	\$5,874,088	\$3,614,399	\$ —	\$15,144,597
Total on- and off-balance sheet program assets at principal balance	\$5,485,570	\$1,862,430	\$954,188	\$6,827,939	—	—	\$15,130,127

- (1) Excludes the amortization of premiums and discounts on assets consolidated at fair value, originally included in interest income, to reflect core earnings amounts.
Includes the reclassification of interest income and interest expense from consolidated trusts owned by third parties
- (2) to guarantee and commitment fees, to reflect the net interest income Farmer Mac earns is effectively a guarantee fee.
Includes the reclassification of interest expense related to interest rate swaps not designated as hedges, which are
- (3) included in "(Losses)/gains on financial derivatives and hedging activities" on the consolidated financial statements, to determine the effective funding cost for each operating segment.
Includes reconciling adjustments for fair value adjustments on financial derivatives and trading assets. Also
- (4) includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.
- (5) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.
Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and
- (6) attribution of income to non-controlling interest; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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

Financial information included in this report is consolidated to include the accounts of Farmer Mac and its three subsidiaries – Farmer Mac Mortgage Securities Corporation, Farmer Mac II LLC, and Contour Valuation Services, LLC (which began doing business as AgVisory during first quarter 2016) ("AgVisory"). This discussion and analysis of financial condition and results of operations should be read together with: (1) the interim unaudited consolidated financial statements and the related notes that appear elsewhere in this report; and (2) Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 10, 2016.

FORWARD-LOOKING STATEMENTS

Some statements made in this report, and in particular in the "Management's Discussion & Analysis of Financial Condition and Results of Operations" section, 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. These statements typically are accompanied by, and identified with, terms such as "anticipates," "believes," "expects," "intends," "plans," "potential," "may," "should," and similar phrases. This report includes forward-looking statements addressing Farmer Mac's:

- prospects for earnings;
- prospects for growth in business 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, both known and unknown, could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under "Risk Factors" in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K for the fiscal period ended December 31, 2015 filed with the SEC on March 10, 2016, and uncertainties regarding:

- the availability to Farmer Mac of debt and equity financing and, if available, the reasonableness of rates and terms;
- legislative or regulatory developments that could affect Farmer Mac, its sources of business, or the agricultural sector or the rural utilities industry;
- fluctuations in the fair value of assets held by Farmer Mac and its subsidiaries;

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the rate and direction of development of the secondary market for agricultural mortgage and rural utilities loans, including lender interest in Farmer Mac's products and the secondary market provided by Farmer Mac;

the general rate of growth in agricultural mortgage and rural utilities indebtedness;

the impact of economic conditions, including the effects of drought and other weather-related conditions and fluctuations in agricultural real estate values, on agricultural mortgage lending and borrower repayment capacity;

developments in the financial markets, including possible investor, analyst, and rating agency reactions to events involving government-sponsored enterprises, including Farmer Mac;

changes in the level and direction of interest rates, which could, among other things, affect the value of collateral securing Farmer Mac's agricultural mortgage loan assets;

the degree to which Farmer Mac is exposed to basis risk, which results from fluctuations in Farmer Mac's borrowing costs relative to market indexes such as LIBOR; and

volatility in commodity prices relative to costs of production and/or export demand for U.S. agricultural products.

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this report. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC. The information contained in this report is not necessarily indicative of future results.

Overview

In second quarter 2016, Farmer Mac increased its outstanding business volume by \$0.9 billion, to \$17.1 billion, driven primarily by the addition of \$0.4 billion of loans added under LTSPCs in the Rural Utilities line of business, net portfolio growth of \$0.3 billion in the Institutional Credit line of business, and net portfolio growth of \$0.2 billion in Farm & Ranch loans. Farmer Mac's overall credit quality remained stable during second quarter 2016, as substandard assets and the total allowance for losses increased modestly and 90-day delinquencies decreased due to several delinquent loans being cured or paid off in full at par. The discussion below of Farmer Mac's financial information includes measures of financial performance that are not presented in accordance with generally accepted accounting principles in the United States (GAAP), and these are considered "non-GAAP" measures. For more information about the non-GAAP measures Farmer Mac uses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Use of Non-GAAP Measures."

