FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
August 10, 2009

As filed with the Securities and Exchange Commission on
August 10, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

Commission File Number 001-14951

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
(Exact name of registrant as specified in its charter)

Federally chartered instrumentality of the United States	52-1578738
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1133 Twenty-First Street, N.W., Suite 600 Washington, D.C.	20036
(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 x No ¨

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

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

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

Yes ¨ No x

As of August 3, 2009 the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,609,233 shares of Class C Non-Voting Common Stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The following information concerning Farmer Mac's interim unaudited condensed consolidated financial statements is included in this report beginning on the pages listed below:

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2009	December 31, 2008
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 362,858	$ 278,412
Investment securities:		
Available-for-sale, at fair value	836,540	1,072,096
Trading, at fair value	185,437	163,763
Total investment securities	1,021,977	1,235,859
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	2,124,281	1,511,694
Trading, at fair value	895,131	939,550
Total Farmer Mac Guaranteed Securities	3,019,412	2,451,244
Loans:		
Loans held for sale, at lower of cost or fair value	613,126	66,680
Loans held for investment, at amortized cost	38,360	718,845
Allowance for loan losses	(1,810)	(10,929)
Total loans, net of allowance	649,676	774,596
Real estate owned, at lower of cost or fair value	41,561	606
Financial derivatives, at fair value	15,452	27,069
Interest receivable	53,796	73,058
Guarantee and commitment fees receivable	56,083	61,109
Deferred tax asset, net	39,820	87,793
Prepaid expenses and other assets	62,049	117,561
Total Assets	$ 5,322,684	$ 5,107,307
Liabilities, Mezzanine Equity and Stockholders' Equity:		
Liabilities:		
Notes payable:		
Due within one year	$ 3,262,856	$ 3,757,099
Due after one year	1,535,362	887,999
Total notes payable	4,798,218	4,645,098
Financial derivatives, at fair value	123,286	181,183
Accrued interest payable	38,759	40,470
Guarantee and commitment obligation	50,572	54,954
Accounts payable and accrued expenses	20,839	20,532
Reserve for losses	7,496	5,506
Total Liabilities	5,039,170	4,947,743
Mezzanine Equity:		
Series B redeemable preferred stock, par value $1,000,150,000 shares authorized, issued and outstanding	144,216	144,216
Stockholders' Equity:		
Preferred stock:		

Series C, stated at redemption/liquidation value, $1,000 per share, 75,000 shares authorized, 40,000 and 9,200 issued and outstanding as of June 30, 2009 and December 31, 2008, respectively	40,000	9,200
Common stock:		
Class A Voting, $1 par value, no maximum authorization	1,031	1,031
Class B Voting, $1 par value, no maximum authorization	500	500
Class C Non-Voting, $1 par value, no maximum authorization	8,607	8,601
Additional paid-in capital	95,961	95,572
Accumulated other comprehensive loss	(12,546)	(47,412)
Retained earnings/(accumulated deficit)	5,745	(52,144)
Total Stockholders' Equity	139,298	15,348
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 5,322,684	$ 5,107,307

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	$ 7,049	$ 35,402	$ 15,958	$ 76,910
Farmer Mac Guaranteed Securities	25,805	19,767	53,564	38,537
Loans	8,896	11,643	19,381	23,474
Total interest income	41,750	66,812	88,903	138,921
Total interest expense	21,849	42,454	45,562	96,625
Net interest income	19,901	24,358	43,341	42,296
Recoveries for loan losses	5,693	-	2,159	-
Net interest income after provision for loan losses	25,594	24,358	45,500	42,296
Non-interest income/(loss):				
Guarantee and commitment fees	7,908	6,659	15,318	13,293
Gains/(losses) on financial derivatives	21,528	31,050	23,239	(10,670)
Gains/(losses) on trading assets	35	(17,268)	31,660	(7,157)
Other-than-temporary impairment - credit losses	(2,292)	(5,344)	(2,373)	(5,344)
(Losses)/gains on sale of available-for-sale investment securities	(300)	150	2,850	150
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	1,581	-
Other income	101	662	335	1,123
Non-interest income/(loss)	26,980	15,909	72,610	(8,605)
Non-interest expense:				
Compensation and employee benefits	3,572	3,929	7,597	7,579
General and administrative	2,986	2,242	5,900	4,270
Regulatory fees	512	512	1,025	1,025
Real estate owned operating costs, net	(16)	38	5	87
(Recoveries)/provision for losses	(529)	-	1,990	-
Non-interest expense	6,525	6,721	16,517	12,961
Income before income taxes	46,049	33,546	101,593	20,730
Income tax expense	16,534	11,555	34,624	6,436
Net income	29,515	21,991	66,969	14,294
Preferred stock dividends	(4,130)	(560)	(8,066)	(1,120)
Net income available to common stockholders	$ 25,385	$ 21,431	$ 58,903	$ 13,174
Earnings per common share and dividends:				
Basic earnings per common share	$ 2.50	$ 2.15	$ 5.81	$ 1.33
Diluted earnings per common share	$ 2.49	$ 2.13	$ 5.80	$ 1.31
Common stock dividends per common share	$ 0.05	$ 0.10	$ 0.10	$ 0.20

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 66,969	$ 14,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on loans, investments and Farmer Mac Guaranteed Securities	2,207	2,752
Amortization of debt premiums, discounts and issuance costs	8,116	47,430
Proceeds from repayment and sale of trading investment securities	472	628
Purchases of loans held for sale	(53,045)	(30,685)
Proceeds from repayment of loans held for sale	16,117	5,792
Net change in fair value of trading securities and financial derivatives	(77,939)	7,408
Amortization of SFAS 133 transition adjustment on financial derivatives	89	156
Other-than-temporary impairment - credit losses	2,373	5,344
Gains on sale of loans and Farmer Mac Guaranteed Securities	(1,581)	(150)
Gains on sale of available-for-sale investment securities	(2,850)	-
Total provision for losses	(169)	-
Deferred income taxes	37,164	(3,537)
Stock-based compensation expense	1,543	2,284
Decrease in interest receivable	19,262	15,503
Decrease in guarantee and commitment fees receivable	5,026	2,181
Decrease in other assets	42,734	131
Decrease in accrued interest payable	(1,711)	(2,071)
Decrease in other liabilities	(7,686)	(8,122)
Net cash provided by operating activities	57,091	59,338
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	-	(1,017,845)
Purchases of Farmer Mac Guaranteed Securities	(949,480)	(221,053)
Purchases of loans held for investment	(14,670)	(60,621)
Purchases of defaulted loans	(5,602)	(1,189)
Proceeds from repayment of available-for-sale investment securities	129,265	296,048
Proceeds from repayment of Farmer Mac Guaranteed Securities	137,572	152,670
Proceeds from repayment of loans	34,252	65,262
Proceeds from sale of available-for-sale investment securities	153,100	288,275
Proceeds from sale of loans held	358,953	-
Proceeds from sale of Farmer Mac Guaranteed Securities	17,224	13,876
Net cash used in investing activities	(139,386)	(484,577)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	27,760,730	74,710,734
Proceeds from issuance of medium-term notes	2,074,185	1,011,944
Payments to redeem discount notes	(27,974,911)	(73,636,115)
Payments to redeem medium-term notes	(1,715,000)	(1,050,000)
Tax benefit from tax deductions in excess of compensation cost recognized	-	175
Proceeds from common stock issuance	17	3,368
Purchases of common stock	-	(830)
Proceeds from preferred stock issuance	30,800	-

Dividends paid		(9,080)		(3,108)
Net cash provided by financing activities		166,741		1,036,168
Net increase in cash and cash equivalents		84,446		610,929
Cash and cash equivalents at beginning of period		278,412		101,445
Cash and cash equivalents at end of period	$	362,858	$	712,374

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Accounting Policies

The interim unaudited condensed consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations and cash flows of Farmer Mac for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2008 condensed consolidated balance sheet presented in this report has been derived from the Corporation's audited 2008 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial position, condensed consolidated results of operations and condensed consolidated cash flows as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited 2008 consolidated financial statements of Farmer Mac included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 16, 2009. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Below is a summary of Farmer Mac's significant accounting policies.

