

FEDERAL AGRICULTURAL MORTGAGE CORP

Form 10-Q/A

November 13, 2013

As filed with the Securities and Exchange Commission on November 13, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q/A

AMENDMENT NO. 2

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

Commission File Number 001-14951

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION

(Exact name of registrant as specified in its charter)

Federally chartered instrumentality  
of the United States

52-1578738

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. employer identification number)

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

20006

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

(Zip code)

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Yes  No

As of November 1, 2013, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,333,160 shares of Class C non-voting common stock.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

FORM 10-Q/A

Amendment No. 2

## EXPLANATORY NOTE

This Amendment No. 2 on Form 10-Q/A (“Amendment 2”) to the Quarterly Report on Form 10-Q of the Federal Agricultural Mortgage Corporation (“Farmer Mac”) for the fiscal quarter ended September 30, 2013 (the “Third Quarter 2013 Form 10-Q”), initially filed with the Securities and Exchange Commission (the “SEC”) on November 12, 2013 (the “Original Filing”), as amended by Amendment No. 1 on Form 10-Q/A filed with the SEC on November 12, 2013 (“Amendment 1”), is being filed because the certifications required by Rules 13a-14(a) and 15d-14(a) were not included as exhibits to the Original Filing due to a technological error and were filed separately with Amendment 1. Amendment 2 is now being filed to include the certifications required by Rules 13a-14(a) and 15d-14(a) as exhibits to the Original Filing, as a complete submission.

Except as described above, no other changes have been made to the Third Quarter 2013 Form 10-Q, as amended by Amendment 1, and this Amendment 2 does not amend, update, or change the financial statements or disclosures in the Third Quarter 2013 Form 10-Q, as amended by Amendment 1. Therefore, this Amendment 2 does not reflect events occurring after the filing of the Original Filing or Amendment 1 or amend or update those disclosures, or related exhibits, affected by subsequent events. Accordingly, this Amendment 2 should be read in conjunction with Farmer Mac’s other filings with the SEC subsequent to the filing of the Original Filing and Amendment 1.

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## PART I - FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2013	December 31, 2012
	(in thousands)	
Assets:		
Cash and cash equivalents	\$651,713	\$785,564
Investment securities:		
Available-for-sale, at fair value	2,502,135	2,498,382
Trading, at fair value	977	1,247
Total investment securities	2,503,112	2,499,629
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	5,138,756	4,766,258
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,566,691	1,486,595
Trading, at fair value	62,319	104,188
Total USDA Guaranteed Securities	1,629,010	1,590,783
Loans:		
Loans held for sale, at lower of cost or fair value	—	673,991
Loans held for investment, at amortized cost	2,435,652	1,503,559
Loans held for investment in consolidated trusts, at amortized cost	563,855	563,575
Allowance for loan losses	(6,869)	(11,351)
Total loans, net of allowance	2,992,638	2,729,774
Real estate owned, at lower of cost or fair value	2,880	3,985
Financial derivatives, at fair value	19,676	31,173
Interest receivable (includes \$3,505 and \$9,676, respectively, related to consolidated trusts)	70,625	103,414
Guarantee and commitment fees receivable	43,496	41,789
Deferred tax asset, net	17,226	3,123
Prepaid expenses and other assets	15,875	66,709
Total Assets	\$13,085,007	\$12,622,201
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$7,021,678	\$6,567,366
Due after one year	5,037,035	5,034,739
Total notes payable	12,058,713	11,602,105
Debt securities of consolidated trusts held by third parties	178,076	167,621
Financial derivatives, at fair value	91,445	150,682
Accrued interest payable (includes \$1,485 and \$2,534, respectively, related to consolidated trusts)	37,460	51,779
Guarantee and commitment obligation	40,106	37,803
Accounts payable and accrued expenses	67,386	13,710
Reserve for losses	6,573	5,539
Total Liabilities	12,479,759	12,029,239

## Equity:

## Preferred stock:

Series A, par value \$25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	—
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Series C, par value \$1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	—	57,578
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## Common stock:

Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
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Class B Voting, \$1 par value, no maximum authorization, 500,301 shares outstanding	500	500
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Class C Non-Voting, \$1 par value, no maximum authorization, 9,328,968 shares and 9,171,343 shares outstanding, respectively	9,329	9,171
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Additional paid-in capital	109,675	106,617
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Accumulated other comprehensive income, net of tax, related to available-for-sale securities	26,828	73,969
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Retained earnings	157,699	102,243
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Total Stockholders' Equity	363,395	351,109
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Non-controlling interest - preferred stock	241,853	241,853
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Total Equity	605,248	592,962
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Total Liabilities and Equity	\$13,085,007	\$12,622,201
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See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	\$ 5,263	\$ 6,437	\$ 16,468	\$ 18,693
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	32,746	33,261	96,072	108,530
Loans	24,966	24,112	73,678	81,296
Total interest income	62,975	63,810	186,218	208,519
Total interest expense	34,787	33,448	101,499	109,332
Net interest income	28,188	30,362	84,719	99,187
Release of/(provision for) loan losses	499	(137)	) 598	663
Net interest income after release of loan losses	28,687	30,225	85,317	99,850
Non-interest income/(loss):				
Guarantee and commitment fees	6,819	6,401	20,190	18,395
Gains/(losses) on financial derivatives and hedging activities	3,024	1,558	22,501	(23,334)
Losses on trading assets	(626)	) (441)	) (743)	) (2,428)
Gains on sale of available-for-sale investment securities	—	—	3,073	28
Gains/(losses) on sale of real estate owned	39	(13)	) 1,210	249
Other income	565	959	2,518	2,451
Non-interest income/(loss)	9,821	8,464	48,749	(4,639)
Non-interest expense:				
Compensation and employee benefits	4,523	4,375	13,792	13,434
General and administrative	2,827	2,788	8,459	8,210
Regulatory fees	593	562	1,781	1,687
Real estate owned operating costs, net	35	66	420	87
Provision for/(release of) losses	463	(43)	) 1,034	1,381
Non-interest expense	8,441	7,748	25,486	24,799
Income before income taxes	30,067	30,941	108,580	70,412
Income tax expense	8,226	8,294	29,978	17,319
Net income	21,841	22,647	78,602	53,093
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,547)	) (5,547)	) (16,641)	) (16,641)
Net income attributable to Farmer Mac	16,294	17,100	61,961	36,452
Preferred stock dividends	(881)	) (719)	) (2,613)	) (2,159)
Net income attributable to common stockholders	\$ 15,413	\$ 16,381	\$ 59,348	\$ 34,293
Earnings per common share and dividends:				
Basic earnings per common share	\$ 1.42	\$ 1.56	\$ 5.50	\$ 3.28
Diluted earnings per common share	\$ 1.37	\$ 1.49	\$ 5.30	\$ 3.12
Common stock dividends per common share	\$ 0.12	\$ 0.10	\$ 0.36	\$ 0.30
See accompanying notes to consolidated financial statements.				



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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
	(in thousands)			
Net income	\$21,841	\$22,647	\$78,602	\$53,093
Other comprehensive (loss)/income, net of tax:				
Unrealized holding (losses)/gains on available-for-sale securities (1)	(8,675	) 5,507	(35,053	) 16,370
Less reclassification adjustments included in:				
Gains on financial derivatives and hedging activities (2)	(3,087	) (3,191	) (9,506	) (3,191
Gains on sale of available-for-sale investment securities (3)	—	—	(1,997	) (18
Other income (4)	(130	) (224	) (585	) (726
Other comprehensive (loss)/income	(11,892	) 2,092	(47,141	) 12,435
Comprehensive income	9,949	24,739	31,461	65,528
Less: Comprehensive income attributable to noncontrolling interest - preferred stock dividends	(5,547	) (5,547	) (16,641	) (16,641
Comprehensive income attributable to Farmer Mac	\$4,402	\$19,192	\$14,820	\$48,887

Presented net of income tax benefit of \$4.7 million and expense of \$3.0 million for the three months ended (1) September 30, 2013 and 2012, respectively, and income tax benefit of \$18.9 million and expense of \$8.8 million for the nine months ended September 30, 2013 and 2012, respectively.

Relates to the amortization of the unrealized gains on the hedged items prior to application of hedge accounting.

(2) Presented net of income tax benefit of \$1.7 million for both the three months ended September 30, 2013 and 2012, and income tax benefit of \$5.1 million and \$1.7 million for the nine months ended September 30, 2013 and 2012, respectively.