Net Income and Core Earnings

Farmer Mac's net income attributable to common stockholders for second quarter 2016 was \$12.0 million, compared to \$22.2 million for second quarter 2015. The decrease was primarily attributable to the effects of unrealized fair value changes on financial derivatives and hedged assets, which was a \$1.3 million after-tax loss in second quarter 2016, compared to a \$10.4 million after-tax gain in second quarter 2015. For more information about changes in net income attributable to common stockholders, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

Farmer Mac's non-GAAP core earnings for second quarter 2016 were \$13.0 million, compared to \$12.4 million in first quarter 2016 and \$11.6 million in second quarter 2015. The \$0.6 million sequential

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quarterly increase in core earnings was primarily attributable to higher total revenues, which included a \$0.7 million after-tax increase in net effective spread and a \$0.1 million after-tax increase in guarantee and commitment fees. The increase was offset in part by an increase in credit-related expenses of \$0.2 million after-tax due to higher provisions to the allowance for losses in second quarter 2016 compared to first quarter 2016. Operating expenses were relatively flat sequentially, as higher general and administrative expenses related to continued technology and business infrastructure investments and expenses associated with business development efforts and other corporate initiatives were offset by lower compensation costs in second quarter 2016. These lower compensation costs were due to a decrease in stock compensation expense, which reflects the absence of the costs associated with the annual vesting of stock-based awards that occurred in first quarter 2016.

The year-over-year \$1.4 million increase in core earnings was primarily attributable to increases in net effective spread of \$0.8 million after-tax and guarantee and commitment fee income of \$0.5 million after-tax. Also contributing to the increase compared to last year was a decrease in credit-related expenses, which decreased year-over-year as provisions to the allowance for losses were \$0.3 million after-tax in second quarter 2016 compared to provisions of \$0.8 million after-tax in second quarter 2015. Operating expenses increased by \$0.2 million after-tax driven by higher general and administrative expenses related to continued technology and business infrastructure investments and expenses associated with business development efforts and other corporate initiatives. The increase in operating expenses was offset by lower compensation costs in second quarter 2016 resulting from lower payouts of variable incentive compensation compared to second quarter 2015.

Fair value changes on derivatives do not affect core earnings. For more information about the composition of core earnings and a reconciliation of net income attributable to common stockholders to core earnings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations." For more information about the non-GAAP measures Farmer Mac uses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Use of Non-GAAP Measures."

Net Interest Income and Net Effective Spread

Net interest income was \$34.4 million in second quarter 2016 compared to \$31.9 million in second quarter 2015. In percentage terms, net interest income for second quarter 2016 was 0.88 percent compared to 0.90 percent in second quarter 2015. The year-over-year increase in dollars was due to several factors. One factor was the impact of an increase in short-term interest rates on assets and liabilities indexed to LIBOR due to the Federal Reserve's decision to raise the target range for the federal funds rate in fourth quarter 2015. This effect on net interest income occurred because interest expense used to calculate net interest income does not include all the funding expenses related to these assets, specifically the expense on undesignated financial derivatives. Alternatively, the increase in short-term rates on assets and liabilities indexed to LIBOR would not have a similar effect on net effective spread as described below because net effective spread includes interest expense from all funding related to such assets, including interest expense from undesignated financial derivatives. Also contributing to the year-over-year increase in net interest income was growth in outstanding business volume, an increase in cash basis interest income received on non-accruing Farm & Ranch loans, and an increase in securitization activity of Farm & Ranch loans during 2015 and the first half of 2016. The year-over-year decrease in net interest income in percentage terms primarily related to a tighter spread on a large AgVantage security that was refinanced at a shorter maturity than the original security and a higher average balance maintained in lower-earning

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cash and investment securities in the first half of 2016 compared to the first half of 2015 to increase Farmer Mac's liquidity position.

Net effective spread, a non-GAAP measure, was \$31.0 million in second quarter 2016, compared to \$29.9 million in first quarter 2016 and \$29.8 million in second quarter 2015. In percentage terms, net effective spread for second quarter 2016 was 0.84 percent, compared to 0.82 percent in first quarter 2016 and 0.88 percent in second quarter 2015. Farmer Mac uses net effective spread as an alternative measure to net interest income because management believes it is a useful metric that accurately reflects the economics of the net spread between a