(a) Cash and Cash Equivalents and Statements of Cash Flows

Farmer Mac considers highly liquid investment securities with original maturities of three months or less at the time of purchase to be cash equivalents. Changes in the balance of cash and cash equivalents are reported in the condensed consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the six months ended June 30, 2009 and 2008.

	For the Six Months Ended June 30, 2009	June 30, 2008
	(in thousands)	
Cash paid for:		
Interest	$ 42,465	$ 57,410
Income taxes	10,000	21,500
Non-cash activity:		
Transfer of loans held for investment to real estate owned	40,955	-
Loans acquired and securitized as Farmer Mac Guaranteed Securities	17,224	1,390
Transfers of investment securities from available-for-sale to trading from the effect of adopting SFAS 159	-	600,468
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting SFAS 159	-	428,670
Transfers of available-for-sale investment securities to available-for-sale Farmer Mac Guaranteed Securities - Rural Utilities	-	902,420
Transfers of trading investment securities to trading Farmer Mac Guaranteed Securities - Rural Utilities	-	459,026
Transfers of Farmer Mac I Guaranteed Securities to loans held for sale	288,012	-
Transfers of loans held for investment to loans held for sale	617,072	-

(b) Allowance for Losses

As of June 30, 2009, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs, Farmer Mac I Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5") and Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended ("SFAS 114").

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses that are charged to non-interest expense and is reduced by charge-offs for actual losses, net of recoveries. Negative provisions, or releases of allowance for losses, are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period.

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

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

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

Farmer Mac also analyzes impaired assets in its portfolio for impairment under SFAS 114. Farmer Mac's impaired assets include:

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

For loans with an updated appraised value, other updated collateral valuation or management's estimate of discounted collateral value, this analysis includes the measurement of the fair value of the underlying collateral for individual loans relative to the total recorded investment, including principal, interest and advances. In the event that the collateral value does not support the total recorded investment, Farmer Mac provides a specific allowance for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. For the remaining impaired assets without updated valuations, this analysis is performed in the aggregate in consideration of the similar risk characteristics of the assets and historical statistics.

Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs and Farmer Mac Guaranteed Securities - Rural Utilities in accordance with SFAS 5 and SFAS 114.

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

	June 30, 2009			June 30, 2008		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
		(in thousands)			(in thousands)	
For the Three Months Ended:						
Beginning balance	$ 13,228	$ 8,025	$ 21,253	$ 1,651	$ 2,197	$ 3,848
Provision/(recovery) for losses	(5,693)	(529)	(6,222)	-	-	-
Charge-offs	(5,725)	-	(5,725)	(69)	-	(69)
Recoveries	-	-	-	10	-	10
Ending balance	$ 1,810	$ 7,496	$ 9,306	$ 1,592	$ 2,197	$ 3,789
For the Six Months Ended:						
Beginning balance	$ 10,929	$ 5,506	$ 16,435	$ 1,690	$ 2,197	$ 3,887
Provision/(recovery) for losses	(2,159)	1,990	(169)	-	-	-
Charge-offs	(7,725)	-	(7,725)	(108)	-	(108)
Recoveries	765	-	765	10	-	10
Ending balance	$ 1,810	$ 7,496	$ 9,306	$ 1,592	$ 2,197	$ 3,789

No allowance for losses has been provided for loans underlying AgVantage securities or securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"). Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security. As of June 30, 2009, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. As of June 30, 2009, Farmer Mac had not experienced any credit losses on any AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the United States Department of Agriculture ("USDA"). Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of June 30, 2009, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities.

The table below summarizes the components of Farmer Mac's allowance for losses as of June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
	(in thousands)	
Allowance for loan losses	$ 1,810	$ 10,929
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	-	869
Off-balance sheet Farmer Mac I Guaranteed Securities	1,703	535
LTSPCs	5,793	4,102
Farmer Mac Guaranteed Securities - Rural Utilities	-	-
Total	$ 9,306	$ 16,435

As of June 30, 2009, Farmer Mac individually analyzed $112.1 million of its $152.8 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $40.7 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac's specific allowance for under-collateralized assets was $1.5 million as of June 30, 2009 and $8.6 million as of December 31, 2008. Farmer Mac's non-specific or general allowances were $7.8 million as of both June 30, 2009 and December 31, 2008.

Farmer Mac recognized interest income of approximately $0.6 million and $1.7 million on impaired loans during the three and six months ended June 30, 2009, respectively, compared to $0.9 million and $2.1 million, respectively, during the same periods in 2008. During the three and six months ended June 30, 2009, Farmer Mac's average investment in impaired loans was $142.4 million and $136.2 million, respectively, compared to $43.6 million and $41.3 million, respectively, for the same periods in 2008.

(c) Financial Derivatives

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows or debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac also recognizes certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative as promulgated by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133").

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

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability in accordance with SFAS 133. Farmer Mac does not designate its financial derivatives as fair value hedges or cash flow hedges; therefore, the changes in the fair values of financial derivatives are reported as gains or losses on financial derivatives in the condensed consolidated statements of operations.

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

June 30, 2009

	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
			(dollars in thousands)				
Interest rate swaps:							
Pay fixed callable	$ 129,980	$ -	$ (3,037)	5.61%	0.95%		7.74
Pay fixed non-callable	1,207,273	-	(109,117)	5.17%	0.89%		5.20
Receive fixed callable	300,000	441	-	0.79%	1.36%		0.95
Receive fixed non-callable	2,680,559	15,326	(9,674)	0.87%	1.80%		2.16
Basis swaps	277,474	422	(3,411)	2.29%	1.15%		3.04
Agency forwards	30,142	-	(203)			98.47	
Treasury futures	2,400	1	-			116.33	
Credit valuation adjustment	-	(738)	2,156				
Total financial derivatives	$ 4,627,828	$ 15,452	$ (123,286)	2.21%	1.47%		

December 31, 2008

	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
			(dollars in thousands)				
Interest rate swaps:							
Pay fixed callable	$ 208,958	$ -	$ (6,646)	5.51%	3.23%		7.66
	1,311,218	-	(169,040)	5.21%	3.05%		5.33

Pay fixed non-callable							
Receive fixed callable	606,500	1,727	(65)	2.91%	3.20%		1.28
Receive fixed non-callable	1,347,069	25,269	(94)	2.23%	2.28%		1.43
Basis swaps	206,863	45	(3,734)	3.84%	3.28%		4.31
Agency forwards	74,998	-	(1,604)			105.85	
Treasury futures	2,500	28	-			126.88	
Total financial derivatives	$ 3,758,106	$ 27,069	$ (181,183)	3.68%	2.82%		

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In the normal course of business, collateral requirements contained in Farmer Mac's derivative contracts are enforced by Farmer Mac and its counterparties. Upon enforcement of the collateral requirements, the amount of collateral posted is typically based on the net fair value of all derivative contracts with the counterparty, i.e., derivative assets net of derivative liabilities at the counterparty level. If Farmer Mac were to be in violation of certain provisions of the derivative contracts, the related counterparty could request payment or full collateralization on the derivative contracts. As of June 30, 2009, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level, which includes accrued interest but excludes any adjustment for nonperformance risk, was $126.3 million. As of June 30, 2009, Farmer Mac posted assets with a fair value of $49.4 million as collateral for its derivatives in net liability positions. If Farmer Mac had breached certain provisions of the derivative contracts as of June 30, 2009, it could have been required to settle its obligations under the agreements or post additional collateral of $76.9 million.

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

	Gains/(Losses) on Financial Derivatives			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(in thousands)			
Interest rate swaps	$ 21,720	$ 30,582	$ 24,380	$ (10,566)
Agency forwards	(199)	534	(1,078)	215
Treasury futures	84	57	75	(85)
	21,605	31,173	23,377	(10,436)
Amortization of SFAS 133 transition adjustment	(77)	(123)	(138)	(234)
Total	$ 21,528	$ 31,050	$ 23,239	$ (10,670)

As of June 30, 2009 and December 31, 2008, respectively, Farmer Mac had approximately $0.1 million and $0.2 million of net after-tax unrealized losses on financial derivatives included in accumulated other comprehensive loss related to the SFAS 133 transition adjustment. These amounts will be reclassified into earnings in the same period or periods during which the hedged forecasted transactions (either the payment of interest or the issuance of discount notes) affect earnings or immediately when it becomes probable that the original hedged forecasted transaction will not occur within two months of the originally specified date. Over the next 12 months, Farmer Mac estimates that $0.1 million of the amount currently reported in accumulated other comprehensive loss will be reclassified into earnings.

As of June 30, 2009, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with total notional amount of $120.5 million and a fair value of $(3.4) million. As of December 31, 2008, those basis swaps had a total notional amount of $131.9 million and a fair value of $(3.7) million. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps economically hedge most of the interest rate basis risk related to loans Farmer Mac purchases that pay a Constant Maturity Treasury based-rate and the discount notes Farmer Mac issues to fund the loan purchases. The pricing of discount notes is closely correlated to LIBOR rates. Farmer Mac recorded unrealized gains of $0.8 million and $0.3 million on those outstanding basis swaps for the three and six months ended June 30, 2009, respectively, compared to an unrealized gain of $2.1 million and an unrealized loss of $0.4 million, respectively, for the same periods in 2008.

(d) Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share are based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights (“SARs”) and nonvested restricted stock awards. The following schedule reconciles basic and diluted earnings per common share (“EPS”) for the three and six months ended June 30, 2009 and 2008:

	For the Three Months Ended					
	June 30, 2009			June 30, 2008		
	Net Income	Shares	$ per Share	Net Income	Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income available to common stockholders	$ 25,385	10,138	$ 2.50	$ 21,431	9,964	$ 2.15
Effect of dilutive securities:						
Stock options, SARs and nonvested shares (1)		38	(0.01)		108	(0.02)
Diluted EPS	$ 25,385	10,176	$ 2.49	$ 21,431	10,072	$ 2.13

(1) For the three months ended June 30, 2009 and 2008, stock options, SARs and nonvested shares of 1,862,829 and 1,546,664, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive.

	For the Six Months Ended					
	June 30, 2009			June 30, 2008		
	Net Income	Shares	$ per Share	Net Income	Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income available to common stockholders	$ 58,903	10,136	$ 5.81	$ 13,174	9,916	$ 1.33
Effect of dilutive securities:						
Stock options, SARs and nonvested shares (1)		19	(0.01)		112	(0.02)
Diluted EPS	$ 58,903	10,155	$ 5.80	$ 13,174	10,028	$ 1.31

(1) For the six months ended June 30, 2009 and 2008, stock options, SARs and nonvested shares of 1,881,885 and 1,385,929, respectively, were outstanding but not included in the computation of diluted earnings per share of

common stock because they were anti-dilutive.

(e) Stock-Based Compensation

In 1997, Farmer Mac adopted a stock option plan for directors, officers and other employees to acquire shares of Class C Non-Voting Common Stock. Upon stock option exercise, new shares are issued by the Corporation. Under the plan, stock options awarded vest annually in thirds, with the first third vesting one year after the date of grant. If not exercised, any options granted under the 1997 plan expire ten years from the date of grant, except that options issued to directors since June 1, 1998, if not exercised, expire five years from the date of grant. For all stock options granted, the exercise price is equal to the closing price of the Class C Non-Voting Common Stock on or immediately preceding the date of grant. As of June 30, 2008, the plan had terminated pursuant to its terms and no further grants will be made under it.

During 2008, Farmer Mac's stockholders approved the 2008 Omnibus Incentive Compensation Plan that authorizes the grants of restricted stock, stock options and SARs, among other alternative forms of equity-based compensation, to directors, officers and other employees. SARs awarded to officers and employees vest annually in thirds and SARs awarded to directors vest fully after approximately one year. If not exercised or terminated earlier due to the termination of employment or service on the Board, SARs granted to officers or employees expire after ten years and those granted to directors expire after seven years. For all SARs granted, the exercise price is equal to the closing price of the Class C Non-Voting Common Stock on the date of grant. SARs granted during June 2009 have an exercise price of $5.93 per share. Restricted stock was awarded to directors in June 2009 and vests fully after approximately one year. Restricted stock awarded to officers vests after approximately three years and only vests if certain performance conditions are met. Restricted stock awards granted to both directors and officers are not issued until full vesting occurs.

For the three and six months ended June 30, 2009, Farmer Mac recognized $0.9 million and $1.6 million, respectively, of compensation expense related to stock options, SARs, and restricted stock awards compared to $1.4 million and $2.3 million for the same periods in 2008.

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

	June 30, 2009			June 30, 2008		
	Stock Options and SARs		Weighted-Average Exercise Price	Stock Options and SARs		Weighted-Average Exercise Price
For the Three Months Ended:						
Outstanding, beginning of period	1,697,829	$	24.66	2,218,199	$	25.48
Granted	165,000		5.93	339,770		28.92
Exercised	-		-	(157,966)		21.05
Canceled	(106,864)		22.12	(18,500)		28.79
Outstanding, end of period	1,755,965	$	23.06	2,381,503	$	26.24
For the Six Months Ended:						
Outstanding, beginning of period	2,237,711	$	25.54	2,218,199	$	25.48
Granted	165,000		5.93	339,770		28.92
Exercised	-		-	(157,966)		21.05
Canceled	(646,746)		27.28	(18,500)		28.79
Outstanding, end of period	1,755,965	$	23.06	2,381,503	$	26.24
Stock Options and SARs exercisable at the end of the period	1,349,258	$	25.51	1,597,527	$	25.06

	June 30, 2009			June 30, 2008		
	Nonvested Shares		Weighted-Average Grant-date Fair Value	Nonvested Shares		Weighted-Average Grant-date Fair Value
For the Three Months Ended:						
Nonvested at beginning of period	-	$	-	-	$	-
Granted	200,548		5.93	-		-
Canceled	-		-	-		-
Nonvested at end of period	200,548	$	5.93	-	$	-
For the Six Months Ended:						
Nonvested at beginning of period	-	$	-	-	$	-
Granted	200,548		5.93	-		-
Canceled	-		-	-		-
Nonvested at end of period	200,548	$	5.93	-	$	-

The cancellations of stock options during the first six months of 2009 and 2008 were due to unvested options or SARs terminating and the cancellation of a portion of vested options upon employee and officers' departures from Farmer Mac. There were no stock options or SARs exercised during the first six months of 2009 and 157,966 shares were exercised during the first six months of 2008.

The following tables summarize information regarding stock options, SARs and nonvested shares outstanding as of June 30, 2009:

	Outstanding		Exercisable		Vested or Expected to Vest	
Range of Exercise Prices	Stock Options and SARs	Weighted-Average Remaining Contractual Life	Stock Options and SARs	Weighted-Average Remaining Contractual Life	Stock Options and SARs	Weighted-Average Remaining Contractual Life
$5.00 - $ 9.99	255,000	9.7 years	-	-	229,500	9.7 years
10.00 - 14.99	-	-	-	-	-	-
15.00 - 19.99	81,722	4.7 years	81,722	4.7 years	81,722	4.7 years
20.00 - 24.99	552,088	4.8 years	541,249	4.8 years	548,836	4.8 years
25.00 - 29.99	653,487	5.3 years	528,622	4.8 years	637,734	5.3 years
30.00 - 34.99	213,668	2.6 years	197,665	2.2 years	208,867	2.5 years
	1,755,965		1,349,258		1,706,659	

	Outstanding		Expected to Vest	
Weighted-Average Grant-Date Fair Value	Nonvested Shares	Weighted-Average Remaining Contractual Life	Nonvested Shares	Weighted-Average Remaining Contractual Life
$ 5.93	200,548	1.6 years	180,493	1.6 years

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

	SARs and Stock Options	
	2009	2008
Risk-free interest rate	1.5%	2.5%
Expected years until exercise	7 years	6 years
Expected stock volatility	104.3%	43.2%
Dividend yield	3.4%	1.4%

	Nonvested Shares	
	2009	2008
Risk-free interest rate	1.5%	-
Expected years until vesting	3 years	-
Expected stock volatility	104.3%	-
Dividend yield	0.0%	-

(f) Reclassifications

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

(g) Fair Value

Effective January 1, 2008, Farmer Mac adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy that ranks the quality and reliability of the inputs to valuation techniques used to measure fair value. The hierarchy gives highest rank to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest rank to unobservable inputs (Level 3 measurements). Effective January 1, 2009, Farmer Mac adopted FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2") for all non-recurring fair value measurements of non-financial assets and liabilities. FSP 157-2 had delayed the effective date of SFAS 157 for non-recurring, non-financial assets and liabilities.

Farmer Mac's assessment of the significance of the input to the fair value measurement requires judgment, and considers factors specific to the financial instrument. Both observable and unobservable inputs may be used to determine the fair value of positions that Farmer Mac has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in long-dated volatilities) inputs.

Effective January 1, 2008, Farmer Mac adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 provides companies an irrevocable option to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. On January 1, 2008, Farmer Mac recorded a cumulative effect of adoption adjustment of $12.1 million, net of tax, as an increase to the beginning balance of retained earnings. The fair value option election was made for certain available-for-sale investment securities and certain Farmer Mac II Guaranteed Securities that were classified as held-to-maturity on January 1, 2008.

See Note 7 for more information regarding fair value measurement.

(h) New Accounting Standards

In April 2009, the FASB issued three final FSPs intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The FSPs are effective for interim and annual periods ending after June 15, 2009. Farmer Mac adopted the FSPs for the interim period ending June 30, 2009. Farmer Mac's adoption of this guidance did not have a material impact on its financial condition, results of operations or cash flows. Farmer Mac held no debt securities at the beginning of the interim period for which an other-than-temporary impairment was previously recognized. Accordingly, a cumulative effect of adoption adjustment was not recognized.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP amends and clarifies Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations, to address application issues relating to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP was effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Farmer Mac's adoption of this guidance did not have a material impact on its financial condition, results of operations or cash flows.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events. This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. This statement is effective for interim or annual financial periods ending after June 15, 2009. Farmer Mac's adoption of this guidance did not have a material impact on its financial condition, results of operations or cash flows. Farmer Mac evaluated subsequent events through August 10, 2009.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets ("SFAS 166") and Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) ("SFAS 167"). These statements address amendments to Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 140") and to FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities ("FIN 46(R)"). The two FASB statements are effective for fiscal years beginning after November 15, 2009. The statements, amending SFAS 140 and FIN 46(R), remove the concept of a qualifying special-purpose entity ("QSPE") from SFAS 140 and remove the exception from applying FIN 46(R) to QSPEs. Although Farmer Mac is currently evaluating the impact of these new accounting standards, Farmer Mac believes adoption of SFAS 166 and SFAS 167 will result in the consolidation of assets and liabilities onto Farmer Mac's balance sheet in connection with trusts that currently qualify for the QSPE exception. Additionally, interest income and interest expense related to the consolidated assets and liabilities related to the trusts will be reflected in the statement of operations. Farmer Mac expects it will be required to hold additional capital as a result of adopting SFAS 166 and SFAS 167; however, Farmer Mac believes it will have adequate capital to remain in compliance with regulatory capital requirements.

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

Note 2. Investments

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

	June 30, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 74,100	$ -	$ (5,384)	$ 68,716
Floating rate asset-backed securities	70,394	14	(288)	70,120
Floating rate corporate debt securities	349,645	-	(13,991)	335,654
Floating rate Government/GSE guaranteed mortgage-backed securities	301,644	235	(2,613)	299,266
Fixed rate GSE guaranteed mortgage-backed securities	6,812	235	-	7,047
Floating rate GSE subordinated debt	70,000	-	(15,813)	54,187
Floating rate GSE preferred stock	700	850	-	1,550
Total available-for-sale	873,295	1,334	(38,089)	836,540
Trading:				
Floating rate asset-backed securities	7,022	-	(5,085)	1,937
Fixed rate GSE preferred stock	179,898	3,602	-	183,500
Total trading	186,920	3,602	(5,085)	185,437
Total investment securities	$ 1,060,215	$ 4,936	$ (43,174)	$ 1,021,977

	December 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans (1)	$ 193,950	$ -	$ (15,373)	$ 178,577
Floating rate asset-backed securities	85,005	1	(3,750)	81,256
Floating rate corporate debt securities	458,428	-	(39,363)	419,065
Floating rate Government/GSE guaranteed mortgage-backed securities	338,907	270	(3,512)	335,665
Fixed rate GSE guaranteed mortgage-backed securities	7,375	188	-	7,563
Floating rate GSE subordinated debt	70,000	-	(20,811)	49,189
Floating rate GSE preferred stock	781	-	-	781
Total available-for-sale	1,154,446	459	(82,809)	1,072,096
Trading:				
Floating rate asset-backed securities	7,494	-	(5,283)	2,211
Fixed rate GSE preferred stock	180,579	-	(19,027)	161,552
Total trading	188,073	-	(24,310)	163,763
Total investment securities	$ 1,342,519	$ 459	$ (107,119)	$ 1,235,859

(1) The fair value of these securities as of December 31, 2008 are inclusive of the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its auction-rate certificates.

During the three and six months ended June 30, 2009, Farmer Mac recognized in earnings other-than-temporary impairment charges of $1.0 million and $1.1 million, respectively, compared to $5.3 million for the same periods during 2008. During second quarter 2009, Farmer Mac recorded an other-than-temporary impairment loss of $1.0 million related to its investment in CIT Group Inc. corporate debt securities. During second quarter 2008, Farmer Mac recorded an other-than-temporary impairment loss of $5.3 million related to its investment in Fannie Mae floating rate preferred stock. These losses were due to credit deterioration and were recognized as "Other-than-temporary impairment – credit losses" in the condensed consolidated statements of operations. During July 2009, Farmer Mac sold its investments in CIT Group Inc. corporate debt securities and Fannie Mae preferred stock and recognized an additional loss of $0.9 million and a recovery of $1.0 million, respectively, in third quarter 2009.

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

	June 30, 2009 Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate corporate debt securities	$ -	$ -	$ 301,638	$ (13,991)
Floating rate asset-backed securities	-	-	45,617	(288)
Floating rate Government guaranteed auction-rate certificates	-	-	68,716	(5,384)
Floating rate Government/GSE guaranteed mortgage-backed securities	179,172	(1,816)	61,854	(797)
Floating rate GSE subordinated debt	-	-	54,187	(15,813)
Total	$ 179,172	$ (1,816)	$ 532,012	$ (36,273)

	December 31, 2008 Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate corporate debt securities	$ 19,858	$ (142)	$ 393,808	$ (39,221)
Floating rate asset-backed securities	80,605	(3,750)	-	-
Floating rate Government guaranteed auction-rate certificates	58,727	(15,373)	-	-
Floating rate Government/GSE guaranteed mortgage-backed securities	263,516	(3,138)	10,751	(374)
Floating rate GSE subordinated debt	-	-	49,189	(20,811)
Total	$ 422,706	$ (22,403)	$ 453,748	$ (60,406)

The temporary unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to June 30, 2009 and December 31, 2008, as applicable. The resulting decreases in fair values reflect an increase in the perceived risk by the financial markets related to those securities. As of June 30, 2009, all of the investment securities in an unrealized loss position were rated at least “A” by Standard & Poor’s, except two that were rated “BBB+” and one that was rated “BB-”. As of December 31, 2008, all of the investment securities in an unrealized loss position were rated at least “A”, except one that was rated “BBB+” and one that was rated “BBB-”. The unrealized losses were on 106 and 116 individual investment securities as of June 30, 2009 and December 31, 2008, respectively.

As of June 30, 2009, 77 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $36.3 million. As of December 31, 2008, 34 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $60.4 million. Securities in unrealized loss positions 12 months or more have a fair value as of June 30, 2009 that is, on average, approximately 94 percent of their amortized cost basis. Farmer Mac believes that all these unrealized losses are recoverable within a reasonable period of time through changes in credit spreads or maturity and expects to recover the amortized cost bases of these securities. Accordingly, Farmer Mac has concluded that none of the unrealized losses on its available-for-sale investment securities represent other-than-temporary impairment as of June 30, 2009. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

As of June 30, 2009, Farmer Mac did not own any held-to-maturity investments. As of June 30, 2009, Farmer Mac owned trading investment securities that mature after five years with an amortized cost of $186.9 million, a fair value of $185.4 million, and a weighted average yield of 8.07 percent. The amortized cost, fair value and weighted-average yield of investments by remaining contractual maturity for available-for-sale investment securities as of June 30, 2009 are set forth below. Asset-backed and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets or mortgages.

	Investment Securities Available-for-Sale as of June 30, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
	(dollars in thousands)		
Due within one year	$ 104,552	$ 104,190	0.87%
Due after one year through five years	277,371	263,683	1.19%
Due after five years through ten years	132,139	131,440	2.30%
Due after ten years	359,233	337,227	1.75%
Total	$ 873,295	$ 836,540	1.55%

Note 3. Farmer Mac Guaranteed Securities

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

	June 30, 2009		
	Available-for-Sale	Trading	Total
	(in thousands)		
Farmer Mac I	$ 55,632	$ -	$ 55,632
Farmer Mac II	644,572	447,957	1,092,529
Rural Utilities	1,424,077	447,174	1,871,251
Total	$ 2,124,281	$ 895,131	$ 3,019,412
Amortized cost	$ 2,106,662	$ 854,253	$ 2,960,915
Unrealized gains	30,310	40,878	71,188
Unrealized losses	(12,691)	-	(12,691)
Fair value	$ 2,124,281	$ 895,131	$ 3,019,412

	December 31, 2008		
	Available-for-Sale	Trading	Total
	(in thousands)		
Farmer Mac I	$ 349,292	$ -	$ 349,292
Farmer Mac II	522,565	496,863	1,019,428
Rural Utilities	639,837	442,687	1,082,524
Total	$ 1,511,694	$ 939,550	$ 2,451,244
Amortized cost	$ 1,501,980	$ 907,506	$ 2,409,486
Unrealized gains	23,727	32,044	55,771
Unrealized losses	(14,013)	-	(14,013)
Fair value	$ 1,511,694	$ 939,550	$ 2,451,244

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of acquisition to June 30, 2009 and December 31, 2008, as applicable. As of June 30, 2009, the unrealized losses presented above are related to Farmer Mac II Guaranteed Securities, which are USDA-guaranteed portions. As of December 31, 2008, the available-for-sale unrealized losses were on 9 individual securities. One of the available-for-sale Farmer Mac I Guaranteed Securities in a loss position as of December 31, 2008 had been in a loss position for more than 12 months and had an unrealized loss that was less than one percent of the amortized security cost. Accordingly, Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities represents an other-than-temporary impairment as of June 30, 2009 and December 31, 2008. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

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

	June 30, 2009 (dollars in thousands)
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities	$ 3,019,412
Weighted-average remaining life (in years)	4.2
Weighted-average prepayment speed (annual rate)	4.4%
Effect on fair value of a 10% adverse change	$ (870)
Effect on fair value of a 20% adverse change	$ (1,825)
Weighted-average discount rate	3.3%
Effect on fair value of a 10% adverse change	$ (23,067)
Effect on fair value of a 20% adverse change	$ (46,721)

These sensitivities are hypothetical. Changes in fair value based on 10 percent or 20 percent variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In fact, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might amplify or counteract the sensitivities.

The table below presents the outstanding principal balances for Farmer Mac Guaranteed Securities, loans, and LTSPCs as of June 30, 2009 and December 31, 2008.

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

	June 30, 2009	December 31, 2008
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$ 650,290	$ 781,305
Guaranteed Securities	5,797	282,185
AgVantage	46,800	53,300
Farmer Mac II		
Guaranteed Securities	1,084,703	1,013,330
Farmer Mac Guaranteed		
Securities - Rural Utilities	1,819,033	1,054,941
Total on-balance sheet	$ 3,606,623	$ 3,185,061
Off-balance sheet:		
Farmer Mac I:		
Guaranteed Securities	$ 1,593,258	$ 1,697,983
AgVantage	2,945,000	2,945,000
LTSPCs	2,181,712	2,224,181
Farmer Mac II		
Guaranteed Securities	30,322	30,095
Total off-balance sheet	$ 6,750,292	$ 6,897,259
Total	$ 10,356,915	$ 10,082,320

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records these loans at their fair values in the condensed consolidated financial statements during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Fair values are determined by current collateral valuations or management's estimate of discounted collateral values, and represent the cash flows expected to be collected. Farmer Mac records, at acquisition, the difference between each loan's acquisition cost and its fair value, if any, as a charge-off to the reserve for losses. Subsequent to the purchase, such defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment. The following table presents information related to Farmer Mac's acquisition of defaulted loans for the three and six months ended June 30, 2009 and 2008 and the outstanding balances and carrying amounts of all such loans as of June 30, 2009 and December 31, 2008, respectively.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(in thousands)			
Fair value at acquisition date	$ 572	$ 26	$ 5,637	$ 1,189
Contractually required payments receivable	572	26	5,646	1,352
Impairment recognized subsequent to acquisition	5,725	-	7,725	-

	June 30, 2009	December 31, 2008
	(in thousands)	
Outstanding balance	$ 36,974	$ 91,942
Carrying amount	26,208	69,308

Net credit losses and 90-day delinquencies as of and for the periods indicated for Farmer Mac Guaranteed Securities, loans and LTSPCs are presented in the table below. Information is not presented for loans underlying AgVantage securities or Farmer Mac II Guaranteed Securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. As of June 30, 2009, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. As of June 30, 2009, Farmer Mac had not experienced any credit losses on any AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of June 30, 2009, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities.

	90-Day Delinquencies (1)			Net Credit Losses (2)	
	As of June 30, 2009	As of December 31, 2008	As of June 30, 2008	For the Six Months Ended June 30, 2009	2008
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$ 23,546	$ 65,060	$ 3,883	$ 6,960	$ 98
Total on-balance sheet	$ 23,546	$ 65,060	$ 3,883	$ 6,960	$ 98
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$ 18,761	$ 2,060	$ 1,287	$ -	$ -
Guaranteed Securities	-	-	-	-	-
Total off-balance sheet	$ 18,761	$ 2,060	$ 1,287	$ -	$ -
Total	$ 42,307	$ 67,120	$ 5,170	$ 6,960	$ 98

(1) Includes loans and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, restructured after delinquency, and in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

(2) Includes loans and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

Note 4. Comprehensive Income

Comprehensive income represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised primarily of net income and unrealized gains and losses on securities available-for-sale, net of related taxes. The following table sets forth Farmer Mac's comprehensive income for the three and six months ended June 30, 2009 and 2008:

	For the Three Months Ended June 30, 2009	June 30, 2008	For the Six Months Ended June 30, 2009	June 30, 2008
		(in thousands)		
Net income	$ 29,515	$ 21,991	$ 66,969	$ 14,294
Available-for-sale securities, net of tax:				
Net unrealized holding gains/(losses)	32,178	8,595	33,941	(6,839)
Reclassification adjustment for realized losses	835	3,376	835	3,376
Net change from available-for-sale securities (1)	33,013	11,971	34,776	(3,463)
Financial derivatives, net of tax:				
Reclassification for amortization of SFAS 133 transition adjustment (2)	50	84	90	156
Other comprehensive income/(loss), net of tax	33,063	12,055	34,866	(3,307)
Comprehensive income	$ 62,578	$ 34,046	$ 101,835	$ 10,987

(1) Unrealized gains/(losses) on available-for-sale securities is shown net of income tax (expense)/benefit of $(17.8) million and $(6.4) million for the three months ended June 30, 2009 and 2008, respectively, and $(18.7) million

and $1.9 million for the six months ended June 30, 2009 and 2008, respectively.

(2) Amortization of SFAS 133 transition adjustment is shown net of income tax expense of $27,000 and $45,000 for the three months ended June 30, 2009 and 2008, respectively, and $48,000 and $0.1 million for the six months ended June 30, 2009 and 2008, respectively.

The following table presents Farmer Mac's accumulated other comprehensive loss as of June 30, 2009 and December 31, 2008 and changes in the components of accumulated other comprehensive loss for the six months ended June 30, 2009 and the year ended December 31, 2008.

	June 30, 2009	December 31, 2008
	(in thousands)	
Available-for-sale securities:		
Beginning balance	$ (47,214)	$ (2,320)
Reclassification adjustment to retained earnings for SFAS 159 adoption, net of tax	-	(11,237)
Adjusted beginning balance	(47,214)	(13,557)
Net unrealized gains/(losses), net of tax	34,776	(33,657)
Ending balance	$ (12,438)	$ (47,214)
Financial derivatives:		
Beginning balance	$ (198)	$ (473)
Amortization of SFAS 133 transition adjustment on financial derivatives, net of tax	90	275
Ending balance	$ (108)	$ (198)
Accumulated other comprehensive loss, net of tax	$ (12,546)	$ (47,412)

Farmer Mac held no debt securities at the beginning of the interim period for which an other-than-temporary impairment was previously recognized. Accordingly, a cumulative effect of adoption adjustment was not recognized upon adoption of FSP FAS 115-2 and FAS 124-2.

Note 5. Off-Balance Sheet Guarantees and Long-Term Standby Purchase Commitments

Overview

Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through each of the Farmer Mac I, Farmer Mac II and Rural Utilities programs; and (2) LTSPCs, which are available only through the Farmer Mac I and Rural Utilities programs. Both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business. Farmer Mac accounts for these transactions and other financial guarantees in accordance with FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). In accordance with FIN 45, Farmer Mac records, at the inception of a guarantee, a liability for the fair value of its obligation to stand ready to perform under the terms of each guarantee and an asset that is equal to the fair value of the fees that will be received over the life of each guarantee. The fair values of the guarantee obligation and asset at inception are based on the present value of expected cash flows using management's best estimate of certain key assumptions, including prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are derived using a Monte Carlo simulation model. The guarantee obligation and corresponding asset are subsequently amortized into guarantee and commitment fee income in relation to the decline in the unpaid principal balance on the underlying agricultural real estate mortgage and rural utilities loans.

Off-Balance Sheet Farmer Mac Guaranteed Securities

Eligible loans and other eligible assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. Proceeds from new securitizations during the six months ended June 30, 2009 and 2008 were $17.2 million and $1.4 million, respectively. The increase year over year was driven by the first quarter 2009 transfer of $17.1 million of agricultural mortgage loans held on balance sheet into a trust as part of a securitization transaction in which guaranteed agricultural mortgage-backed securities were sold to Zions First National Bank, a related party. The following table summarizes cash flows received from and paid to trusts used for securitizations:

	For the Six Months Ended	
	June 30, 2009	June 30, 2008
	(in thousands)	
Proceeds from new securitizations	$ 17,224	$ 1,390
Guarantee fees received	5,858	6,145
Purchases of assets from the trusts	-	304
Servicing advances	7	6
Repayment of servicing advances	2	2

The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of June 30, 2009 and December 31, 2008, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans.

Outstanding Balance of Off-Balance Sheet
Farmer Mac Guaranteed Securities

	June 30, 2009	December 31, 2008
	(in thousands)	
Farmer Mac I Guaranteed Securities	$ 1,593,258	$ 1,697,983
AgVantage	2,945,000	2,945,000
Farmer Mac II Guaranteed Securities	30,322	30,095
Total off-balance sheet Farmer Mac I and II	$ 4,568,580	$ 4,673,078

For those securities issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated $32.9 million as of June 30, 2009 and $37.1 million as of December 31, 2008. As of June 30, 2009, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.6 years.

Long-Term Standby Purchase Commitments (LTSPCs)

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

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was $2.2 billion as of both June 30, 2009 and December 31, 2008.

As of June 30, 2009, the weighted-average remaining maturity of all loans underlying LTSPCs was 15.1 years. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated $17.7 million as of June 30, 2009 and $17.9 million as of December 31, 2008.

Note 6. Stockholders' Equity and Mezzanine Equity

Common Stock

Farmer Mac has three classes of common stock outstanding:

- Class A Voting Common Stock, which may be held only by banks, insurance companies and other financial institutions or similar entities that are not institutions of the Farm Credit System. By federal statute, no holder of Class A Voting Common Stock may directly or indirectly be a beneficial owner of more than 33 percent of the outstanding shares of that class of stock;
- Class B Voting Common Stock, which may be held only by institutions of the Farm Credit System. There are no restrictions on the maximum holdings of Class B Voting Common Stock; and
- Class C Non-Voting Common Stock, which has no ownership restrictions.

From fourth quarter 2004 through fourth quarter 2008, Farmer Mac paid a quarterly dividend of $0.10 per share on all classes of the Corporation's common stock. On March 11, 2009, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock payable on April 3, 2009. On June 3, 2009, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock payable on June 30, 2009. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Preferred Stock

Farmer Mac has two series of preferred stock outstanding:

- Series B, which was newly issued on September 30, 2008 and on December 15, 2008, is temporary equity and is reported as Mezzanine Equity on the condensed consolidated balance sheets because it contains redemption features that, although remote, are not solely within the control of Farmer Mac; and
- Series C, which was newly issued during fourth quarter 2008 and during 2009, is a component of Stockholders' Equity on the condensed consolidated balance sheets.

During the second quarter of 2009, Farmer Mac sold 20,000 shares of its Series C Preferred Stock to National Rural Cooperative Finance Corporation ("National Rural") pursuant to a program under which any participant who uses Farmer Mac for a credit enhancement or purchase transaction in excess of $20.0 million is required to purchase an equity interest in Farmer Mac in the form of shares of Series C, thereby enabling Farmer Mac to raise additional capital to support its mission of providing liquidity and lending capacity to agricultural and rural utilities lenders, compared to 10,800 shares in the first quarter of 2009. Farmer Mac sold the shares of Series C without registration under the Securities Act of 1933, as amended, in reliance upon the exemption provided by Section 3(a)(2), for an aggregate purchase price of $20.0 million or $1,000 per share in the second quarter of 2009, compared to $10.8 million in the first quarter 2009. There were 40,000 shares of Series C Preferred Stock outstanding as of June 30, 2009, all held by National Rural.

Farmer Mac's ability to declare and pay dividends on its outstanding preferred stock could be restricted if it failed to comply with regulatory capital requirements. All series of Farmer Mac's preferred stock are included as components of core capital for regulatory and statutory capital compliance measurements.

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to, and as of June 30, 2009 was in compliance with, its three statutory and regulatory capital requirements:

- Minimum capital – Farmer Mac's minimum capital level is equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, including Farmer Mac Guaranteed Securities and LTSPCs;
- Critical capital – Farmer Mac's critical capital level is equal to 50 percent of the minimum capital requirement at that time; and
- Risk-based capital – the Farm Credit Administration ("FCA") has established a risk-based capital stress test for Farmer Mac.

As of June 30, 2009, Farmer Mac's minimum and critical capital requirements were $196.2 million and $98.1 million, respectively, and Farmer Mac's core capital level was $296.1 million, $99.9 million above the minimum capital requirement and $198.0 million above the critical capital requirement. As of December 31, 2008, Farmer Mac's minimum and critical capital requirements were $193.5 million and $96.7 million, respectively, and its actual core capital level was $207.0 million, $13.5 million above the minimum capital requirement and $110.2 million above the critical capital requirement.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of June 30, 2009 was $50.2 million and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $305.4 million exceeded that requirement by approximately $255.2 million.

Note 7. Fair Value Disclosures

Fair Value Measurement

Effective January 1, 2008, Farmer Mac adopted SFAS 157 which defines fair value, establishes a hierarchy for ranking fair value measurements, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price).

In determining fair value, Farmer Mac uses various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy established in SFAS 157 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. When available, the fair value of Farmer Mac's financial instruments is based on quoted market prices, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information obtained from third parties is internally validated for reasonableness prior to use in the condensed consolidated financial statements.

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

The fair value hierarchy established in SFAS 157 ranks the quality and reliability of the information used to determine fair values. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard describes the following three levels used to classify fair value measurements:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require unobservable inputs that are significant to the fair value measurement.

Farmer Mac performed a detailed analysis of the assets and liabilities carried at fair value to determine the appropriate level based on the transparency of the inputs used in the valuation techniques. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Farmer Mac's assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument. While Farmer Mac believes its valuation methods are appropriate and consistent with those of other market participants, using different methodologies or assumptions to determine fair value could result in a materially different estimate of the fair value of some financial instruments.

The following is a description of the fair value techniques used for instruments measured at fair value as well as the general classification of such instruments pursuant to the valuation hierarchy described above. Fair value measurements related to financial instruments that are reported at fair value in the consolidated financial statements each period are referred to as recurring fair value measurements. Fair value measurements related to assets and liabilities that are not reported at fair value each period but are subject to fair value adjustments in certain circumstances are referred to as nonrecurring fair value measurements.

Recurring Fair Value Measurements and Classification

Available-for-Sale and Trading Investment Securities

Fair value is primarily determined using a reputable and nationally recognized third party pricing service for a significant portion of Farmer Mac's investment portfolio, including most asset-backed securities, corporate debt securities, Government/GSE guaranteed mortgage-backed securities and preferred stock issued by Fannie Mae. The prices obtained are non-binding and generally representative of recent market trades. The fair values of certain asset-backed and Government guaranteed mortgage-backed securities are estimated based on quotations from brokers or dealers. Farmer Mac corroborates its primary valuation source by obtaining a secondary price from another independent third party pricing service. Farmer Mac classifies these fair value measurements as Level 2.

For investment securities which are thinly traded or not quoted, Farmer Mac estimates fair value using internally-developed models that employ a discounted cash flow approach. Farmer Mac maximizes the use of observable market data, including prices of financial instruments with similar maturities and characteristics, interest rate yield curves, measures of volatility and prepayment rates. Farmer Mac generally considers a market to be inactive if the following conditions exist: (1) there are few transactions for the financial instruments; (2) the prices in the market are not current; (3) the price quotes vary significantly either over time or among independent pricing services or dealers; or (4) there is a limited availability of public market information. Farmer Mac classifies these fair value measurements as Level 3.

Due to the lack of an active market for Farmer Mac's investments in auction-rate certificates ("ARCs") and GSE preferred stock issued by CoBank, ACB and AgFirst Farm Credit Bank with current par values of $74.1 million, $88.5 million and $88.0 million, respectively, Farmer Mac transferred these securities from Level 2 to Level 3 during 2008. Farmer Mac's transfers in and out of Level 3 are as of the beginning of the reporting period on a quarterly basis. During first quarter 2009, Farmer Mac changed the inputs to its discounted cash flow model used to estimate the fair value of its investments in thinly traded GSE preferred stock. The benchmark securities previously used to derive credit spreads for estimates of fair value as of December 31, 2008 were preferred stock issued by large national financial institutions. The preferred stock securities of these large financial institutions experienced significant volatility during first quarter 2009 due to changes in the credit quality of the issuers and the market expectations regarding projected cash flows for the securities. The change in the market expectations of projected future cash flows for those securities was inconsistent with the Farm Credit System preferred stock owned by Farmer Mac. Had Farmer Mac estimated the fair value of the Farm Credit System preferred stock as of December 31, 2008 using the new methodology in place as of June 30, 2009, the fair values of those securities would have been $175.0 million, an increase of approximately $13.4 million from the estimated fair value of $161.6 million as of December 31, 2008.

For second quarter 2009, Farmer Mac transferred its investment in the subordinated debt of CoBank with a par value of $70.0 million from Level 2 to Level 3 for purposes of estimating its fair value. Farmer Mac determined that the third party pricing service used to estimate fair value for this security as a Level 2 investment, in second quarter 2009, provided a price that, while representative of a recent market trade, was not reflective of an orderly transaction. In accordance with FSP FAS 157-4, Farmer Mac used its internally-developed models as an alternative valuation technique to estimate fair value as a Level 3 investment.

Available-for-Sale and Trading Farmer Mac Guaranteed Securities

Farmer Mac estimates the fair value of its Farmer Mac Guaranteed Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Farmer Mac classifies these measurements as Level 3 because there is limited market activity and therefore little or no price transparency. On a sample basis, Farmer Mac corroborates the fair value of its Farmer Mac Guaranteed Securities by obtaining a secondary valuation from an independent third party pricing service.

Financial Derivatives

The fair value of exchange-traded U.S. Treasury futures is based on unadjusted quoted prices for identical financial instruments. Farmer Mac classifies these fair value measurements as Level 1.

Farmer Mac's derivative portfolio consists primarily of interest rate swaps and forward sales contracts on the debt of other GSEs. Farmer Mac estimates the fair value of these financial instruments based upon the counterparty valuations. Farmer Mac internally values its derivative portfolio using a discounted cash flow valuation technique and obtains a secondary valuation for certain interest rate swaps to corroborate the counterparty valuations. Farmer Mac also regularly reviews the counterparty valuations as part of the collateral exchange process. Farmer Mac classifies these fair value measurements as Level 2.

Certain basis swaps are nonstandard interest rate swap structures and are therefore internally modeled using significant assumptions and unobservable inputs, resulting in Level 3 classification. Farmer Mac uses a discounted cash flow valuation technique, using management's best estimates of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved.

As of June 30, 2009, the consideration of credit risk, Farmer Mac's and the counterparties', resulted in an adjustment to the valuations of Farmer Mac's derivative portfolio of $1.4 million. As of December 31, 2008, the consideration of credit risk, Farmer Mac's and the counterparties', did not result in a material adjustment to the valuations of Farmer Mac's derivative portfolio.

Nonrecurring Fair Value Measurements and Classification

Loans Held for Sale

Loans held for sale are reported at the lower of cost or fair value in the condensed consolidated balance sheets. Farmer Mac internally models the fair value of loans by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. The fair values of these instruments are classified as Level 3 measurements. As of June 30, 2009 and December 31, 2008, Farmer Mac's loans held for sale were reported at cost.

Real Estate Owned Properties

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

Fair Value Classification and Transfers

As of June 30, 2009, Farmer Mac's assets and liabilities recorded at fair value included financial instruments and non-financial assets valued at $3.4 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 63 percent of total assets and 80 percent of financial instruments measured at fair value as of June 30, 2009.

As of December 31, 2008, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $2.8 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., Level 3). These financial instruments measured as Level 3 represented 55 percent of total assets and 72 percent of financial instruments measured at fair value as of December 31, 2008.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2009 and December 31, 2008, respectively, and indicates the fair value hierarchy of the valuation techniques used by Farmer Mac to determine such fair value.

Assets and Liabilities Measured at Fair Value as of June 30, 2009

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ -	$ 68,716	$ 68,716
Floating rate asset-backed securities	-	70,120	-	70,120
Floating rate corporate debt securities	-	335,654	-	335,654
Floating rate Government/GSE guaranteed mortgage-backed securities	-	299,266	-	299,266
Fixed rate GSE guaranteed mortgage-backed securities	-	7,047	-	7,047
Floating rate GSE subordinated debt	-	-	54,187	54,187
Floating rate GSE preferred stock	-	1,550	-	1,550
Total available-for-sale	-	713,637	122,903	836,540
Trading:				
Floating rate asset-backed securities	-	-	1,937	1,937
Fixed rate GSE preferred stock	-	-	183,500	183,500
Total trading	-	-	185,437	185,437
Total investment securities	-	713,637	308,340	1,021,977
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	55,632	55,632
Farmer Mac II	-	-	644,572	644,572
Rural Utilities	-	-	1,424,077	1,424,077
Total available-for-sale	-	-	2,124,281	2,124,281
Trading:				
Farmer Mac II	-	-	447,957	447,957
Rural Utilities	-	-	447,174	447,174
Total trading	-	-	895,131	895,131
Total Farmer Mac Guaranteed Securities	-	-	3,019,412	3,019,412
Financial Derivatives	1	15,451	-	15,452
Total Assets at fair value	$ 1	$ 729,088	$ 3,327,752	$ 4,056,841
Liabilities :				
Financial Derivatives	$ -	$ 119,936	$ 3,350	$ 123,286
Total Liabilities at fair value	$ -	$ 119,936	$ 3,350	$ 123,286

Nonrecurring:				
Assets:				
REO	$ -	$ -	$ 43,260	$ 43,260
Total Assets at fair value	$ -	$ -	$ 43,260	$ 43,260

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

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans (1)	$ -	$ -	$ 178,577	$ 178,577
Floating rate asset-backed securities	-	81,256	-	81,256
Floating rate corporate debt securities	-	419,065	-	419,065
Floating rate Government/GSE guaranteed mortgage-backed securities	-	335,665	-	335,665
Fixed rate GSE guaranteed mortgage-backed securities	-	7,563	-	7,563
Floating rate GSE subordinated debt	-	49,189	-	49,189
Floating rate GSE preferred stock	-	781	-	781
Total available-for-sale	-	893,519	178,577	1,072,096
Trading:				
Floating rate asset-backed securities	-	-	2,211	2,211
Fixed rate GSE preferred stock	-	-	161,552	161,552
Total trading	-	-	163,763	163,763
Total investment securities	-	893,519	342,340	1,235,859
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	349,292	349,292
Farmer Mac II	-	-	522,565	522,565
Rural Utilities	-	-	639,837	639,837
Total available-for-sale	-	-	1,511,694	1,511,694
Trading:				
Farmer Mac II	-	-	496,863	496,863
Rural Utilities	-	-	442,687	442,687
Total trading	-	-	939,550	939,550
Total Farmer Mac Guaranteed Securities	-	-	2,451,244	2,451,244
Financial Derivatives	28	27,041	-	27,069
Total Assets at fair value	$ 28	$ 920,560	$ 2,793,584	$ 3,714,172
Liabilities:				
Financial Derivatives	$ -	$ 177,464	$ 3,719	$ 181,183
Total Liabilities at fair value	$ -	$ 177,464	$ 3,719	$ 181,183

(1)Includes the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its ARC holdings.