(3) Represents realized gains on sales of available-for-sale investment securities. Presented net of income tax benefit of \$1.1 million and \$10,000 for the nine months ended September 30, 2013 and 2012, respectively.

(4) Represents amortization of deferred gains related to certain available-for-sale USDA Guaranteed Securities and Farmer Mac Guaranteed Securities. Presented net of income tax benefit of \$0.1 million for the three months ended September 30, 2013 and 2012, and income tax benefit of \$0.3 million and \$0.4 million for the nine months ended September 30, 2013 and 2012, respectively.

See accompanying notes to consolidated financial statements.



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

	For the Nine Months Ended			
	September 30, 2013		September 30, 2012	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	58	\$57,578	58	\$57,578
Issuance of Series A preferred stock	2,400	58,333	—	—
Redemption of Series C preferred stock	(58 )	(57,578 )	—	—
Balance, end of period	2,400	\$58,333	58	\$57,578
Common stock:				
Balance, beginning of period	10,702	\$10,702	10,357	\$10,357
Issuance of Class C common stock	158	158	139	139
Balance, end of period	10,860	\$10,860	10,496	\$10,496
Additional paid-in capital:				
Balance, beginning of period		\$106,617		\$102,821
Stock-based compensation expense		2,287		2,721
Issuance of Class C common stock		19		11
Tax effect of stock-based awards		752		(684 )
Balance, end of period		\$109,675		\$104,869
Retained earnings:				
Balance, beginning of period		\$102,243		\$62,554
Net income attributable to Farmer Mac		61,961		36,452
Cash dividends:				
Preferred stock, Series A (\$1.0322 per share)		(2,477 )		—
Preferred stock, Series C (\$2.36 per share in 2013 and \$37.50 per share in 2012)		(136 )		(2,159 )
Common stock (\$0.36 per share in 2013 and \$0.30 per share in 2012)		(3,892 )		(3,135 )
Balance, end of period		\$157,699		\$93,712
Accumulated other comprehensive income:				
Balance, beginning of period		\$73,969		\$79,370
Other comprehensive (loss)/income, net of tax		(47,141 )		12,435
Balance, end of period		\$26,828		\$91,805
Total Stockholders' Equity		\$363,395		\$358,460
Non-controlling interest - preferred stock:				
Balance, beginning of period		\$241,853		\$241,853
Issuance of Preferred stock - Farmer Mac II LLC		—		—
Balance, end of period		\$241,853		\$241,853
Total Equity		\$605,248		\$600,313
See accompanying notes to consolidated financial statements.				

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

	For the Nine Months Ended	
	September 30,	September 30,
	2013	2012
	(in thousands)	
Cash flows from operating activities:		
Net income	\$78,602	\$53,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Guaranteed Securities	7,716	10,109
Amortization of debt premiums, discounts and issuance costs	9,119	10,653
Net change in fair value of trading securities, hedged assets, financial derivatives, and loans held for sale	(32,126)	) 3,035
Gains on the sale of available-for-sale investment securities	(3,073)	) (28)
Gains on the sale of real estate owned	(1,210)	) (249)
Total provision for losses	436	718
Deferred income taxes	10,400	(1,885)
Stock-based compensation expense	2,287	2,721
Proceeds from repayment of trading investment securities	656	663
Purchases of loans held for sale	—	(114,299)
Proceeds from repayment of loans purchased as held for sale	149,675	143,915
Net change in:		
Interest receivable	32,754	40,603
Guarantee and commitment fees receivable	(1,707)	) (6,356)
Other assets	48,887	(37,388)
Accrued interest payable	(14,319)	) (25,367)
Other liabilities	37	3,853
Net cash provided by operating activities	288,134	83,791
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(1,141,601)	) (1,524,618)
Purchases of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(1,281,956)	) (1,233,312)
Purchases of loans held for investment	(624,702)	) (383,684)
Purchases of defaulted loans	(6,704)	) (11,031)
Proceeds from repayment of available-for-sale investment securities	1,026,745	910,313
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	776,599	780,643
Proceeds from repayment of loans purchased as held for investment	216,506	244,577
Proceeds from sale of available-for-sale investment securities	170,614	5,028
Proceeds from sale of Farmer Mac Guaranteed Securities	64,609	29,334
Proceeds from sale of real estate owned	3,774	1,062
Net cash used in investing activities	(796,116)	) (1,181,688)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	49,070,788	51,844,862
Proceeds from issuance of medium-term notes	2,273,350	2,148,051
Payments to redeem discount notes	(49,534,649)	) (51,328,421)
Payments to redeem medium-term notes	(1,362,000)	) (1,392,000)