The following tables present additional information about assets and liabilities measured at fair value on a recurring and nonrecurring basis for which Farmer Mac has used significant Level 3 inputs to determine fair value for the three months ended June 30, 2009 and June 30, 2008, respectively.

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

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
	(in thousands)					
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 67,636	$ -	$ -	$ 1,080	$ -	$ 68,716
Floating rate GSE subordinated debt	-	-	-	5,055	49,132	54,187
Total available-for-sale	67,636	-	-	6,135	49,132	122,903
Trading:						
Floating rate asset-backed securities(1)	1,962	(205)	180	-	-	1,937
Fixed rate GSE preferred stock(1)	176,790	(333)	7,043	-	-	183,500
Total trading	178,752	(538)	7,223	-	-	185,437
Total investment securities	246,388	(538)	7,223	6,135	49,132	308,340
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	63,216	(6,570)	-	(1,014)	-	55,632
Farmer Mac II	588,996	56,760	-	(1,184)	-	644,572
Rural Utilities	912,695	500,000	-	11,382	-	1,424,077
Total available-for-sale	1,564,907	550,190	-	9,184	-	2,124,281
Trading:						
Farmer Mac II(2)	476,681	(23,428)	(5,296)	-	-	447,957
Rural Utilities(1)	449,066	-	(1,892)	-	-	447,174
Total trading	925,747	(23,428)	(7,188)	-	-	895,131
Total Farmer Mac Guaranteed Securities	2,490,654	526,762	(7,188)	9,184	-	3,019,412
Total Assets at fair value	$ 2,737,042	$ 526,224	$ 35	$ 15,319	$ 49,132	$ 3,327,752
Liabilities:						

Financial Derivatives(3)	$	(4,236)	$	-	$	886	$	-	$	-	$	(3,350)
Total Liabilities at fair value	$	(4,236)	$	-	$	886	$	-	$	-	$	(3,350)
Nonrecurring:												
Assets:												
REO	$	-	$	-	$	-	$	-	$	43,260	$	43,260
Total Assets at fair value	$	-	$	-	$	-	$	-	$	43,260	$	43,260

(1) Unrealized gains/(losses) are attributable to assets still held as of June 30, 2009 and are recorded in gains/(losses) on trading assets.

(2) Includes unrealized gains of approximately $4.9 million attributable to assets still held as of June 30, 2009 that are recorded in gains/(losses) on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of June 30, 2009 and are recorded in gains/(losses) on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2008

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 229,360	$ (20,000)	$ -	$ -	$ -	$ 209,360
Floating rate corporate debt securities	399,331	-	-	-	(399,331)	-
Fixed rate corporate securities	503,089	-	-	-	(503,089)	-
Total available-for-sale	1,131,780	(20,000)	-	-	(902,420)	209,360
Trading:						
Floating rate asset-backed securities(1)	7,179	(205)	440	-	-	7,414
Fixed rate mortgage-backed securities	459,026	-	-	-	(459,026)	-
Total trading	466,205	(205)	440	-	(459,026)	7,414
Total investment securities	1,597,985	(20,205)	440	-	(1,361,446)	216,774
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	325,272	68,979	-	(2,347)	-	391,904
Rural Utilities	-	-	-	(781)	902,420	901,639
Total available-for-sale	325,272	68,979	-	(3,128)	902,420	1,293,543
Trading:						
Farmer Mac II(2)	445,202	9,515	(4,155)	-	-	450,562
Rural Utilities(1)	-	-	(17,341)	-	459,026	441,685
Total trading	445,202	9,515	(21,496)	-	459,026	892,247
Total Farmer Mac Guaranteed Securities	770,474	78,494	(21,496)	(3,128)	1,361,446	2,185,790
Total Assets at fair value	$ 2,368,459	$ 58,289	$ (21,056)	$ (3,128)	$ -	$ 2,402,564
Liabilities:						
Financial Derivatives(3)	$ (3,507)	$ -	$ 2,050	$ -	$ -	$ (1,457)
Total Liabilities at fair value	$ (3,507)	$ -	$ 2,050	$ -	$ -	$ (1,457)

Nonrecurring:						
Loans held for sale	$ -	$ -	$ (61)	$ -	$ 142,756	$ 142,695

(1) Unrealized gains/(losses) are attributable to assets still held as of June 30, 2008 and are recorded in gains/(losses) on trading assets.
(2) Includes unrealized gains of approximately $1.8 million attributable to assets still held as of June 30, 2008 that are recorded in gains/(losses) on trading assets.
(3) Unrealized gains are attributable to liabilities still held as of June 30, 2008 and are recorded in gains /(losses) on financial derivatives.

The following tables present additional information about assets and liabilities measured at fair value on a recurring and nonrecurring basis for which Farmer Mac has used significant Level 3 inputs to determine fair value for the six months ended June 30, 2009 and June 30, 2008, respectively.

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

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
	(in thousands)					
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 178,577	$ (119,850)	$ -	$ 9,989	$ -	$ 68,716
Floating rate GSE subordinated debt	-	-	-	5,055	49,132	54,187
Total available-for-sale	178,577	(119,850)	-	15,044	49,132	122,903
Trading:						
Floating rate asset-backed securities(1)	2,211	(473)	199	-	-	1,937
Fixed rate GSE preferred stock(1)	161,552	(681)	22,629	-	-	183,500
Total trading	163,763	(1,154)	22,828	-	-	185,437
Total investment securities	342,340	(121,004)	22,828	15,044	49,132	308,340
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	349,292	(3,681)	-	(1,967)	(288,012)	55,632
Farmer Mac II	522,565	118,251	-	3,756	-	644,572
Rural Utilities	639,837	770,000	-	14,240	-	1,424,077
Total available-for-sale	1,511,694	884,570	-	16,029	(288,012)	2,124,281
Trading:						
Farmer Mac II(2)	496,863	(47,342)	(1,564)	-	-	447,957
Rural Utilities(1)	442,687	(5,909)	10,396	-	-	447,174
Total trading	939,550	(53,251)	8,832	-	-	895,131
Total Farmer Mac Guaranteed Securities	2,451,244	831,319	8,832	16,029	(288,012)	3,019,412
Total Assets at fair value	$ 2,793,584	$ 710,315	$ 31,660	$ 31,073	$ (238,880)	$ 3,327,752
Liabilities:						
Financial Derivatives(3)	$ (3,719)	$ -	$ 369	$ -	$ -	$ (3,350)

Total Liabilities at fair value	$	(3,719)	$	-	$	369	$	-	$	-	$	(3,350)
Nonrecurring:												
Assets:												
REO	$	-	$	-	$	-	$	-	$	43,260	$	43,260
Total Assets at fair value	$	-	$	-	$	-	$	-	$	43,260	$	43,260

(1) Unrealized gains are attributable to assets still held as of June 30, 2009 and are recorded in gains/(losses) on trading assets.

(2) Includes unrealized losses of approximately $0.9 million attributable to assets still held as of June 30, 2009 that are recorded in gains/(losses) on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of June 30, 2009 and are recorded in gains/(losses) on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2008

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
	(in thousands)					
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ -	$ 79,931	$ -	$ (2,115)	$ 131,544	$ 209,360
Floating rate corporate debt securities						