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Excess tax benefits related to stock-based awards	995	994
Payments to third parties on debt securities of consolidated trusts	(54,154	) (101,421 )
Proceeds from common stock issuance	1,477	41
Proceeds from Series A Preferred stock issuance	58,333	—
Retirement of Series C Preferred stock	(57,578	) —
Dividends paid - Non-controlling interest - preferred stock	(16,641	) (16,641 )
Dividends paid on common and preferred stock	(5,790	) (4,574 )
Net cash provided by financing activities	374,131	1,150,891
Net (decrease)/increase in cash and cash equivalents	(133,851	) 52,994
Cash and cash equivalents at beginning of period	785,564	817,046
Cash and cash equivalents at end of period	\$651,713	\$870,040
See accompanying notes to consolidated financial statements.		

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

1. ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac") and subsidiaries have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2012 consolidated balance sheet presented in this report has been derived from Farmer Mac's audited 2012 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2012 consolidated financial statements of Farmer Mac and subsidiaries included in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 18, 2013. That Form 10-K describes Farmer Mac's significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents and Statements of Cash Flows; Investment Securities, Farmer Mac Guaranteed Securities, and USDA Guaranteed Securities; Loans; Securitization of Loans; Non-accrual Loans; Real Estate Owned; Financial Derivatives; Notes Payable; Allowance for Losses; Earnings Per Common Share; Income Taxes; Stock-Based Compensation; Comprehensive Income; Long-Term Standby Purchase Commitments; Fair Value Measurement; and Consolidation of Variable Interest Entities ("VIEs"). Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Presented below are Farmer Mac's significant accounting policies that contain updated information for the three and nine months ended September 30, 2013.

Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its two subsidiaries: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities and (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the USDA Guarantees line of business – primarily the acquisition of USDA-guaranteed portions of loans that are guaranteed by the USDA pursuant to the Consolidated Farm and Rural Development Act ("USDA Guaranteed Securities"). The consolidated financial statements also include the accounts of VIEs in which Farmer Mac determined itself to be the primary beneficiary.

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

Table 1.1

	Consolidation of Variable Interest Entities September 30, 2013				
	Farm & Ranch	USDA Guarantees	Rural Utilities	Investments	Total
	(in thousands)				
On-Balance Sheet:					
Consolidated VIEs:					
Loans held for investment in consolidated trusts, at amortized cost (1)	\$176,921	\$—	\$386,934	\$—	\$563,855
Debt securities of consolidated trusts held by third parties (2)	178,076	—	—	—	178,076
Unconsolidated VIEs:					
Farmer Mac Guaranteed Securities:					
Carrying value (3)	33,504	25,708	—	—	59,212
Maximum exposure to loss (4)	30,000	24,925	—	—	54,925
Investment securities:					
Carrying value	—	—	—	723,901	723,901
Maximum exposure to loss (4)	—	—	—	727,248	727,248
Off-Balance Sheet:					
Unconsolidated VIEs:					
Farmer Mac Guaranteed Securities:					
Maximum exposure to loss (4) (5)	1,771,703	21,094	—	—	1,792,797
(1) Includes unamortized premiums related to Rural Utilities of \$32.7 million.					
(2) Includes borrower remittances of \$1.2 million, which have not been passed through to third party investors as of September 30, 2013.					
(3) Includes unamortized premiums and discounts and fair value adjustments related to Farm & Ranch and USDA Guarantees of \$3.5 million and \$0.8 million, respectively.					
(4) Farmer Mac uses unpaid principal balance and outstanding face amount of investment securities to represent maximum exposure to loss.					
(5) Of the Farm & Ranch amount, \$801.7 million relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.					

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Consolidation of Variable Interest Entities				
December 31, 2012				
Farm &	USDA	Rural	Investments	Total
Ranch	Guarantees	Utilities		
(in thousands)				

On-Balance Sheet: