FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K/A
June 01, 2011

As filed with the Securities and Exchange Commission on
June 1, 2011

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

FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2010.
or

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

For the transition period from _____ to _____.

Commission File Number 001-14951

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

Federally chartered instrumentality of the United States (State or other jurisdiction of incorporation or organization)	52-1578738 (I.R.S. employer identification number)
1133 Twenty-First Street, N.W., Suite 600, Washington, D.C. (Address of principal executive offices)	20036 (Zip code)

(202) 872-7700

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Exchange on which registered
Class A voting common stock	New York Stock Exchange
Class C non-voting common stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class B voting common stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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

Yes x No ¨

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. §229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	¨	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

The aggregate market values of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant were $12,317,821 and $121,443,133, respectively, as of June 30, 2010, based upon the closing prices for the respective classes on June 30, 2010 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 4, 2011, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,753,160 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2011 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part II and Part III of this Annual Report on Form 10-K as described herein).

EXPLANATORY NOTE

This Amendment No. 1 to the Federal Agricultural Mortgage Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed March 16, 2011, is being filed to amend and restate the following items:

- The Statements of Cash Flows in Part II, Item 8 ("Financial Statements") are being amended and restated for the full years 2009 and 2010, as set forth in the Consolidated Statements of Cash Flows and in Note 15, RESTATEMENT OF ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOWS, and as described in Note 2(b), SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CASH AND CASH EQUIVALENTS AND STATEMENTS OF CASH FLOWS.
- Management's Report on Internal Control over Financial Reporting is being amended to reflect the identification of a material weakness in conjunction with the restatement.
- The Report of Independent Registered Public Accounting Firm is being amended to reflect the identification of a material weakness in conjunction with the restatement.
- Part II, Item 9A, Controls and Procedures, is being amended to address management's re-evaluation of disclosure controls and procedures and reflect the identification of a material weakness in internal control over financial reporting in conjunction with the restatement.
    - To include a complete copy of Exhibit 10.43 (a redacted version of which had previously been filed in conjunction with a request for confidential treatment) and amended exhibit schedule (Item 15).
- Part IV, Item 15 also has been amended to include the currently dated certifications from the Corporation's Principal Executive Officer and Principal Financial Officer as required by section 302 and 906 of the Sarbanes Oxley Act of 2002. The certifications are attached to this Amendment No. 1 as Exhibits 31.3, 31.4 and 32.1.

This Amendment No. 1 to the Annual Report on Form 10-K also restates the interim financial statements for the three and nine months ended September 30, 2010 and 2009, and the three and six months ended June 30, 2010 and 2009 as set forth in Note 16, RESTATEMENT OF QUARTERLY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited).

The restatements impacted only the classification of items in operating activities and investing activities set forth in the consolidated statements of cash flows and had no impact on the net increase in cash and cash equivalents as previously reported. In addition, the restatements had no effect on the Corporation's Consolidated Balance Sheets, Consolidated Statements of Operations, or Consolidated Statements of Changes in Equity. This Form 10-K/A has not been updated for other events or information subsequent to the date of the filing of the original Form 10-K, except as noted above.

Table of Contents

Item 8. Financial Statements

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (AS RESTATED)

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

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

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

Under the supervision and with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, Farmer Mac's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010. In making this assessment, the Corporation's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on its evaluation under the COSO criteria, management initially concluded that the Corporation's internal control over financial reporting as of December 31, 2010 was effective. Subsequently, in second quarter 2011, management concluded that the Corporation did not maintain effective controls over the appropriate classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows. On May 10, 2011, the Corporation's Board of Directors authorized management to restate the Corporation's previously issued condensed consolidated statements of cash flows for the three, six and nine month periods ended March 31, 2010, and June 30 and September 30, 2010 and 2009, respectively, and its consolidated statements of cash flows for the years ended December 31, 2010 and 2009. Accordingly, management has concluded that the control deficiency that resulted in incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows constituted a material weakness as of December 31, 2010. Solely as a result of this material weakness, management has revised its earlier assessment and now has concluded that Farmer Mac's internal control over financial reporting was not effective as of December 31, 2010.

Farmer Mac's independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010, as stated in their report appearing below.

5

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Federal Agricultural Mortgage Corporation

In our opinion, the accompanying consolidated balance sheet as of December 31, 2010 and the related consolidated statements of operations, changes in equity, and cash flows for the year then ended present fairly, in all material respects, the financial position of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Company") at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Management and we previously concluded that Farmer Mac maintained effective internal control over financial reporting as of December 31, 2010. However, management has subsequently determined that a material weakness in internal control over financial reporting related to the incorrect classification of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statement of cash flows existed as of that date. Accordingly, management's report has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows existed at that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in the accompanying Management's Report on Internal Control over Financial Reporting. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2010 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express an opinion on these financial statements and on Farmer Mac's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. As discussed in Notes 2 and 15 to the consolidated financial statements, Farmer Mac has restated its 2010 consolidated financial statements to correct an error.

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

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

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

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

March 16, 2011, except for the effects of the restatement described in Notes 2 and 15 to the consolidated financial statements and the matters described in Management's Report on Internal Control over Financial Reporting, as to which the date is June 1, 2011.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Federal Agricultural Mortgage Corporation and subsidiaries (“Farmer Mac”) as of December 31, 2009 and the related consolidated statements of operations, changes in equity, and cash flows for each of the two years in the period ended December 31, 2009. These financial statements are the responsibility of Farmer Mac's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Federal Agricultural Mortgage Corporation and subsidiaries at December 31, 2009 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 15 to the consolidated financial statements, the consolidated statement of cash flows for the year ended December 31, 2009 has been restated.

/s/ Deloitte & Touche LLP

McLean, Virginia
March 16, 2010
(August 4, 2010 as to Note 14 and June 1, 2011 as to Note
2(b) and Note 15)

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2010	2009
	(in thousands)	
Assets:		
Cash and cash equivalents	$729,920	$654,794
Investment securities:		
Available-for-sale, at fair value	1,677,233	1,041,923
Trading, at fair value	86,096	89,972
Total investment securities	1,763,329	1,131,895
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	2,907,264	2,524,867
Trading, at fair value	-	874,129
Total Farmer Mac Guaranteed Securities	2,907,264	3,398,996
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,005,679	-
Trading, at fair value	311,765	-
Total USDA Guaranteed Securities	1,317,444	-
Loans:		
Loans held for sale, at lower of cost or fair value	1,212,065	666,534
Loans held for investment, at amortized cost	90,674	93,478
Loans held for investment in consolidated trusts, at amortized cost	1,265,663	-
Allowance for loan losses	(9,803)	(6,292)
Total loans, net of allowance	2,558,599	753,720
Real estate owned, at lower of cost or fair value	1,992	739
Financial derivatives, at fair value	41,492	15,040
Interest receivable	90,295	67,178
Guarantee and commitment fees receivable	34,752	55,016
Deferred tax asset, net	14,530	24,146
Prepaid expenses and other assets	20,297	37,289
Total Assets	$9,479,914	$6,138,813
Liabilities, Mezzanine Equity and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$4,509,419	$3,662,898
Due after one year	3,430,656	1,908,713
Total notes payable	7,940,075	5,571,611
Debt securities of consolidated trusts held by third parties	827,411	-
Financial derivatives, at fair value	113,687	107,367
Accrued interest payable	57,131	39,562
Guarantee and commitment obligation	30,308	48,526
Accounts payable and accrued expenses	22,113	23,445
Reserve for losses	10,312	7,895
Total Liabilities	9,001,037	5,798,406
Commitments and Contingencies (Note 12)		
Mezzanine Equity:		
	-	144,216

Series B redeemable preferred stock, par value $1,000 per share, 150,000 shares authorized, issued and outstanding as of December 31, 2009 (redemption value $150,000,000)		
Equity:		
Preferred stock:		
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	57,578	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 8,752,711 shares outstanding as of December 31, 2010 and 8,610,918 shares outstanding as of December 31, 2009	8,753	8,611
Additional paid-in capital	100,050	97,090
Accumulated other comprehensive income	18,275	3,254
Retained earnings	50,837	28,127
Total Stockholders' Equity	237,024	196,191
Non-controlling interest - preferred stock	241,853	-
Total Equity	478,877	196,191
Total Liabilities, Mezzanine Equity and Equity	$9,479,914	$6,138,813

See accompanying notes to consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2010	2009	2008
	(in thousands, except per share amounts)		
Interest income:			
Investments and cash equivalents	$27,497	$28,727	$113,722
Farmer Mac and USDA Guaranteed Securities	86,742	109,779	96,417
Loans	124,472	37,987	45,556
Total interest income	238,711	176,493	255,695
Total interest expense	142,668	90,585	166,980
Net interest income	96,043	85,908	88,715
Provision for loan losses	(1,893)	(2,853)	(14,531)
Net interest income after provision for loan losses	94,150	83,055	74,184
Non-interest income/(loss):			
Guarantee and commitment fees	24,091	31,805	28,381
(Losses)/gains on financial derivatives	(17,159)	21,297	(130,403)
Gains/(losses) on trading assets	5,270	43,273	(10,639)
Other-than-temporary impairment losses	-	(3,994)	(106,240)
Gains on sale of available-for-sale investment securities	266	3,353	316
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	1,581	1,509
Gains on repurchase of debt	-	-	864
Gain on sale of REO	10	-	-
Lower of cost or fair value adjustment on loans held for sale	(8,748)	(139)	-
Other income	1,244	1,578	1,413
Non-interest income/(loss)	4,974	98,754	(214,799)
Non-interest expense:			
Compensation and employee benefits	17,232	13,683	15,266
General and administrative	8,564	11,167	11,871
Regulatory fees	2,243	2,100	2,050
Real estate owned operating costs, net	2,171	353	116
Provision for losses	2,417	2,389	3,309
Non-interest expense	32,627	29,692	32,612
Income/(loss) before income taxes	66,497	152,117	(173,227)
Income tax expense/(benefit)	13,797	52,517	(22,864)
Net income/(loss)	52,700	99,600	(150,363)
Less: Net income attributable to non-controlling interest - preferred stock dividends	(20,707)	-	-
Net income/(loss) attributable to Farmer Mac	31,993	99,600	(150,363)
Preferred stock dividends	(4,129)	(17,302)	(3,717)
Loss on retirement of preferred stock	(5,784)	-	-
Net income/(loss) available to common stockholders	$22,080	$82,298	$(154,080)
Earnings/(loss) per common share and dividends:			
Basic earnings/(loss) per common share	$2.16	$8.12	$(15.40)
Diluted earnings/(loss) per common share	$2.08	$8.04	$(15.40)

Common stock dividends per common share	$0.20	$0.20	$0.40

See accompanying notes to consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the Year Ended December 31,					
	2010		2009		2008	
	Shares	Amount	Shares	Amount	Shares	Amount
	(in thousands)					
Preferred stock:						
Balance, beginning of period	58	$ 57,578	9	$ 9,200	700	$ 35,000
Issuance of Series C preferred stock	-	-	49	48,378	9	9,200
Redemption of Series A preferred stock	-	-	-	-	(700)	(35,000)
Balance, end of period	58	$ 57,578	58	$ 57,578	9	$ 9,200
Common stock:						
Balance, beginning of period	10,142	$ 10,142	10,132	$ 10,132	9,895	$ 9,895
Issuance of Class C common stock	127	127	10	10	5	5
Repurchase and retirement of Class C common stock	-	-	-	-	(32)	(32)
Exercise of stock options and SARs	15	15	-	-	264	264
Balance, end of period	10,284	$ 10,284	10,142	$ 10,142	10,132	$ 10,132
Additional paid-in capital:						
Balance, beginning of period		$ 97,090		$ 95,572		$ 87,134
Stock-based compensation expense		2,774		2,694		2,759
Issuance of Class C common stock		40		32		65
Repurchase and retirement of Class C common stock		-		-		(285)
Exercise, vesting and cancellation of stock options, SARs and restricted stock		146		(1,208)		5,899
Balance, end of period		$ 100,050		$ 97,090		$ 95,572
Retained earnings/(accumulated deficit):						
Balance, beginning of period		$ 28,127		$ (52,144)		$ 94,357
Net income/(loss) attributable to Farmer Mac		31,993		99,600		(150,363)
Cash dividends:						
Preferred stock, Series A ($3.20 per share)		-		-		(2,240)
Preferred stock, Series B ($8.33, $102.67 and $9.77 per share in 2010, 2009 and 2008, respectively)		(1,250)		(15,400)		(1,467)
		(2,879)		(1,902)		(10)

Preferred stock, Series C ($50.00, $33.03 and $1.11 per share in 2010, 2009 and 2008, respectively)			
Common stock ($0.20 per share in 2010 and 2009, and $0.40 per share in 2008)	(2,049)	(2,027)	(4,015)
Repurchase and retirement of Class C common stock	-	-	(514)
Loss on retirement of preferred stock	(5,784)	-	-
Cumulative effect of adoption of new accounting standard, net of tax	2,679	-	12,108
Balance, end of period	$ 50,837	$ 28,127	$ (52,144)
Accumulated other comprehensive income/(loss):			
Balance, beginning of period	$ 3,254	$ (47,412)	$ (2,793)
Cumulative effect from adoption of FASB guidance on fair value measurements, net of tax	-	-	(11,237)
Balance as of January 1	3,254	(47,412)	(14,030)
Change in unrealized gain/(loss) on available-for-sale securities, net of tax and reclassification adjustments	14,975	50,514	(33,657)
Change in unrealized gain on financial derivatives, net of tax and reclassification adjustments	46	152	275
Balance, end of period	$ 18,275	$ 3,254	$ (47,412)
Total Stockholders' Equity	$ 237,024	$ 196,191	$ 15,348
Non-controlling interest:			
Balance, beginning of period	$ -	$ -	$ -
Preferred stock - Farmer Mac II LLC	241,853	-	-
Balance, end of period	$ 241,853	$ -	$ -
Total Equity	$ 478,877	$ 196,191	$ 15,348
Comprehensive income/(loss):			
Net income/(loss)	$ 52,700	$ 99,600	$ (150,363)
Change in accumulated other comprehensive income/(loss), net of tax	15,021	50,666	(33,382)
Comprehensive income/(loss)	67,721	150,266	(183,745)
Less: Comprehensive income attributable to	20,707	-	-

non-controlling interest			
Total comprehensive income/(loss)	$ 47,014	$ 150,266	$ (183,745)

See accompanying notes to consolidated financial statements.

11

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
	2010 (As Restated)	2009 (As Restated)	2008
	(in thousands)		
Cash flows from operating activities:			
Net income/(loss)	$52,700	$99,600	$(150,363)
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Net amortization of premiums and discounts on loans, investments, and Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	11,845	3,926	2,001
Amortization of debt premiums, discounts and issuance costs	7,982	12,876	79,404
Net change in fair value of trading securities, financial derivatives and loans held for sale	(16,653)	(105,060)	111,768
Amortization of transition adjustment on financial derivatives	70	152	275
Other-than-temporary impairment losses	-	3,994	106,240
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	(1,581)	(1,509)
Gains on the sale of available-for-sale investment securities	(266)	(3,353)	(316)
Gain on repurchase of debt	-	-	(864)
Gain on the sale of real estate owned	(10)	-	-
Total provision for losses	4,310	5,242	17,840
Deferred income taxes	(524)	35,615	(40,378)
Stock-based compensation expense	2,774	2,694	2,759
Proceeds from repayment and sale of trading investment securities	747	787	6,675
Purchases of loans held for sale	(661,310)	(164,335)	(61,525)
Proceeds from repayment of loans purchased as held for sale	43,820	30,664	15,235
Proceeds from sale of loans purchased as held for sale	-	73,641	-
Net change in:			
Interest receivable	(23,117)	5,880	18,881
Guarantee and commitment fees receivable	20,264	6,093	(3,305)
Other assets	19,229	76,382	(113,247)
Accrued interest payable	17,569	(908)	(9,534)
Other liabilities	(18,243)	(9,019)	940
Net cash (used in)/provided by operating activities	(538,813)	73,290	(19,023)
Cash flows from investing activities:			
Purchases of available-for-sale investment securities	(1,075,852)	(325,871)	(1,185,437)
Purchases of Farmer Mac Guaranteed Securities	(2,010,991)	(2,047,954)	(623,179)
Purchases of loans held for investment	(34,387)	(59,627)	(135,097)
Purchases of defaulted loans	(6,082)	(21,269)	(58,279)
Proceeds from repayment of available-for-sale investment securities	350,197	195,589	581,098
Proceeds from repayment of Farmer Mac Guaranteed Securities	711,462	725,761	263,858
Proceeds from repayment of loans purchased as held for investment	291,778	72,759	118,178
Proceeds from sale of available-for-sale investment securities	100,833	306,506	456,506
Proceeds from sale of trading securities - fair value option	5,013	-	-
Proceeds from sale of Farmer Mac Guaranteed Securities	30,725	188,204	669,406

Proceeds from sale of real estate owned	1,055	40,955	-
Proceeds from sale of loans purchased as held for investment	-	285,312	-
Net cash (used in)/provided by investing activities	(1,636,249)	(639,635)	87,054
Cash flows from financing activities:			
Proceeds from issuance of discount notes	66,804,224	54,840,697	126,824,163
Proceeds from issuance of medium-term notes	2,729,530	3,475,856	2,228,953
Payments to redeem discount notes	(65,300,682)	(54,675,917)	(126,990,012)
Payments to redeem medium-term notes	(1,872,590)	(2,727,000)	(2,070,136)
Excess tax benefits related to stock-based awards	763	-	381
Payments to third parties on debt securities of consolidated trusts	(176,260)	-	-
Proceeds from common stock issuance	172	42	5,734
Purchases of common stock	-	-	(831)
Issuance costs on retirement of preferred stock	(5,784)	-	-
Proceeds from preferred stock issuance - Farmer Mac II LLC	241,853	-	-
Proceeds from preferred stock issuance	-	48,378	9,200
Repurchases of preferred stock	-	-	(35,000)
Proceeds from mezzanine equity issuance	-	-	144,216
Retirement of Series B Preferred stock	(144,216)	-	-
Dividends paid - Non-controlling interest - preferred stock	(20,644)	-	-
Dividends paid on common and preferred stock	(6,178)	(19,329)	(7,732)
Net cash provided by financing activities	2,250,188	942,727	108,936
Net increase in cash and cash equivalents	75,126	376,382	176,967
Cash and cash equivalents at beginning of period	654,794	278,412	101,445
Cash and cash equivalents at end of period	$729,920	$654,794	$278,412

See accompanying notes to consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010, 2009 and 2008

1. ORGANIZATION

The Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") is a stockholder-owned, federally chartered instrumentality of the United States organized and existing under Title VIII of the Farm Credit Act of 1971, as amended (12 U.S.C. §§ 2279aa et seq.) (the "Act"). Farmer Mac was originally created by the United States Congress to establish a secondary market for agricultural real estate and rural housing mortgage loans. This secondary market was designed to increase the availability of long-term credit at stable interest rates to America's rural communities, farmers, ranchers and rural homeowners and to provide those borrowers with the benefits of capital markets pricing and product innovation. Since Farmer Mac's inception, Congress has expanded Farmer Mac's charter to authorize the Corporation to create the Farmer Mac II program and to purchase, and guarantee securities backed by, loans made by cooperative lenders to finance electrification and telecommunications systems in rural areas.

Farmer Mac accomplishes its congressional mission of providing liquidity and lending capacity to agricultural and rural utilities lenders by:

- purchasing eligible loans directly from lenders;
- providing advances against eligible loans by purchasing obligations secured by those loans;
- securitizing assets and guaranteeing the payment of principal and interest on the resulting securities that represent interests in, or obligations secured by, pools of eligible loans; and
- issuing long-term standby purchase commitments ("LTSPCs") for eligible loans.

Farmer Mac conducts these activities through three programs—Farmer Mac I, Farmer Mac II and Rural Utilities. As of December 31, 2010, the total outstanding balance in all of Farmer Mac's programs was $12.2 billion.

Under the Farmer Mac I program, Farmer Mac purchases or commits to purchase mortgage loans secured by first liens on agricultural real estate. Farmer Mac also guarantees securities representing interests in or obligations backed by pools of eligible mortgage loans. The securities guaranteed by Farmer Mac under the Farmer Mac I program are referred to as "Farmer Mac I Guaranteed Securities." To be eligible for the Farmer Mac I program, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation and other specified standards. As of December 31, 2010, outstanding loans held by Farmer Mac and loans that either back Farmer Mac I Guaranteed Securities or are subject to LTSPCs in the Farmer Mac I program totaled $8.2 billion.

Under the Farmer Mac II program, Farmer Mac purchases the portions of loans guaranteed by the United States Department of Agriculture (the "USDA-guaranteed portions") pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.) and may guarantee securities backed by those USDA-guaranteed portions ("Farmer Mac II Guaranteed Securities"). USDA-guaranteed portions are presented as "USDA Guaranteed Securities" on the consolidated balance sheets. Guaranteed securities backed by USDA-guaranteed portions are presented as "Farmer Mac Guaranteed Securities" on the consolidated balance sheets. As of December 31, 2010, outstanding Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities totaled $1.4 billion. Since January 2010, all purchases of USDA-guaranteed portions under the Farmer Mac II program (other than purchases of USDA-guaranteed portions that back Farmer Mac II Guaranteed Securities to be sold to third parties) have been, and will continue to be, made by Farmer Mac's subsidiary, Farmer Mac II LLC.

Farmer Mac's Rural Utilities program was initiated during second quarter 2008 after Congress expanded Farmer Mac's authorized secondary market activities to include rural utilities loans. Farmer Mac's activities under this program have been and are expected to be similar to those conducted under the Farmer Mac I program—loan purchases, guarantees of securities ("Farmer Mac Guaranteed Securities – Rural Utilities") and issuance of LTSPCs—with respect to eligible rural utilities loans. To be eligible for the Rural Utilities program, loans must meet Farmer Mac's credit underwriting and other specified standards. Farmer Mac has retained in its portfolio all of the rural utilities loans and Farmer Mac Guaranteed Securities – Rural Utilities under this program since its inception, with the exception of AgVantage securities that were sold to third parties and had an outstanding balance of $15.3 million as of December 31, 2010. To date, Farmer Mac has not issued any LTSPCs with respect to rural utilities loans. As of December 31, 2010, the aggregate outstanding principal balance of rural utilities loans held and Farmer Mac Guaranteed Securities – Rural Utilities was $2.6 billion.

Farmer Mac I Guaranteed Securities, Farmer Mac II Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities are collectively referred to as "Farmer Mac Guaranteed Securities." The assets underlying Farmer Mac Guaranteed Securities include (1) securitized loans or USDA-guaranteed portions eligible under one of Farmer Mac's programs and (2) general obligations of lenders secured by pools of eligible loans. The Corporation guarantees the timely payment of principal and interest on the resulting Farmer Mac Guaranteed Securities. AgVantage® is a registered trademark of Farmer Mac that is used to designate Farmer Mac's guarantees of securities that are related to general obligations of issuers that are secured by pools of eligible loans. Farmer Mac may retain Farmer Mac Guaranteed Securities in its portfolio or sell them to third parties.

Farmer Mac's two principal sources of revenue are:

- guarantee and commitment fees received in connection with outstanding Farmer Mac Guaranteed Securities and LTSPCs; and
- interest income earned on assets held on balance sheet, net of related funding costs and interest payments and receipts on financial derivatives.

Farmer Mac funds its "program" purchases of Farmer Mac Guaranteed Securities and eligible loans primarily by issuing debt obligations of various maturities in the public capital markets. As of December 31, 2010, Farmer Mac had $3.8 billion of discount notes and $4.1 billion of medium-term notes outstanding. The proceeds of debt issuance are also used to fund "non-program" investments that must comply with regulations promulgated by the Farm Credit Administration ("FCA"), including dollar amount, issuer concentration, and credit quality limitations. Those regulations can be found at 12 C.F.R. §§ 652.1-652.45.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Farmer Mac conform with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP"). The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities (including, but not limited to, the allowance for loan losses, reserve for losses, other-than-temporary impairment of investment securities and fair value measurements) as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The following are the significant accounting policies that Farmer Mac follows in preparing and presenting its consolidated financial statements:

(a) 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 to act as a registrant under registration statements filed with the Securities and Exchange Commission, and (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the Farmer Mac II program – primarily the acquisition of USDA-guaranteed portions. Farmer Mac II LLC was formed as a Delaware limited liability company on December 10, 2009. The business operations of Farmer Mac II LLC began in January 2010. The consolidated financial statements also include the accounts of variable interest entities ("VIEs") in which Farmer Mac determined itself to be the primary beneficiary. See Note 2(q) for more information on consolidated VIEs.

A Farmer Mac guarantee of timely payment of principal and interest is an explicit element of the terms of all Farmer Mac Guaranteed Securities. When Farmer Mac retains such securities in its portfolio, that guarantee is not extinguished. For Farmer Mac Guaranteed Securities in the Corporation's portfolio, Farmer Mac has entered into guarantee arrangements with FMMSC. The guarantee fee rate established between Farmer Mac and FMMSC is an element in determining the fair value of these Farmer Mac Guaranteed Securities, and guarantee fees related to these securities are reflected in guarantee and commitment fees in the consolidated statements of operations. These guarantee fees totaled $6.5 million in 2010. The corresponding expense of FMMSC has been eliminated against interest income in consolidation. All other inter-company balances and transactions have been eliminated in consolidation.

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

Farmer Mac considers highly liquid investment securities with maturities at the time of purchase of three months or less to be cash equivalents. The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value. Changes in the balance of cash and cash equivalents are reported in the consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Cash paid during the period for:			
Interest	$78,245	$80,350	$103,517
Income taxes	15,174	11,500	30,069
Non-cash activity:			
Real estate owned acquired through loan liquidation	5,001	41,086	16
Loans acquired and securitized as Farmer Mac Guaranteed Securities	8,594	28,736	98,843
Reclassification of unsettled trades with The Reserve Primary Fund from Cash and cash equivalents to Prepaid expenses and other assets	-	-	42,489
Transfers of investment securities from available-for-sale to trading from the effect of adopting FASB guidance on fair value measurement	-	-	600,468
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting FASB guidance on fair value measurement	-	-	428,670
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to available-for-sale	-	-	493,997
Transfers of Farmer Mac I Guaranteed Securities from held-to-maturity to available-for-sale	-	-	25,458
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
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts	1,408,965	-	-
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to debt securities of consolidated trusts held by third parties	1,408,965	-	-
Transfers of available-for-sale Farmer Mac I Guaranteed Securities to loans held for investment in consolidated trusts, upon the adoption of new consolidation guidance	5,385	-	-
Transfers of trading Farmer Mac Guaranteed Securities - Rural Utilities to loans held for investment in consolidated trusts, upon the adoption of new consolidation guidance	451,448	-	-
Deconsolidation of loans held for investment in consolidated trusts - transferred to off- balance sheet Farmer Mac I Guaranteed Securities	414,462	-	-
Deconsolidation of debt securities of consolidated trusts held by third parties - transferred to off-balance sheet Farmer Mac I Guaranteed Securities	414,462	-	-
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	-

Exchange of GSE preferred stock - transfer from trading to available-for-sale	-	90,657	-

During 2010, Farmer Mac adopted new accounting guidance on consolidation of VIEs, which resulted in the consolidation of certain securitization trust assets and liabilities onto Farmer Mac's balance sheet. The items noted above reflect the impact upon adoption of the new consolidation guidance and Farmer Mac's on-going assessment of its interests in VIEs. See Note 2(q) for further information related to the consolidation of VIEs.

During 2009, Farmer Mac transferred securities between categories as a result of two primary transactions. The first transaction was the sale of $354.5 million principal balance of loans during first quarter 2009. Consistent with management's effort to preserve and strengthen its capital position beginning in third quarter 2008, the primary purpose of the sale was to eliminate the need to hold capital in support of the loans under Farmer Mac's statutory minimum capital requirements. Given the change in management's intention pertaining to its loan portfolio in first quarter 2009, Farmer Mac reclassified loans with an amortized cost basis of $617.1 million from loans held-for-investment to loans held-for-sale prior to the sale of certain loans. Also in first quarter 2009, Farmer Mac transferred $263.4 million amortized cost basis of available-for-sale Farmer Mac I Guaranteed Securities to loans held-for-sale upon the consolidation of certain trusts in which Farmer Mac held 100 percent of the beneficial ownership interests. Farmer Mac then terminated the trusts and sold a portion of the underlying loans. The $288.0 million balance disclosed above represents the fair value of the transferred Farmer Mac I Guaranteed Securities as of December 31, 2008.

The second transaction occurred during third quarter 2009. Farmer Mac accepted an exchange offer extended by CoBank, ACB ("CoBank"), an institution of the Farm Credit System (the "FCS") and a government-sponsored enterprise, whereby Farmer Mac tendered all of its outstanding shares of CoBank's 7.814 percent Series A Cumulative Perpetual Preferred Stock ($88.5 million par value) in exchange for an equal amount of shares and par value of CoBank's newly issued 11.0 percent Series D Non-Cumulative Subordinated Perpetual Preferred Stock. Farmer Mac recorded the newly acquired shares at $90.7 million, the estimated fair value of the surrendered shares on the date of the exchange, and elected to classify the newly acquired equity securities as available-for-sale. Farmer Mac had elected the fair value option for the surrendered Series A preferred shares and recorded the changes in fair value up until the date of the exchange through gains and losses on trading assets.

During 2008, Farmer Mac transferred securities between categories as a result of three separate events. The first event occurred on January 1, 2008, upon the adoption of FASB guidance related to fair value measurement. As a result of its election of the fair value option for certain securities, Farmer Mac transferred $428.7 million of Farmer Mac II Guaranteed Securities from held-to-maturity to trading and $600.5 million of investment securities from available-to-sale to trading. See Note 13 for more information related to fair value measurement.

The second event occurred during second quarter 2008. On May 22, 2008, Congress enacted into law the Food, Conservation and Energy Act of 2008, which expanded Farmer Mac's authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders. Consequently, Farmer Mac placed its guarantee on $430.7 million principal amount of securities representing interests in rural electric cooperative loans and $900.0 million principal amount of obligations collateralized by rural electric cooperative loans previously held as mission related investments under authority granted by the Farm Credit Administration ("FCA"), Farmer Mac's regulator. Farmer Mac reclassified these securities from "Investment Securities" to "Farmer Mac Guaranteed Securities" on its consolidated balance sheets based on their existing fair value classifications (i.e., available-for-sale investment securities were transferred to available-for-sale Farmer Mac Guaranteed Securities and trading investment securities were transferred to trading Farmer Mac Guaranteed Securities). The amounts disclosed above represent the fair value of these securities as of March 31, 2008.

The third event occurred during third quarter 2008 and primarily stemmed from the turmoil experienced in the nation's financial markets. As a result of significant other-than-temporary impairment losses, Farmer Mac evaluated strategies to preserve and strengthen its capital position, which included asset sales and common and preferred equity offerings. Given the changes in circumstances and management's intention, Farmer Mac believed that the held-to-maturity designation was no longer appropriate for Farmer Mac Guaranteed Securities held on balance sheet. Farmer Mac reclassified all of its held-to-maturity Farmer Mac I and Farmer Mac II Guaranteed Securities with an amortized cost basis of $25.0 million and $493.6 million, respectively, to available-for-sale. The amounts disclosed above are the fair value of these securities as of September 30, 2008, which represents the new carrying value of these securities resulting from the change in management's intention.

Restatement of the Consolidated Statements of Cash Flows

The Corporation has restated the consolidated financial statements for the years ended December 31, 2010 and 2009 and the condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 and for the three and six months ended June 30, 2010 and 2009 to correct errors regarding the classification of cash flows within the statements of cash flows. These restatements solely affect the classification of items in operating and investing activities and have no impact on the net increase/(decrease) in cash and cash equivalents set forth in the condensed consolidated statements of cash flows and the consolidated statements of cash flows for any of the previously reported periods. These errors related to the transferring of loans between the held for investment and held for sale classifications on the balance sheet based on a change in management's intent to hold or sell such loans and the incorrect classification of cash flow activities of such loans in a manner consistent with this change in management's intent. Historically, cash receipts from the repayment of loans were classified within the statements of cash flows consistent with the then current balance sheet classification as opposed to the original balance sheet classification assigned based on management's intent upon purchase of the loans, as prescribed by accounting guidance related to the statement of cash flows. The restatements have no impact on Farmer Mac's previously issued condensed consolidated interim or annual consolidated balance sheets, statements of operations or statements of changes in equity and do not affect core earnings, core capital and minimum capital surplus. See Notes 15 and 16 for further information.

(c) Investments, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

Securities for which Farmer Mac does not have the positive intent to hold to maturity are classified as available-for-sale and are carried at estimated fair value. Unrealized gains and losses on available-for-sale securities are reported as a component of accumulated other comprehensive income in stockholders' equity. Securities classified as trading securities are reported at their fair value, with unrealized gains and losses included in earnings. Gains and losses on the sale of available-for-sale and trading securities are determined using the specific identification cost method. Farmer Mac does not currently classify any securities as held-to-maturity.

Farmer Mac determines the fair value of investment securities using quoted market prices, when available, and evaluates the securities for other-than-temporary impairment. Farmer Mac determines the fair values of investment securities for which quoted market prices are not available, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities based on the present value of the associated expected future cash flows. In estimating the present value of the expected future cash flows, management is required to make estimates and assumptions. The key estimates and assumptions include discount rates and collateral repayment rates. Premiums, discounts and other deferred costs are amortized to interest income over the estimated life of the security using the effective interest method. Interest income on investments and Farmer Mac Guaranteed Securities is recorded on an accrual basis unless the collection of interest is considered doubtful.

Farmer Mac generally receives compensation when loans with yield maintenance provisions underlying Farmer Mac Guaranteed Securities prepay. These yield maintenance payments mitigate Farmer Mac's exposure to reinvestment risk and are calculated such that, when reinvested with the prepaid principal, they should generate substantially the same cash flows that would have been generated had the loans not prepaid. Yield maintenance payments are recognized as interest income in the consolidated statements of operations upon receipt.

(d) Loans

Loans for which Farmer Mac has the positive intent and ability to hold for the foreseeable future are classified as held for investment and reported at their unpaid principal balance net of unamortized purchase discounts or premiums. When Farmer Mac consolidates a trust, it recognizes the loans underlying the trust in the consolidated balance sheets as "Loans held for investment in consolidated trusts, at amortized cost." See Note 2(q) for more information on new accounting standards related to consolidation. Loans that Farmer Mac does not intend to hold for the foreseeable future are classified as held for sale and reported at the lower of cost or fair value. For loans held for investment and loans held for sale, the net unamortized purchase premium or discount as of December 31, 2010 was a net premium of $39.2 million, compared to a net discount of $2.6 million as of December 31, 2009. The change in unamortized purchase premium and discount as of December 31, 2010 compared to December 31, 2009 was due to the consolidation of assets at fair value in first quarter 2010 pursuant to the adoption of new consolidation guidance. Farmer Mac does not amortize premiums and discounts related to loans held for sale. Effective January 1, 2011, Farmer Mac transferred $880.0 million of loans in the Farmer Mac I program from held for sale to held for investment. Farmer Mac transferred these loans at the lower of cost or fair value.

(e) Securitization of Loans

Asset securitization involves the transfer of financial assets to another entity in exchange for cash and/or beneficial interests in the assets transferred. Farmer Mac or third parties transfer agricultural real estate mortgage loans or rural utilities loans into trusts that are used as vehicles for the securitization of the transferred loans. The trusts issue Farmer Mac Guaranteed Securities that are beneficial interests in the assets of the trusts, to either Farmer Mac or third party investors. Farmer Mac guarantees the timely payment of principal and interest on the securities issued by the trusts and receives guarantee fees as compensation for its guarantee. Farmer Mac recognizes guarantee fees on an accrual basis over the terms of the Farmer Mac Guaranteed Securities, which generally coincide with the terms of the underlying loans. As such, no guarantee fees are unearned at the end of any reporting period. If Farmer Mac purchases a delinquent loan underlying a Farmer Mac Guaranteed Security, Farmer Mac stops accruing the guarantee fee upon the loan purchase.

Transfers of loans into trusts in which Farmer Mac surrenders control over the financial assets and receives compensation other than beneficial interests in the underlying loans are recorded as sales. The carrying amount of the assets that are transferred in these transactions is allocated between the assets sold and the interests retained, if any, based on the relative fair values of each at the date of the transfer. A gain or loss is included in income for the difference between the allocated carrying amount of the asset sold and the net cash proceeds received.

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 considers acquired credit-impaired loans to be individually impaired at acquisition. Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Farmer Mac generally does not record a loss at acquisition because it believes that unpaid principal balance is representative of the fair value of the loan.

See Notes 2(q) and 2(r) for more information on the adoption of new accounting standards related to transfers of financial assets and consolidation.

(f) Nonaccrual Loans

Nonaccrual loans are loans for which it is probable that Farmer Mac will be unable to collect all amounts due according to the contractual terms of the loan agreement and include all loans 90 days or more past due. When a loan becomes 90 days past due, interest accrual on the loan is discontinued and interest previously accrued is reversed against interest income in the current period. The interest on such loans is accounted for on the cash basis until a loan qualifies for return to accrual status. Loans are returned to accrual status when all the principal and interest payments contractually due are collected and certain performance criteria are met.

(g) Real Estate Owned

Real estate owned (“REO”) consists of real estate acquired through loan liquidation and is recorded at fair value less estimated selling cost at acquisition. Fair value is determined by appraisal or other appropriate valuation method. Any excess of the recorded investment in the loan over the fair value less estimated selling cost is charged to the allowance for loan losses. Subsequent to the acquisition, management continues to perform periodic valuations for real estate owned. Declines in the net realizable value (fair value less estimated selling costs) are charged through income.

Farmer Mac contracts with third parties to operate or preserve real estate owned and offered for sale when appropriate to maintain property value. Non-recoverable costs are expensed as incurred and those related to the production of saleable goods or crops are capitalized to the extent they are realizable. As revenues from the sale of goods or crops are received, they are applied first to any capitalized costs and any remaining revenues offset non-recoverable expenses incurred. Farmer Mac had no capitalized costs as of December 31, 2010 and 2009.

(h) 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 principally to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac is required also to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

All financial derivatives are recorded on the balance sheets at fair value as a freestanding asset or liability. As discussed in Note 6, 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 consolidated statements of operations.

(i) Notes Payable

Notes payable are classified as due within one year or due after one year based on their contractual maturities. Debt issuance costs and premiums and discounts are deferred and amortized to interest expense using the effective interest method over the contractual life of the related debt.

(j) Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses incurred as of the balance sheet date on loans held (“allowance for loan losses”) and loans underlying LTSPCs and Farmer Mac Guaranteed Securities (“reserve for losses”) based on available information. Farmer Mac’s methodology for determining the allowance for losses separately considers its portfolio segments - Farmer Mac I, Farmer Mac II, and Rural Utilities, and disaggregates its analysis, where relevant, into classes of financing receivables, which currently include loans and AgVantage securities. Further disaggregation to commodity type is performed, where appropriate, in analyzing the need for an allowance for losses.

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

The total allowance for losses consists of a general allowance for losses and a specific allowance for impaired loans.

General Allowance for Losses

Farmer Mac I

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

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

Management believes that its use of this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

Farmer Mac has not provided an allowance for losses for loans underlying Farmer Mac I AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization also required for Farmer Mac I AgVantage securities. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans.

Farmer Mac II

No allowance for losses has been provided for USDA Guaranteed Securities or Farmer Mac II Guaranteed Securities. The USDA-guaranteed portions presented as "USDA Guaranteed Securities" on the consolidated balance sheets, as well as those that collateralize Farmer Mac II Guaranteed Securities, are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. Farmer Mac excludes these guaranteed portions from the credit risk metrics it discloses because of the USDA guarantee.

Rural Utilities

Farmer Mac separately evaluates the rural utilities loans it owns, as well as the lender obligations and loans underlying or securing its Farmer Mac Guaranteed Securities – Rural Utilities, including AgVantage securities, to determine if there are any probable losses inherent in those assets. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security. No allowance for losses has been provided for this portfolio segment based on the credit quality of the collateral supporting rural utilities assets and Farmer Mac's counterparty risk analysis.

Specific Allowance for Impaired Loans

Farmer Mac also analyzes certain loans in its portfolio for impairment in accordance with the FASB standard on measuring individual impairment of a loan. Farmer Mac's impaired assets generally include:

- non-performing assets (loans 90 days or more past due, in foreclosure, restructured, in bankruptcy – including loans performing under either their original loan terms or a court-approved bankruptcy plan);
- loans for which Farmer Mac 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 and net of any charge-offs. In the event that the collateral value does not support the total recorded investment, Farmer Mac specifically provides an allowance for the loan for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. Estimated selling costs are based on historical selling costs incurred by Farmer Mac. 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.

(k) Earnings/(Loss) Per Common Share

Basic earnings/(loss) per common share is based on the weighted-average number of shares of common stock outstanding. Diluted earnings/(loss) per common share is based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights ("SARs") and non-vested restricted stock awards. The following schedule reconciles basic and diluted earnings/(loss) per share of common stock ("EPS") for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,								
	2010			2009			2008		
	Net Income	Shares	$ per Share	Net Income	Shares	$ per Share	Net Loss	Shares	$ per Share
	(in thousands, except per share amounts)								
Basic EPS									
Net income/(loss) available to common stockholders	$ 22,080	10,229	$ 2.16	$ 82,298	10,138	$ 8.12	$ (154,080)	10,007	$ (15.40)
Effect of dilutive securities (1):									
Stock options, SARs and restricted stock		386	(0.08)		95	(0.08)		-	-
Diluted EPS	$ 22,080	10,615	$ 2.08	$ 82,298	10,233	$ 8.04	$ (154,080)	10,007	$ (15.40)

(1)

For the years ended December 31, 2010, 2009 and 2008, stock options and SARs of 1,485,404, 1,724,800, and 2,377,544, respectively, were outstanding but not included in the computation of diluted earnings/(loss) per share of common stock because they were anti-dilutive. For the years ended December 31, 2010 and 2009, contingent shares of nonvested restricted stock of 115,125 and 47,143, respectively, were outstanding but not included in the computation of diluted earnings per share because the performance conditions were not met.

(l) Income Taxes

Deferred federal income tax assets and liabilities are established for temporary differences between financial and taxable income and are measured using the current enacted statutory tax rate. Income tax expense is equal to the income taxes payable in the current year plus the net change in the deferred tax asset or liability balance.

Farmer Mac evaluates its tax positions at least quarterly to identify and recognize any liabilities related to uncertain tax positions in its federal income tax returns. Farmer Mac, in accordance with FASB guidance on uncertainty in income taxes, uses a two-step approach in which income tax benefits are recognized if, based on the technical merits of a tax position, it is more likely than not (a probability of greater than 50 percent) that the tax position would be sustained upon examination by the taxing authority, which includes all related appeals and litigation process. The amount of tax benefit recognized is then measured at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with the taxing authority, considering all information available at the reporting date. Farmer Mac's policy for recording interest and penalties associated with uncertain tax positions is to record them as a component of income tax expense. Farmer Mac establishes a valuation allowance for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

(m) Stock-Based Compensation

Farmer Mac accounts for its stock-based employee compensation plans using the grant date fair value method of accounting. Farmer Mac measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award determined using the Black-Scholes option pricing model. The cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Farmer Mac recognized \$2.8 million, \$2.7 million and \$2.8 million of compensation expense related to stock options, SARs and non-vested restricted stock awards for 2010, 2009 and 2008, respectively.

(n) Comprehensive Income/(Loss)

Comprehensive income/(loss) 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/(loss) for the years ended December 31, 2010, 2009 and 2008:

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Net income/(loss)	$52,700	$99,600	$(150,363)
Available-for-sale securities, net of tax:			
Net unrealized holding gains/(losses)	15,182	49,266	(70,067)
Reclassification adjustment for realized (gains)/losses	(207)	1,248	36,410
Net change from available-for-sale securities (1)	14,975	50,514	(33,657)
Financial derivatives, net of tax:			
Reclassification for amortization of financial derivatives transition adjustment (2)	46	152	275
Other comprehensive income/(loss), net of tax	15,021	50,666	(33,382)
Comprehensive income/(loss)	67,721	150,266	(183,745)
Less: Comprehensive income attributable to non-controlling interest	20,707	-	-
Total comprehensive income/(loss)	$47,014	$150,266	$(183,745)

(1) Unrealized gains/(losses) on available for sale securities is shown net of income tax expense of $8.1 million, tax expense of $27.2 million, and tax benefit of $18.1 million in 2010, 2009, and 2008, respectively.
(2) Amortization of financial derivatives transition adjustment is shown net of income tax expense of $25,000, $0.1 million, and $0.1 million in 2010, 2009, and 2008, respectively.

The following table presents Farmer Mac's accumulated other comprehensive income/(loss) as of December 31, 2010, 2009 and 2008 and changes in the components of accumulated other comprehensive income/(loss) for the years ended December 31, 2010, 2009 and 2008.

	As of December 31,		
	2010	2009	2008
	(in thousands)		
Available-for-sale securities:			
Beginning balance	$3,300	$(47,214)	$(2,320)
Reclassification adjustment to retained earnings for fair value option adoption, net of tax	-	-	(11,237)
Adjusted beginning balance	3,300	(47,214)	(13,557)
Net unrealized gains/(losses), net of tax	14,975	50,514	(33,657)
Ending balance	$18,275	$3,300	$(47,214)
Financial derivatives:			
Beginning balance	$(46)	$(198)	$(473)
Amortization of financial derivatives transition adjustment, net of tax	46	152	275
Ending balance	$-	$(46)	$(198)
Accumulated other comprehensive income/(loss), net of tax	$18,275	$3,254	$(47,412)

(o) Long-Term Standby Purchase Commitments

Farmer Mac accounts for its LTSPCs in accordance with accounting guidance on guarantees. Commitment fee income represents a reduction of the commitment obligation based on amortization using the actual prepayment experience on the underlying loans. See Note 2(j) for Farmer Mac's policy for estimating probable losses for LTSPCs and Note 12 for more information on the accounting for LTSPCs.

(p) Fair Value

Effective January 1, 2008, Farmer Mac adopted new accounting guidance for fair value measurements. The guidance 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).

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 financial instruments 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 new accounting guidance on the fair value option for financial instruments that 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 13 for more information regarding fair value measurement.

(q) Consolidation of Variable Interest Entities

Farmer Mac has interests in various entities that are considered to be VIEs. These interests include investments in securities issued by VIEs, such as Farmer Mac agricultural mortgage-backed securities created pursuant to Farmer Mac's securitization transactions and mortgage and asset-backed trusts that Farmer Mac did not create. Effective January 1, 2010, Farmer Mac adopted two new accounting standards that eliminated the concept of qualifying special purpose entities ("QSPEs") and amended the accounting for transfers of financial assets and the consolidation model for VIEs. All formerly designated QSPEs were evaluated for consolidation in accordance with the new consolidation model, which changed the method of analyzing which party to a VIE should consolidate the VIE. The new consolidation model uses a qualitative evaluation that requires consolidation of an entity when the reporting enterprise both (1) has the power to direct matters which significantly impact the activities and success of the entity, and (2) has exposure to benefits and/or losses that could potentially be significant to the entity. The reporting enterprise that meets both these conditions is deemed the primary beneficiary of the VIE.

The new consolidation standard requires the incremental assets and liabilities consolidated upon adoption to initially be reported at their carrying amounts. Carrying amount refers to the amount at which the assets and liabilities would have been carried in the consolidated financial statements if the new guidance had been effective when Farmer Mac first met the conditions to be the primary beneficiary of the VIE. If determining the carrying amounts is not practicable, the assets and liabilities of the VIE shall be measured at fair value at the date the new standards first apply. For the outstanding trusts consolidated effective January 1, 2010, Farmer Mac initially recorded the assets and liabilities on the consolidated balance sheets at their carrying amounts, adjusted, where applicable, for fair value option elections that had been made previously. Accrued interest and allowance for losses have also been recognized as appropriate.

Although these new accounting standards did not change the economic risk to Farmer Mac's business, specifically Farmer Mac's liquidity, credit and interest rate risks, the adoption of these new accounting standards had a significant impact on the presentation of Farmer Mac's consolidated financial statements. On the consolidated balance sheet, there was an increase in loans held for investment, interest receivable, debt and accrued interest payable, and a decrease in available-for-sale and trading Farmer Mac Guaranteed Securities, the reclassification of a portion of the reserve for losses to allowance for loan losses, and the elimination of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. On the income statement, there was an increase in interest income and interest expense attributable to the assets and liabilities of the consolidated trusts and a reclassification of a portion of guarantee fee income to interest income.

The VIEs in which Farmer Mac has a variable interest are limited to securitization trusts. The major judgment in determining if Farmer Mac is the primary beneficiary was whether Farmer Mac had the power to direct the activities of the trust that potentially had the most significant impact on the economic performance of the trust. Generally, the ability to make decisions regarding default mitigation was evidence of that power. Farmer Mac determined that it was the primary beneficiary for the securitization trusts related to most Farmer Mac I and all Rural Utilities securitization transactions because of its rights as guarantor under both programs to control the default mitigation activities of the trusts. For certain securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities, Farmer Mac determined that it was not the primary beneficiary since the power to make decisions regarding default mitigation was shared among unrelated parties. For similar securitization transactions where the power to make decisions regarding default mitigation was shared with a related party, Farmer Mac determined that it was the primary beneficiary because the applicable accounting guidance does not permit parties within a related party group to conclude that the power is shared.

For those trusts that Farmer Mac is the primary beneficiary, the assets and liabilities are presented on the consolidated balance sheets as “Loans held for investment in consolidated trusts” and “Debt securities of consolidated trusts held by third parties,” respectively. These assets can only be used to satisfy the obligations of the related trust.

For those trusts where Farmer Mac has a variable interest but has not been determined to be the primary beneficiary, Farmer Mac’s interests are presented as either “Farmer Mac Guaranteed Securities” or “Investment securities” on the consolidated balance sheets. Farmer Mac’s involvement in on-balance sheet VIEs classified as Farmer Mac Guaranteed Securities include securitization trusts under the Farmer Mac II program and trusts related to AgVantage securities. In the case of Farmer Mac II trusts, Farmer Mac was not determined to be the primary beneficiary because it does not have the decision-making power over default mitigation activities. For the AgVantage trusts, Farmer Mac currently does not have the power to direct the activities that have the most significant economic impact to the trust unless, as guarantor, there is a default by the issuer of the trust securities. Should there be a default, Farmer Mac would reassess whether it is the primary beneficiary of those trusts. For VIEs classified as investment securities, which include auction-rate certificates, asset-backed securities and GSE-guaranteed mortgage-backed securities, Farmer Mac was determined not to be the primary beneficiary because of the lack of voting rights or other powers to direct the activities of the trust. As of December 31, 2010, the Farmer Mac Guaranteed Securities trusts and investment securities trusts have carrying amounts on the consolidated balance sheets totaling $968.9 million and $676.8 million, respectively, which is Farmer Mac’s maximum exposure to loss. In addition, Farmer Mac has a variable interest in off-balance sheet VIEs, which include a guarantee of timely payment of principal and interest, totaling $3.3 billion as of December 31, 2010.

(r) New Accounting Standards

Accounting for Transfers of Financial Assets

On December 23, 2009, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), which codifies recent accounting guidance related to transfers of financial assets. The new guidance eliminates the concept of a QSPE, changes the requirements for derecognizing financial assets and enhances information reported to financial statement users by increasing the transparency or disclosures about transfers of financial assets and an entity's continuing involvement with transferred financial assets. Farmer Mac adopted the ASU on January 1, 2010 and the impact of adoption was not material to Farmer Mac's financial position, results of operations or cash flows.

Variable Interest Entities

On December 23, 2009, the FASB issued an ASU, which codifies recent accounting guidance on consolidation of VIEs. The new guidance replaces the quantitative-based risks-and-rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity. The ASU requires additional disclosures about a reporting entity's involvement with VIEs and about any significant changes in risk exposure as a result of that involvement. Farmer Mac adopted this ASU on January 1, 2010, which resulted in the consolidation of assets and liabilities onto Farmer Mac's balance sheets in connection with trusts that previously qualified for the QSPE exception. Additionally, interest income and interest expense related to the consolidated assets and liabilities of the trusts are reflected in the statements of operations.

As of December 31, 2009, Farmer Mac disclosed the impact of adopting the new consolidation standard as an increase in consolidated assets of $292.8 million, requiring incremental regulatory capital of $5.9 million, and an increase in retained earnings of $2.6 million. Upon adoption, Farmer Mac reassessed its securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities in consideration of the related party relationship with certain counterparties to these transactions and concluded that additional trusts required consolidation. The actual impact upon adoption was an increase in consolidated assets of $1.5 billion, which resulted in an incremental capital requirement of $30.4 million. The transition adjustment upon adoption did not change significantly from the reported amount, increasing retained earnings by $2.7 million, which is presented in the consolidated statements of equity as "Cumulative effect of adoption of new accounting standard, net of tax."

Accounting Standards Update on Fair Value Measurements and Disclosures

On January 21, 2010, the FASB issued a new accounting standard, which amended FASB guidance on fair value measurements and disclosures to add new requirements for disclosures about transfers into and out of levels 1 and 2 and separate disclosures about purchases, sales, issuance, and settlements relating to level 3 measurements. The new standard also clarified existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The ASU was effective for first quarter 2010 reporting except for the level 3 activity disclosures, which are effective in first quarter 2011. Adoption of the new accounting guidance did not have a significant impact on Farmer Mac's fair value disclosures or on its financial position, results of operations or cash flows.

Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset

On April 29, 2010, the FASB issued ASU 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, which established that modifications of loans that are accounted for within a pool under the guidance for acquisitions of credit-impaired loans do not result in the removal of those loans from the pool, even if the modification of those loans would otherwise be considered a troubled debt restructuring. Loans accounted for individually under the guidance for acquisitions of credit-impaired loans continue to be subject to the accounting provisions for troubled debt restructurings. The ASU was effective for third quarter 2010. Adoption of ASU 2010-18 did not have a material effect on Farmer Mac's financial position, results of operations or cash flows.

Embedded Credit Derivatives

On March 5, 2010, the FASB issued ASU 2010-11, Scope Exception Related to Embedded Credit Derivatives, which amends and clarifies the accounting for credit derivatives embedded in interests in securitized financial assets. The new guidance addresses situations where an embedded credit derivative requires bifurcation and separate measurement. The ASU was effective for third quarter 2010. Adoption of ASU 2010-11 did not have a material effect on Farmer Mac's financial position, results of operations or cash flows.

Credit Quality of Financing Receivables and the Allowance for Credit Losses

On July 21, 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which requires more robust and disaggregated disclosures to assist financial statement users in understanding more clearly an entity's credit risk exposures to finance receivables and the related allowance for credit losses. The new and amended disclosure requirements focus on five areas: nonaccrual and past due loans; allowance for credit losses; impaired loans; credit quality information; and modifications. The disclosures that relate to information as of the end of a reporting period were effective for periods ending on or after December 15, 2010 and information related to activity that occurs during a reporting period, including the modifications disclosures, will be effective for the first interim or annual period beginning after December 15, 2010. Farmer Mac considers loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities to be subject to the new disclosure requirements. Since ASU 2010-20 only requires additional disclosures, it did not have an impact on Farmer Mac's financial position, results of operations or cash flows.

(s) Reclassifications

Certain reclassifications of prior year information were made to conform to the 2010 presentation.

3. RELATED PARTY TRANSACTIONS

As provided by Farmer Mac's statutory charter, only banks, insurance companies and other financial institutions or similar entities may hold Farmer Mac's Class A voting common stock and only institutions of the FCS may hold Farmer Mac's Class B voting common stock. Farmer Mac's statutory charter also provides that Class A stockholders elect five members of Farmer Mac's 15-member board of directors and that Class B stockholders elect five members of the board of directors. Additionally, in order to participate in the Farmer Mac I program, a financial institution must own a requisite amount of Farmer Mac Class A or Class B voting common stock, based on the size and type of institution. As a result of these requirements, Farmer Mac conducts business with related parties in the normal course of Farmer Mac's business.

Farm Credit West became a related party in 2008 as a result of a merger in April 2008 between that institution and Sacramento Valley Farm Credit, ACA, which was a related party in 2007. All transactions with Sacramento Valley Farm Credit during 2008 that occurred prior to the merger are included in the transactions reported for Farm Credit West in 2008.

During 2010, Farmer Mac purchased newly originated and current seasoned eligible loans from 72 entities (the top ten institutions generated 77.5 percent of the purchase volume), placed loans under LTSPCs with 16 entities and conducted Farmer Mac II transactions with 197 entities operating throughout the United States. During 2009, Farmer Mac purchased newly originated and current seasoned eligible loans from 62 entities (the top ten institutions generated 81.1 percent of the purchase volume), placed loans under LTSPCs with 19 entities and conducted Farmer Mac II transactions with 158 entities operating throughout the United States. During 2008, Farmer Mac purchased newly originated and current seasoned eligible loans from 74 entities (the top ten institutions generated 76.9 percent of the purchase volume), placed loans under LTSPCs with 23 entities and conducted Farmer Mac II transactions with 187 entities operating throughout the United States. All related party transactions were conducted in the ordinary course of business, with terms and conditions comparable to those available to any other program participant not related to Farmer Mac.

Long-Term Standby Purchase Commitments with Related Parties:

For all of the LTSPC transactions discussed below, Farmer Mac has a related party relationship with each entity resulting from a member of Farmer Mac's board of directors being affiliated with the entity in some capacity or the entity being a holder of at least 5 percent of the outstanding shares of a class of Farmer Mac voting common stock. AgStar Financial Services, ACA ceased to be a related party in June 2010; however, amounts, where presented, reflect activity for the entire year. Farmer Mac's LTSPC activity with related parties in 2010, 2009 and 2008 is presented below:

	For the Year Ended December 31,					
	2010		2009		2008	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
	(dollars in thousands)					
New extensions:						
AgFirst Farm Credit Bank	185	$116,177	66	$34,459	297	$69,202
AgStar Financial Services, ACA	67	30,294	44	14,736	180	74,555
Farm Credit Bank of Texas	17	26,441	143	45,628	375	185,378
Farm Credit West, ACA	1	479	10	16,706	5	13,262

	As of December 31,			
	2010		2009	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
	(dollars in thousands)			
Aggregate LTSPCs outstanding:				
AgFirst Farm Credit Bank	2,125	$ 387,852	2,303	$ 349,513
AgStar Financial Services, ACA (1)	-	-	439	192,655
Farm Credit Bank of Texas (2)	347	136,792	1,542	500,457
Farm Credit of Western New York, ACA (1)	-	-	109	35,509
Farm Credit West, ACA	82	99,516	85	111,981

(1) Not a related party as of December 31, 2010.
(2) Converted $351.8 million of existing LTSPCs to Farmer Mac I Guaranteed Securities in 2010.

33

For the years ended December 31, 2010, 2009 and 2008, Farmer Mac earned the following commitment fees from related parties:

	For the Year Ended December 31, 2010	2009	2008
		(in thousands)	
Commitment fees earned by Farmer Mac:			
AgFirst Farm Credit Bank	$ 1,473	$ 1,552	$ 1,768
AgStar Financial Services, ACA	1,101	1,222	1,402
Farm Credit Bank of Texas	1,689	1,902	1,780
Farm Credit of Western New York, ACA (1)	-	197	219
Farm Credit West, ACA	336	303	301

(1) Not a related party in 2010.

As of December 31, 2010 and 2009, Farmer Mac had the following commitment fees receivable from related parties:

	As of December 31, 2010	2009
	(in thousands)	
AgFirst Farm Credit Bank	$ 212	$ 198
AgStar Financial Services, ACA (1)	-	95
Farm Credit Bank of Texas	36	155
Farm Credit of Western New York, ACA (1)	-	15
Farm Credit West, ACA	27	25

(1) Not a related party as of December 31, 2010.

Zions First National Bank:

The following transactions occurred between Farmer Mac and Zions First National Bank or its affiliates ("Zions"), which is the largest holder of Farmer Mac Class A voting common stock and a major holder of Class C non-voting common stock, during 2010, 2009 and 2008:

	For the Year Ended December 31, 2010		2009		2008	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
			(dollars in thousands)			
Purchases:						
Loans	204	$ 176,288	126	$ 77,079	148	$ 71,673
USDA-guaranteed portions	17	5,775	10	2,712	5	636
Sales of Farmer Mac Guaranteed Securities		5,695		27,797		96,143

The purchases of loans from Zions under the Farmer Mac I program represented approximately 46.1 percent, 39.5 percent and 36.5 percent of Farmer Mac I loan purchase volume for the years ended December 31, 2010, 2009 and 2008, respectively. Those purchases represented 11.4 percent, 17.9 percent, and 6.0 percent of total program volume, respectively. The purchases of USDA-guaranteed portions under the Farmer Mac II program from Zions represented approximately 1.3 percent, 0.8 percent and 0.2 percent of that program's volume for the years ended December 31, 2010, 2009 and 2008, respectively.

Farmer Mac or Zions received the applicable amounts shown below with respect to transactions between the two parties in 2010, 2009 and 2008:

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Guarantee fees received by Farmer Mac	$1,210	$1,393	$1,821
Servicing fees received by Zions	1,678	1,585	1,533
Underwriting and loan file review fees received by Zions	17	15	13
Discount note commissions received by Zions	10	18	39

Zions received commissions for acting as dealer with respect to approximately $220.9 million, $678.9 million and $823.2 million par value of Farmer Mac discount notes during 2010, 2009 and 2008, respectively.

Farmer Mac and Zions were parties to interest rate swap contracts having an aggregate outstanding notional principal amount of approximately $85.0 million and $105.2 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, Farmer Mac had net interest payable to Zions under those contracts of approximately $1.4 million and $2.0 million, respectively.

AgFirst Farm Credit Bank:

Farmer Mac has a related party relationship with AgFirst Farm Credit Bank ("AgFirst"), resulting from a member of Farmer Mac's board of directors also being a member of AgFirst's board of directors through 2009 and AgFirst being a holder of approximately 16.8 percent of Farmer Mac Class B voting common stock. In addition to the LTSPC transactions set forth above under "Long-Term Standby Purchase Commitments with Related Parties" in this Note 3, the additional transactions set forth below occurred between Farmer Mac and AgFirst.

In 2010, 2009 and 2008, AgFirst received $17,000, $21,000 and $26,000, respectively, in servicing fees for its work as a Farmer Mac central servicer.

AgFirst owns Farmer Mac I Guaranteed Securities backed by rural housing loans for which Farmer Mac is the second-loss guarantor for the last 10 percent. As of December 31, 2010, 2009, and 2008, the outstanding balance of those securities owned by AgFirst was $299.0 million, $374.2 million, and $464.7 million, respectively. Farmer Mac received guarantee fees of $0.4 million in 2010 and $0.3 million for each of the years 2009 and 2008, with respect to those securities.

In 2010, 2009 and 2008, Farmer Mac paid AgFirst $2,000, $4,000 and $2,000, respectively, for marketing expenses related to Farmer Mac programs.

In 2010, 2009 and 2008, Farmer Mac received guarantee fees of $20,000, $26,000 and $59,000, respectively, on the Farmer Mac I Guaranteed Securities held by AgFirst.

Farmer Mac also owned $83.0 million par value of AgFirst preferred stock as of December 31, 2010 and $88.0 million as of December 31, 2009 and 2008.

AgStar Financial Services, ACA:

Farmer Mac had a related party relationship with AgStar Financial Services, ACA (“AgStar”) during 2010, 2009 and 2008, resulting from a former member of Farmer Mac’s board of directors being the President and Chief Executive Officer of AgStar. Effective in June 2010, AgStar was no longer a related party because the President and Chief Executive Officer of AgStar was no longer a member of Farmer Mac’s board of directors. In addition to the LTSPC transactions set forth above under “Long-Term Standby Purchase Commitments with Related Parties” in this Note 3, the additional transactions set forth below occurred between Farmer Mac and AgStar. Amounts, where presented for 2010, represent activity for the entire year.

In 2010, 2009, and 2008, Farmer Mac paid AgStar $4,000, $5,000, and $4,000, respectively, for marketing expenses related to Farmer Mac programs.

In 2010, 2009 and 2008, AgStar received $1.4 million, $1.6 million and $1.9 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.

In 2010 and 2009, Farmer Mac did not purchase any loans from AgStar under the Farmer Mac I program, compared to $0.3 million in 2008. In addition, Farmer Mac purchased from AgStar $0.1 million, $11.9 million and $53.2 million related to defaulted loans pursuant to the terms of an LTSPC agreement in 2010, 2009 and 2008, respectively. During 2008, the defaulted loans Farmer Mac purchased from AgStar were related to five ethanol plants pursuant to the terms of an LTSPC agreement.

During 2010, 2009 and 2008, Farmer Mac sold Farmer Mac I Guaranteed Securities to AgStar in the amount of $2.9 million, $0.9 million and $2.7 million, respectively. Those sales did not result in a gain or loss to Farmer Mac.

During 2010, 2009 and 2008, no existing LTSPCs were converted to Farmer Mac I Guaranteed Securities. The outstanding principal balance of previously converted securities as of December 31, 2009 and 2008 was $449.2 million and $533.5 million, respectively. Farmer Mac received $1.7 million, $2.0 million and $2.4 million in guarantee fees on those securities during 2010, 2009 and 2008, respectively.

The National Rural Utilities Cooperative Financial Corporation:

The National Rural Utilities Cooperative Financial Corporation ("CFC") became a related party in 2009 through the purchase of Farmer Mac Class A voting common stock. Although Farmer Mac conducted business with CFC during 2008, information about those transactions is not disclosed since CFC was not a related party during that year. As of December 31, 2010, CFC held 7.9 percent of Farmer Mac's outstanding Class A voting common stock (5.3 percent of total voting shares) and 57,578 shares (100 percent) of Series C Preferred Stock. As of December 31, 2009, CFC held 7.7 percent of Farmer Mac's outstanding Class A voting common stock (5.2 percent of total voting shares), 15,000 shares (20 percent) of Series B-1 Preferred Stock, and 57,578 shares (100 percent) of Series C Preferred Stock. Farmer Mac repurchased all of the outstanding shares of Series B Preferred Stock in January 2010. During 2009, Farmer Mac sold 48,378 shares of Series C Preferred Stock to CFC. The following transactions also occurred between Farmer Mac and CFC during 2010 and 2009.

Farmer Mac Loan Purchases and Guarantees

	For the Year Ended December 31,			
		2010		2009
	(in thousands)			
Rural Utilities:				
Loans	$	313,028	$	28,644
On-balance sheet Farmer Mac Guaranteed Securities		650,000		1,695,000
Off-balance sheet Farmer Mac Guaranteed Securities		2,924		16,009
Total purchases and guarantees	$	965,952	$	1,739,653

Those transactions with CFC represented 100 percent of Farmer Mac's loan purchase and guarantee volume under the Rural Utilities program for 2010 and 2009 and represented 32.5 percent and 69.2 percent of total program volume for 2010 and 2009, respectively. As of December 31, 2010 and for the year then ended, Farmer Mac had guarantee fees receivable of $1.2 million from CFC and earned guarantee fees of $6.0 million. As of December 31, 2009 and for the year then ended, Farmer Mac had guarantee fees receivable of $1.7 million from CFC and earned guarantee fees of $6.0 million. Farmer Mac also had interest receivable of $8.4 million and $8.7 million as of December 31, 2010 and 2009, respectively, and earned interest income of $32.7 million and $32.3 million during 2010 and 2009, respectively, related to its AgVantage transactions with CFC.

Other Related Party Transactions:

For all of the transactions discussed below, Farmer Mac has a related party relationship with each entity resulting from (1) a member of Farmer Mac's board of directors being affiliated with the entity in some capacity or (2) the entity being a holder of 5 percent or more of a class of Farmer Mac voting common stock.

The following is a summary of purchases of loans, USDA-guaranteed portions from other related parties during 2010, 2009 and 2008:

	For the Year Ended December 31,					
	2010		2009		2008	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
	(dollars in thousands)					
Purchases:						
Loans:						
First Dakota National Bank	57	$27,023	14	$4,748	15	$4,849
USDA-guaranteed portions:						
Bath State Bank	27	4,643	35	7,031	26	7,232

Farmer Mac received the following guarantee fees with respect to transactions with other related parties:

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Bath State Bank	$ 69	$ 79	$ 73
First Dakota National Bank	248	229	228

During 2010, Farm Credit Bank of Texas converted $351.8 million of existing LTSPCs to Farmer Mac I Guaranteed Securities. The outstanding principal balance of converted securities by Farm Credit Bank of Texas as of December 31, 2010 was $300.1 million. Farm Credit Bank of Texas is a major holder of Farmer Mac Class B voting common stock. Farmer Mac received $1.1 million in guarantee fees on those securities during 2010. In 2010, Farm Credit Bank of Texas received $0.9 million in servicing fees for its work as a Farmer Mac central servicer.

During 2003 and 2006, Farm Credit West, ACA converted $722.3 million and $129.0 million, respectively, of existing LTSPCs to Farmer Mac I Guaranteed Securities. The LTSPCs converted to Farmer Mac I Guaranteed Securities in 2006 were originated by Sacramento Valley Farm Credit, ACA who merged with Farm Credit West, ACA in 2008. The outstanding principal balance of the converted securities as of December 31, 2010 was $576.5 million. Farmer Mac understands that the current owner of those Farmer Mac Guaranteed Securities is U.S. AgBank, FCB, which is a major holder of Farmer Mac Class B voting common stock. Farmer Mac received $2.6 million and $3.0 million in guarantee fees on those securities during 2010 and 2009, respectively. In 2010 and 2009, Farm Credit West, ACA received $1.9 million and $2.2 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.

Farmer Mac owned $78.5 million par value of preferred stock issued by CoBank as of December 31, 2010 and $88.5 million as of December 31, 2009. As of December 31, 2010 and 2009, Farmer Mac owned $70.0 million of subordinated debt issued by CoBank. Farmer Mac has a related party relationship with CoBank because CoBank is a major holder of Farmer Mac Class B voting common stock.

On September 30, 2008, Farmer Mac sold 60,000 shares of Series B-1 Preferred Stock to AgFirst; AgriBank, FCB; CoBank; Farm Credit Bank of Texas; and U.S. AgBank, FCB (collectively, the “Initial Series B-1 Investors”). Each of the Initial Series B-1 Investors is a member of the FCS and, as of December 31, 2009 and 2008, together owned in the aggregate approximately 97.5 percent of the shares of Farmer Mac’s Class B Voting common stock. Also on September 30, 2008, Farmer Mac sold 5,000 shares of Series B-2 Preferred Stock to Zions Bancorporation, an affiliate of Zions. On January 25, 2010, Farmer Mac repurchased all of the outstanding Series B Preferred Stock.

4. INVESTMENT SECURITIES

The following tables present the amortized cost and estimated fair values of Farmer Mac's investments as of December 31, 2010 and 2009.

	December 31, 2010			
	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	$ -	$ (9,765)	$ 64,335
Floating rate asset-backed securities	29,437	24	(3)	29,458
Floating rate corporate debt securities	162,891	422	(125)	163,188
Floating rate Government/GSE guaranteed mortgage-backed securities	573,288	4,173	(681)	576,780
Fixed rate GSE guaranteed mortgage-backed securities	4,525	296	-	4,821
Floating rate GSE subordinated debt	70,000	-	(14,671)	55,329
Fixed rate GSE preferred stock	80,001	4,827	-	84,828
Fixed rate senior agency debt	5,500	-	-	5,500
Fixed rate U.S. Treasuries	692,808	232	(46)	692,994
Total available-for-sale	1,692,550	9,974	(25,291)	1,677,233
Trading:				
Floating rate asset-backed securities	5,961	-	(4,561)	1,400
Fixed rate GSE preferred stock	83,813	883	-	84,696
Total trading	89,774	883	(4,561)	86,096
Total investment securities	$ 1,782,324	$ 10,857	$ (29,852)	$ 1,763,329

	December 31, 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	$ -	$ (1,216)	$ 72,884
Floating rate asset-backed securities	58,157	26	(40)	58,143
Floating rate corporate debt securities	246,758	267	(1,420)	245,605
Floating rate Government/GSE guaranteed mortgage-backed securities	404,452	1,188	(1,419)	404,221
Fixed rate GSE guaranteed mortgage-backed securities	6,248	289	-	6,537
Floating rate GSE subordinated debt	70,000	-	(22,438)	47,562
Fixed rate GSE preferred stock	90,543	-	(1,332)	89,211
Fixed rate U.S. Treasuries	117,810	-	(50)	117,760
Total available-for-sale	1,068,068	1,770	(27,915)	1,041,923

Trading:				
Floating rate asset-backed securities	6,708	-	(4,884)	1,824
Fixed rate GSE preferred stock	89,637	-	(1,489)	88,148
Total trading	96,345	-	(6,373)	89,972
Total investment securities	$ 1,164,413	$ 1,770	$ (34,288)	$ 1,131,895

Farmer Mac did not recognize in earnings any other-than-temporary impairment losses on available-for-sale investment securities during 2010, compared to other-than-temporary impairment losses on available-for-sale investment securities of $2.7 million and $106.2 million in 2009 and 2008, respectively. The significant other-than-temporary impairment losses in 2008 stemmed from Farmer Mac's investments in Fannie Mae preferred stock and Lehman Brothers Holdings Inc. senior debt securities, which were subsequently liquidated in 2009. All of these losses were recorded in earnings and presented as "Other-than-temporary impairment losses" in the consolidated statements of operations because they were deemed to be credit losses or management had the intent to sell the security as of the balance sheet date.

During 2010, Farmer Mac received proceeds of $106.3 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.5 million and gross realized losses of $0.2 million. During 2009, Farmer Mac received proceeds of $306.5 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $4.6 million and gross realized losses of $1.2 million. During 2008, Farmer Mac received proceeds of $456.5 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.6 million and gross realized losses of $0.3 million.

As of December 31, 2010, Farmer Mac's trading securities had a fair value of $86.1 million, which reflects an unrealized gain of $0.9 million and an unrealized loss of $4.6 million. As of December 31, 2009, Farmer Mac's trading securities had a fair value of $90.0 million, which reflects an unrealized loss of $6.4 million.

As of December 31, 2010 and 2009, unrealized losses on available-for-sale securities were as follows:

	December 31, 2010 Available-for-Sale Securities (in thousands)			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Floating rate corporate debt securities	$ -	$ -	$ 99,874	$ (125)
Floating rate asset-backed securities	-	-	2,779	(3)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	64,335	(9,765)
Floating rate Government/GSE guaranteed mortgage-backed securities	159,294	(587)	4,138	(94)
Floating rate GSE subordinated debt	-	-	55,329	(14,671)
Fixed rate U.S. Treasuries	163,026	(46)	-	-
Total	$ 322,320	$ (633)	$ 226,455	$ (24,658)

	December 31, 2009 Available-for-Sale Securities (in thousands)			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Floating rate corporate debt securities	$ -	$ -	$ 182,745	$ (1,420)
Floating rate asset-backed securities	-	-	17,319	(40)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	72,884	(1,216)
Floating rate Government/GSE guaranteed mortgage-backed securities	116,754	(645)	121,877	(774)
Floating rate GSE subordinated debt	-	-	47,562	(22,438)
Fixed rate GSE preferred stock	89,211	(1,332)	-	-
Fixed rate U.S. Treasuries	117,760	(50)	-	-
Total	$ 323,725	$ (2,027)	$ 442,387	$ (25,888)

The temporary unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to December 31, 2010 and 2009, 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 December 31, 2010, all of the investment securities in an unrealized loss position had credit ratings of at least "A". As of December 31, 2009, all of the investment securities in an unrealized loss position had credit ratings of at least "A", except two that were rated "AA-" and one that was not rated. The unrealized losses were on 47 and 86 individual investment securities as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, 29 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $24.7 million. As of December 31, 2009, 73 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $25.9 million. The unrealized losses on those securities are principally due to a general widening of credit spreads from the dates of acquisition. Securities in unrealized loss positions 12 months or more have a fair value as of December 31, 2010 that is, on average, approximately 90 percent of their amortized cost basis. Farmer Mac believes that all these unrealized losses are recoverable within a reasonable period of time by way of changes in credit spreads or maturity. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities represent other-than-temporary impairment as of December 31, 2010. 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.

Farmer Mac did not own any held-to-maturity investments as of December 31, 2010 and 2009. As of December 31, 2010, Farmer Mac owned trading investment securities with an amortized cost of $89.8 million, a fair value of $86.1 million and a weighted average yield of 8.12 percent. As of December 31, 2009, Farmer Mac owned trading investment securities with an amortized cost of $96.3 million, a fair value of $90.0 million and a weighted average yield of 8.11 percent.

The amortized cost, fair value and yield of investments by remaining contractual maturity for available-for-sale investment securities as of December 31, 2010 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 December 31, 2010		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$ 720,593	$ 720,910	0.07 %
Due after one year through five years	150,226	150,341	0.53 %
Due after five years through ten years	220,417	220,878	1.69 %
Due after ten years	601,314	585,104	2.60 %
Total	$ 1,692,550	$ 1,677,233	1.22 %

5. FARMER MAC GUARANTEED SECURITIES AND USDA GUARANTEED SECURITIES

The following table sets forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of December 31, 2010 and 2009.

	December 31, 2010		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 942,809	$ -	$ 942,809
Farmer Mac II	37,637	-	37,637
Rural Utilities	1,926,818	-	1,926,818
Farmer Mac Guaranteed Securities	2,907,264	-	2,907,264
USDA Guaranteed Securities	1,005,679	311,765	1,317,444
Total	$ 3,912,943	$ 311,765	$ 4,224,708
Amortized cost	$ 3,880,418	$ 315,655	$ 4,196,073
Unrealized gains	50,583	106	50,689
Unrealized losses	(18,058)	(3,996)	(22,054)
Fair value	$ 3,912,943	$ 311,765	$ 4,224,708

	December 31, 2009		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 56,864	$ -	$ 56,864
Farmer Mac II	764,792	422,681	1,187,473
Rural Utilities	1,703,211	451,448	2,154,659
Total	$ 2,524,867	$ 874,129	$ 3,398,996
Amortized cost	$ 2,493,644	$ 817,631	$ 3,311,275
Unrealized gains	39,657	56,569	96,226
Unrealized losses	(8,434)	(71)	(8,505)
Fair value	$ 2,524,867	$ 874,129	$ 3,398,996

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of acquisition to December 31, 2010 and December 31, 2009, as applicable. As of December 31, 2010, the unrealized losses presented above are related to Farmer Mac I, Farmer Mac II Guaranteed Securities, which are USDA-guaranteed portions of loans backed by the full faith and credit of the United States, and USDA Guaranteed Securities. As of December 31, 2009, the unrealized losses presented above are related to Farmer Mac II Guaranteed Securities. 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 December 31, 2010 and 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.

Upon adoption of new consolidation guidance on January 1, 2010, Farmer Mac determined itself to be the primary beneficiary of certain VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of agricultural real estate mortgage loans or rural utilities loans. Prior to 2010, Farmer Mac presented these beneficial interests as "Farmer Mac Guaranteed Securities" on the consolidated balance sheets. Upon consolidation, Farmer Mac transferred these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts." The transferred assets on January 1, 2010 included Farmer Mac Guaranteed Securities – Rural Utilities with an unpaid principal balance of $412.9 million and a fair value of $455.6 million and Farmer Mac I Guaranteed Securities with an unpaid principal balance of $5.3 million and a fair value of $5.6 million.

On January 25, 2010, Farmer Mac contributed substantially all of the assets comprising the Farmer Mac II program, in excess of $1.1 billion, to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA-guaranteed portions that had not been securitized by Farmer Mac (i.e., transferred to a trust from which Farmer Mac II Guaranteed Securities were issued) but also included $35.0 million of Farmer Mac II Guaranteed Securities. Farmer Mac did not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA-guaranteed portions. The contributed USDA-guaranteed portions had previously been presented as Farmer Mac II Guaranteed Securities on the consolidated financial statements of Farmer Mac and are now presented as USDA Guaranteed Securities on the consolidated balance sheets. The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied.

During 2010 and 2009, Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities. During 2008, Farmer Mac realized gross gains from the sale of securities from its available-for-sale Farmer Mac Guaranteed Securities portfolio of $1.5 million.

As of December 31, 2010, of the total on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities, $2.7 billion are fixed rate or have floating rates that reset after one year. As of December 31, 2009, of the total on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities, $2.1 billion are fixed rate or have floating rates that reset after one year.

The table below presents a sensitivity analysis of the Corporation's on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of December 31, 2010 and 2009.

	As of December 31,	
	2010	2009
	(dollars in thousands)	
Fair value of beneficial interests retained in Farmer Mac and USDA Guaranteed Securities	$ 4,224,708	$ 3,398,996
Weighted-average remaining life (in years)	3.5	3.7
Weighted-average prepayment speed (annual rate)	3.5 %	3.8 %
Effect on fair value of a 10% adverse change	$ (18)	$ (18)
Effect on fair value of a 20% adverse change	$ (17)	$ (36)
Weighted-average discount rate	2.3 %	2.8 %
Effect on fair value of a 10% adverse change	$ (20,257)	$ (22,081)
Effect on fair value of a 20% adverse change	$ (40,315)	$ (44,531)

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.

Farmer Mac securitizes three types of assets: agricultural real estate mortgage loans, USDA-guaranteed portions of loans and rural utilities loans. Farmer Mac manages the credit risk of its securitized loans, both on- and off-balance sheet, together with its on-balance sheet loans and the loans underlying its off-balance sheet LTSPCs. See Note 8 for more information regarding this credit risk.

As part of fulfilling its guarantee obligations for Farmer Mac Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet.

The table below presents the outstanding principal balances as of the periods indicated for Farmer Mac's on- and off-balance sheet program assets.

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

	As of December 31,			
		2010		2009
	(in thousands)			
On-balance sheet:				
Farmer Mac I:				
Loans	$	972,206	$	733,422
Loans held in trusts:				
Beneficial interests owned by Farmer Mac		3,697		5,307
Beneficial interests owned by third party investors		821,411		-
Farmer Mac Guaranteed Securities - AgVantage		941,500		48,800
Farmer Mac II:				
USDA Guaranteed Securities		1,297,439		-
Farmer Mac Guaranteed Securities		39,856		1,164,996
Rural Utilities:				
Loans		339,963		28,644
Loans held in trusts:				
Beneficial interests owned by Farmer Mac		400,228		412,948
Farmer Mac Guaranteed Securities - AgVantage		1,887,200		1,675,000
Total on-balance sheet	$	6,703,500	$	4,069,117
Off-balance sheet:				
Farmer Mac I:				
Farmer Mac Guaranteed Securities - AgVantage	$	2,945,000	$	2,945,000
LTSPCs		1,754,597		2,165,706
Farmer Mac Guaranteed Securities		750,217		1,492,239
Farmer Mac II:				
Farmer Mac Guaranteed Securities		48,103		34,802
Rural Utilities:				
Farmer Mac Guaranteed Securities - AgVantage		15,292		14,240
Total off-balance sheet	$	5,513,209	$	6,651,987
Total	$	12,216,709	$	10,721,104

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. 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.

47

The following tables present information related to Farmer Mac's acquisition of defaulted loans for the years ended December 31, 2010, 2009 and 2008 and the outstanding balances and carrying amounts of all such loans as of December 31, 2010 and 2009, respectively.

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Unpaid principal balance at acquisition date	$ 6,082	$ 21,269	$ 58,279
Contractually required payments receivable	6,200	21,278	63,673
Impairment recognized subsequent to acquisition	1,736	8,492	5,200
Recovery/release of allowance for defaulted loans	3,005	-	-

	As of December 31,		
	2010	2009	2008
		(in thousands)	
Outstanding balance	$ 34,473	$ 50,409	$ 91,942
Carrying amount	30,365	29,994	69,308

Net credit losses and 90-day delinquencies as of and for the periods indicated for Farmer Mac Guaranteed Securities, loans and LTSPCs in the Farmer Mac I program are presented in the table below. Information is not presented for loans underlying Farmer Mac I AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization also required for Farmer Mac I AgVantage securities. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As of December 31, 2010, there were no probable losses inherent in Farmer Mac I AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. To date, Farmer Mac has not experienced any credit losses on any Farmer Mac I AgVantage securities.

As of December 31, 2010, there were no probable losses inherent in the Farmer Mac II and Rural Utilities programs. Farmer Mac has not experienced any credit losses in either of these programs to date.

	90-Day Delinquencies (1) As of December 31,		Net Credit (Recoveries)/Losses (2) For the Year Ended December 31,		
	2010	2009	2010	2009	2008
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$37,665	$35,470	$(1,618)	$7,490	$5,292
Farmer Mac Guaranteed Securities	-	-	-	-	-
Total on-balance sheet	$37,665	$35,470	$(1,618)	$7,490	$5,292
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$32,583	$14,056	$-	$-	$-
Farmer Mac Guaranteed Securities	-	-	-	-	-
Total off-balance sheet	$32,583	$14,056	$-	$-	$-
Total	$70,248	$49,526	$(1,618)	$7,490	$5,292

(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, LTSPCs and REO.

Because Farmer Mac may, in its sole discretion, purchase loans in Farmer Mac Guaranteed Securities that are 90 days delinquent, Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Of the $37.7 million and $35.5 million of loans reported as 90 days delinquent as of December 31, 2010 and 2009, respectively, $7.9 million and $7.5 million are loans subject to these "removal-of-account" provisions.

6. FINANCIAL DERIVATIVES

Farmer Mac is required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative. 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 loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. During third quarter 2008, Farmer Mac, for the first time, purchased pay-fixed swaptions, which provide the option of entering into pay-fixed interest rate swaps, as part of its overall strategy in managing interest rate risk. Those swaptions were either terminated or expired unexercised during the third and fourth quarters of 2008. During fourth quarter 2009, Farmer Mac entered into credit default swaps for the first time. Farmer Mac entered into these swaps to mitigate the credit exposure related to its investment in corporate debt issued by HSBC Finance. Changes in the fair value of the credit default swaps are recorded in earnings; however, only additional credit losses related to the HSBC Finance corporate debt will be recorded in earnings since management no longer intends to sell these securities.

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 GSEs, futures contracts involving U.S. Treasury securities and interest rate swaps. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both Treasury rates and spreads on Farmer Mac debt and Farmer Mac Guaranteed Securities. 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 any changes in funding costs or Farmer Mac Guaranteed Securities sale prices that occur during the hedge period.

Market Risk:

Market risk is the risk of an adverse effect resulting from changes in interest rates or spreads on the value of a financial instrument. Farmer Mac manages market risk associated with financial derivatives by establishing and monitoring limits as to the degree of risk that may be undertaken. This risk is periodically measured as part of Farmer Mac's overall risk monitoring processes, which include market value of equity measurements, net interest income modeling and other measures.

Credit Risk:

Credit risk is the risk that a counterparty will fail to perform according to the terms of a financial contract in which Farmer Mac has an unrealized gain. Credit losses could occur in the event of non-performance by counterparties to the financial derivative contracts. Farmer Mac mitigates this counterparty credit risk by contracting only with counterparties that have investment grade credit ratings (i.e., at least BBB), establishing and maintaining collateral requirements based upon credit ratings and entering into netting agreements. Netting agreements provide for the calculation of the net amount of all receivables and payables under all transactions covered by the netting agreement between Farmer Mac and a single counterparty. Farmer Mac's exposure to credit risk related to its financial derivatives is represented by those counterparties for which Farmer Mac has a net receivable, including the effect of any netting arrangements. As of December 31, 2010 and 2009, Farmer Mac's credit exposure to interest rate swap counterparties, excluding netting arrangements, was $48.0 million and $22.0 million, respectively; however, including netting arrangements, Farmer Mac's credit exposure was $12.4 million and $6.5 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, there were no financial derivatives in a net payable position where Farmer Mac was required to pledge collateral which the counterparty had the right to sell or repledge.

Interest Rate Risk:

Farmer Mac uses financial derivatives to manage its interest rate risk exposure by effectively modifying the interest rate reset or maturity characteristics of certain assets and liabilities and by locking in the rates for certain forecasted issuances of liabilities. The primary financial derivatives Farmer Mac uses include interest rate swaps and forward sale contracts. Farmer Mac uses interest-rate swaps to assume fixed rate interest payments in exchange for floating rate interest payments and vice versa. Depending on the economic hedging relationship, the effects of these agreements are (a) the conversion of variable rate liabilities to longer-term fixed rate liabilities, (b) the conversion of long-term fixed rate assets to shorter-term floating rate assets, or (c) the reduction of the variability of future changes in interest rates on forecasted issuances of liabilities. The net payments on these agreements are recorded as gains and losses on financial derivatives in the consolidated statements of operations.

Farmer Mac accounts for its financial derivatives at fair value and not in any qualifying hedging relationship. As of December 31, 2010 and 2009, the net fair value of financial derivatives totaled $(72.2) million and $(92.3) million, respectively. (Losses)/gains on financial derivatives totaled $(17.2) million, $21.3 million and $(130.4) million for the years ended December 31, 2010, 2009 and 2008, respectively.

The following tables summarize information related to Farmer Mac's financial derivatives as of December 31, 2010 and 2009:

December 31, 2010

	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	$ 13,144	$ -	$ (69)	5.11 %	0.29 %		7.12
Pay fixed non-callable	1,275,108	2,814	(108,503)	4.69 %	0.30 %		3.93
Receive fixed non-callable	2,874,534	39,551	(1,828)	0.44 %	1.40 %		1.70
Basis swaps	254,991	52	(3,411)	1.34 %	0.38 %		1.71
Credit default swaps	30,000	-	(216)	1.00 %	0.00 %		1.05
Agency forwards	37,336	-	(174)			101.03	
Treasury futures	1,300	-	(6)			119.95	
Credit valuation adjustment	-	(925)	520				
Total financial derivatives	$ 4,486,413	$ 41,492	$ (113,687)				

December 31, 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	$ 65,686	$ -	$ (1,725)	5.70 %	0.27 %		7.78
Pay fixed non-callable	1,236,156	5	(99,913)	4.95 %	0.26 %		4.62
Receive fixed callable	300,000	236	-	0.09 %	0.54 %		0.76
Receive fixed non-callable	2,262,714	14,298	(2,815)	0.41 %	1.80 %		2.25
Basis swaps	262,177	294	(3,673)	1.63 %	0.61 %		2.39
Credit default swaps	30,000	-	(214)	1.00 %	0.00 %		2.14
Agency forwards	75,511	453	-			101.22	
Treasury futures	20,500	3	-			115.47	
Credit valuation adjustment	-	(249)	973				
Total financial derivatives	$ 4,252,744	$ 15,040	$ (107,367)				

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 December 31, 2010, 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 $96.1

million. As of December 31, 2010, Farmer Mac posted cash of $16.6 million as collateral for its derivatives in net liability positions. Farmer Mac records posted cash as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of prepaid expenses and other assets. If Farmer Mac had breached certain provisions of the derivative contracts as of December 31, 2010, it could have been required to settle its obligations under the agreements or post additional collateral of $79.5 million.

The following table summarizes the effects of Farmer Mac's financial derivatives on the consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008:

	(Losses)/Gains on Financial Derivatives For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Interest rate swaps	$ (13,071)	$ 24,377	$ (127,251)
Agency forwards	(3,246)	(2,359)	(2,132)
Treasury futures	(465)	(71)	(647)
Pay-fixed swaptions	-	-	50
Credit default swaps	(307)	(416)	-
Subtotal	(17,089)	21,531	(129,980)
Amortization of derivatives transition adjustment	(70)	(234)	(423)
Total	$ (17,159)	$ 21,297	$ (130,403)

As of December 31, 2010, Farmer Mac had reclassified all of the net after-tax unrealized gains and losses on financial derivatives included in accumulated other comprehensive income/(loss) related to the financial derivatives transition adjustment into earnings.

As of December 31, 2010, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with a total notional amount of $85.0 million and a fair value of $(3.4) million, compared to $105.2 million and $(3.7) million, respectively as of December 31, 2009. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps 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. Accordingly, Farmer Mac recorded unrealized gains/(losses) on those outstanding basis swaps of $0.3 million, $0.1 million and $(2.6) million for 2010, 2009 and 2008, respectively. See Note 3 for additional information on these related party transactions.

7. NOTES PAYABLE

Farmer Mac's borrowings consist of discount notes and medium-term notes, both of which are unsecured general obligations of the Corporation. Discount notes generally have original maturities of one year or less, whereas medium-term notes generally have maturities of six months to 15 years.

The following table sets forth information related to Farmer Mac's borrowings as of December 31, 2010 and 2009:

	December 31, 2010			
	Outstanding as of December 31,		Average Outstanding During the Year	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Due within one year:				
Discount notes	$3,810,232	0.23 %	$2,426,090	0.26 %
Medium-term notes	259,996	0.33 %	685,374	0.50 %
Current portion of long-term notes	439,191	1.21 %		
	$4,509,419	0.33 %		
Due after one year:				
Medium-term notes due in:				
2012	$652,731	1.81 %		
2013	582,120	1.66 %		
2014	984,090	3.69 %		
2015	892,643	2.35 %		
Thereafter	319,072	4.11 %		
	3,430,656	2.68 %		
Total	$7,940,075	1.35 %		

	December 31, 2009			
	Outstanding as of December 31,		Average Outstanding During the Year	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Due within one year:				
Discount notes	$2,300,352	0.23 %	$1,981,495	0.60 %
Medium-term notes	1,186,965	0.61 %	1,122,704	1.09 %
Current portion of long-term notes	175,581	2.77 %		
	$3,662,898	0.47 %		
Due after one year:				
Medium-term notes due in:				
2011	$92,181	4.31 %		
2012	547,591	2.08 %		
2013	79,841	3.55 %		
2014	1,069,429	3.66 %		
Thereafter	119,671	4.77 %		
	1,908,713	3.30 %		
Total	$5,571,611	1.44 %		

The maximum amount of Farmer Mac's discount notes outstanding at any month end during each of the years ended December 31, 2010 and 2009 was $3.8 billion and $2.6 billion, respectively.

Callable medium-term notes give Farmer Mac the option to redeem the debt at par value on a specified call date or at any time on or after a specified call date. The following table summarizes by maturity date, the amounts and costs for Farmer Mac debt callable in 2011 as of December 31, 2010.

	Debt Callable in 2011 as of December 31, 2010			
Maturity		Amount	Rate	
	(dollars in thousands)			
2011	$	-	-	
2012		-	-	
2013		174,000	1.42	%
2014		-	-	
2015		313,000	2.48	%
Thereafter		142,000	3.96	%
	$	629,000	2.52	%

The following schedule summarizes the earliest interest rate reset date of total borrowings outstanding as of December 31, 2010, including callable and non-callable medium-term notes, assuming callable notes are redeemed at the initial call date.

	Earliest Interest Rate Reset Date of Borrowings Outstanding			
		Amount	Weighted-Average Rate	
	(dollars in thousands)			
Debt with interest rate resets in:				
2011	$	5,187,122	0.60	%
2012		602,771	1.93	%
2013		408,346	1.75	%
2014		984,090	3.69	%
2015		580,228	2.28	%
Thereafter		177,518	4.22	%
Total	$	7,940,075	1.35	%

During 2010 and 2009, Farmer Mac called $0.8 billion and $1.0 billion of callable medium-term notes, respectively.

Authority to Borrow from the U.S. Treasury

Farmer Mac's statutory charter authorizes it to borrow up to $1.5 billion from the U.S. Treasury, if necessary, to fulfill its obligations under any guarantee. The debt would bear interest at a rate determined by the U.S. Treasury based on the then current cost of funds to the United States. The charter requires the debt to be repaid within a reasonable time. As of December 31, 2010, Farmer Mac had not utilized this borrowing authority and does not expect to utilize this borrowing authority in the near future.

Gains and Losses on the Repurchase of Outstanding Debt

Farmer Mac did not repurchase any of its outstanding debt in 2010 or 2009. During 2008, Farmer Mac recognized $0.9 million of net gains on the repurchase of $120.0 million of outstanding Farmer Mac debt. All of the repurchases were from outstanding Farmer Mac fixed rate debt that had been previously swapped to become floating rate debt. Upon the repurchase of those debt securities, the interest rate swaps were cancelled and the debt was replaced with new funding to match the duration of related floating rate assets.

8. ALLOWANCE FOR LOSSES AND CONCENTRATIONS OF CREDIT RISK

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities. As of December 31, 2010 and 2009, Farmer Mac recorded specific allowances for losses of $7.4 million and $0.6 million, respectively. No allowance for losses has been provided for the Farmer Mac II and Rural Utilities programs and Farmer Mac I AgVantage securities as of December 31, 2010 or 2009. See Note 2(j), Note 5 and Note 12 for more information about Farmer Mac Guaranteed Securities. Farmer Mac's allowance for losses is presented in two components on its consolidated balance sheets:

- an "Allowance for loan losses" on loans held; and
- an allowance for losses on loans underlying LTSPCs and Farmer Mac Guaranteed Securities, which is presented as "Reserve for losses" on the consolidated balance sheets.

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.

The following is a summary of the changes in the allowance for losses for each year in the three-year period ended December 31, 2010:

	Allowance for Loan Losses	Reserve for Losses (in thousands)	Total Allowance for Losses
Balance as of January 1, 2008	$ 1,690	$ 2,197	$ 3,887
Provision for losses	14,531	3,309	17,840
Charge-offs	(5,308)	-	(5,308)
Recoveries	16	-	16
Balance as of December 31, 2008	$ 10,929	$ 5,506	$ 16,435
Provision for losses	2,853	2,389	5,242
Charge-offs	(8,491)	-	(8,491)
Recoveries	1,001	-	1,001
Balance as of December 31, 2009	$ 6,292	$ 7,895	$ 14,187
Provision for losses	1,893	2,417	4,310
Charge-offs	(605)	-	(605)
Recoveries	2,223	-	2,223
Balance as of December 31, 2010	$ 9,803	$ 10,312	$ 20,115

During 2010, Farmer Mac recorded provisions to its allowance for loan losses of $1.9 million, charge-offs of $0.6 million and recoveries of $2.2 million. The provisions to the allowance for loan losses during 2010 include:

- the reclassification of $2.0 million from the reserve for losses to the allowance for loan losses upon adoption of new consolidation guidance in first quarter 2010;
- increased provisions of $2.1 million; offset by
- recoveries of $2.2 million on a loan secured by an ethanol plant.

During 2009 and 2008, Farmer Mac recorded provisions to its allowance for loan losses of $2.9 million and $14.5 million, charge-offs of $8.5 million and $5.3 million, and recoveries of $1.0 million and $16,000, respectively. The activity in the allowance for loan losses in 2009 and 2008 was largely attributable to defaulted ethanol loans previously purchased from AgStar Financial Services, a related party at the time of purchase, pursuant to the terms of an LTSPC agreement.

During 2010, Farmer Mac recorded provisions to its reserve for losses of $4.4 million. The provisions recorded during 2010 primarily relate to Farmer Mac's exposure to the ethanol and timber industries pursuant to loans underlying LTSPCs. These provisions were partially offset by the reclassification of $2.0 million from the reserve for losses to the allowance for loan losses upon adoption of the new consolidation guidance in first quarter 2010. During 2009 and 2008, Farmer Mac recorded provisions to its reserve for losses of $2.4 million and $3.3 million, respectively. These provisions were largely attributable to Farmer Mac's exposure to the ethanol industry.

The following table presents Farmer Mac's reserve for losses for off-balance sheet Farmer Mac I Guaranteed Securities and LTSPCs as of December 31, 2010 and 2009.

	As of December 31, 2010	As of December 31, 2009
	(in thousands)	
Off-balance sheet Farmer Mac I Guaranteed Securities	$ 635	$ 2,033
LTSPCs	9,677	5,862
Total reserve for losses	$ 10,312	$ 7,895

The following tables present the ending balances of loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities and the related allowance for losses by impairment method and commodity type as of December 31, 2010.

As of December 31, 2010	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
				(in thousands)			
Ending Balance							
Evaluated collectively for impairment	$ 1,699,477	$ 835,254	$ 1,130,466	$ 282,400	$ 239,933	$ 22,514	$ 4,210,044
Evaluated individually for impairment	31,903	30,221	15,992	8,745	6,790	425	94,076
	$ 1,731,380	$ 865,475	$ 1,146,458	$ 291,145	$ 246,723	$ 22,939	$ 4,304,120
Allowance for Losses							
Evaluated collectively for impairment	$ 1,499	$ 783	$ 2,236	$ 222	$ 7,947	$ 13	$ 12,700
Evaluated individually for impairment	2,073	2,754	513	223	1,850	2	7,415
	$ 3,572	$ 3,537	$ 2,749	$ 445	$ 9,797	$ 15	$ 20,115

Farmer Mac recognized interest income of approximately $2.1 million, $2.6 million and $3.5 million on impaired loans during the years ended December 31, 2010, 2009 and 2008, respectively. During 2010, 2009 and 2008, Farmer Mac's average investment in impaired loans was $105.8 million, $140.5 million and $63.6 million, respectively. The following table presents the recorded investment of impaired loans with a specific allowance for losses and the recorded investment of impaired loans with no specific allowance for losses as of December 31, 2010 and 2009.

	As of December 31,					
	2010			2009		
	Balance	Specific Allowance	Net Balance	Balance	Specific Allowance	Net Balance
	(in thousands)					
Impaired loans:						
Specific allowance for losses	$58,472	$(7,415)	$51,057	$2,489	$(550)	$1,939
No specific allowance for losses	34,487	-	34,487	98,721	-	98,721
Total	$92,959	$(7,415)	$85,544	$101,210	$(550)	$100,660

In 2010, the specific allowance for losses includes amounts determined through an aggregate analysis of impaired assets without updated valuations. For prior years, the amounts determined through such aggregate analyses are included in the general allowance for losses.

The unpaid principal balances, recorded investment and specific allowance for losses related to impaired loans by commodity type as of December 31, 2010 and a summary of loans on nonaccrual status by commodity type as of December 31, 2010 are presented below.

	As of December 31, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$ 16,015	$ 10,549	$ 6,873	$ 1,050	$ -	$ -	$ 34,487
Unpaid principal balance	17,274	10,895	7,087	1,072	-	-	36,328
With a specific allowance:							
Recorded investment	15,414	18,949	9,052	7,788	6,839	430	58,472
Unpaid principal balance	14,630	19,326	8,905	7,672	6,790	425	57,748
Associated allowance	2,073	2,754	513	223	1,850	2	7,415
Total:							
Recorded investment	31,429	29,498	15,925	8,838	6,839	430	92,959
Unpaid principal balance	31,904	30,221	15,992	8,744	6,790	425	94,076
Associated allowance	2,073	2,754	513	223	1,850	2	7,415
Recorded Investment of Loans on Nonaccrual Status:	$ 13,828	$ 8,793	$ 3,267	$ 4,380	$ 8,796	$ -	$ 39,064

In accordance with the terms of all applicable trust agreements, Farmer Mac generally acquires all loans that collateralize Farmer Mac Guaranteed Securities that become and remain either 90 or 120 days (depending on the provisions of the applicable agreement) or more past due on the next subsequent loan payment date. In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days (depending on the provisions of the applicable agreement) delinquent upon the request of the counterparty.

Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans.

During 2010, Farmer Mac purchased 22 defaulted loans having an unpaid principal balance of $6.1 million from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. During 2009, Farmer Mac purchased 24 defaulted loans having a principal balance of $21.3 million from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. The following table presents Farmer Mac's purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Defaulted loans purchased underlying off-balance sheet Farmer Mac I Guaranteed Securities	$ 3,456	$ 1,157	$ 647
Defaulted loans underlying on-balance sheet Farmer Mac I Guaranteed Securities transferred to loans	-	2,216	1,072
Defaulted loans purchased underlying LTSPCs	2,626	17,896	56,560
Total	$ 6,082	$ 21,269	$ 58,279

Credit Quality Indicators

The following tables present credit quality indicators related to loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of December 31, 2010. Farmer Mac uses 90-day delinquency information to evaluate its credit risk exposure on these program assets because historically it has been the best measure of borrower credit quality deterioration. Most of the loans held and underlying LTSPCs and Farmer Mac I Guaranteed Securities have annual (January 1) or semi-annual (January 1 and July 1) payment dates and are supported by less frequent and less predictable revenue sources, such as the cash flows generated from the maturation of crops, sales of livestock and government farm support programs. Taking into account the reduced frequency of payment due dates and revenue sources, Farmer Mac considers the 90-day delinquency point to be the most significant observation point when evaluating its credit risk exposure.

	As of December 31, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade (1)							
Grade:							
Acceptable	$ 1,625,995	$ 792,061	$ 993,542	$ 268,111	$ 116,248	$ 20,321	$ 3,816,278
Other assets especially mentioned ("OAEM") (2)	59,768	17,112	86,500	9,652	76,947	639	250,618
Substandard (2)	45,617	56,302	66,416	13,382	53,528	1,979	237,224
Total	$ 1,731,380	$ 865,475	$ 1,146,458	$ 291,145	$ 246,723	$ 22,939	$ 4,304,120

	Greater than 90 days	In Bankruptcy and REO	Total Nonperforming
Age analysis of past due loans (1)			
Crops	$ 21,423	$ 4,886	$ 26,308
Permanent Plantings	26,312	3,712	30,025
Livestock	7,177	1,395	8,572
Part-time Farm	3,803	1,537	5,340
AgStorage and processing (including ethanol facilities)	10,892	-	10,892
Other	641	-	641
Total	$ 70,248	$ 11,530	$ 81,778

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans. Amounts include real estate owned, at lower of cost or fair

value less estimated selling costs, of $2.0 million.

(2) Assets in the OAEM category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured. Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

Concentrations of Credit Risk

The following table sets forth the geographic and commodity/collateral diversification, as well as the range of original loan-to-value ratios, for all loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs as of December 31, 2010 and 2009:

	As of December 31,	
	2010	2009
	(in thousands)	
By commodity/collateral type:		
Crops	$ 1,731,380	$ 1,694,235
Permanent plantings	865,475	853,554
Livestock	1,146,458	1,218,614
Part-time farm	291,145	325,666
AgStorage and processing (including ethanol facilities)	246,723	276,848
Other	22,939	27,725
Total	$ 4,304,120	$ 4,396,642
By geographic region (1):		
Northwest	$ 660,845	$ 642,086
Southwest	1,626,398	1,722,181
Mid-North	934,879	979,714
Mid-South	521,294	537,682
Northeast	317,715	346,176
Southeast	242,989	168,803
Total	$ 4,304,120	$ 4,396,642
By original loan-to-value ratio:		
0.00% to 40.00%	$ 1,030,580	$ 1,092,520
40.01% to 50.00%	770,744	755,698
50.01% to 60.00%	1,246,675	1,218,330
60.01% to 70.00%	1,056,132	1,108,683
70.01% to 80.00%	155,363	172,503
80.01% to 90.00%	44,626	48,908
Total	$ 4,304,120	$ 4,396,642

(1) Geographic regions: Northwest (AK, ID, MT, ND, NE, OR, SD, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, MO, WI); Mid-South (KS, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NC, NH, NJ, NY, OH, PA, RI, TN, VA, VT, WV); Southeast (AL, AR, FL, GA, LA, MS, SC).

The original loan-to-value ratio is calculated by dividing the loan principal balance at the time of guarantee, purchase or commitment by the appraised value at the date of loan origination or, when available, the updated appraised value at the time of guarantee, purchase or commitment. Current loan-to-value ratios may be higher or lower than the original loan-to-value ratios.

9. 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 FCS. 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 Class A voting common stock;
- Class B voting common stock, which may be held only by institutions of the FCS. 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. Beginning in first quarter 2009 and continuing throughout 2010, Farmer Mac paid a quarterly dividend of $0.05 per share on all classes of the Corporation’s common stock. On February 3, 2011, Farmer Mac’s board of directors declared a quarterly dividend of $0.05 per share on the Corporation’s common stock payable on March 31, 2011. Farmer Mac’s ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Farmer Mac made no common stock repurchases during 2010 or 2009. During 2008, Farmer Mac repurchased 31,691 shares of its Class C non-voting common stock at an average price of $26.13 per share. These repurchases reduced the Corporation’s stockholders’ equity by approximately $0.8 million. The aggregate number of shares purchased by Farmer Mac under its stock repurchase program reached the maximum number of authorized shares during first quarter 2008, thereby terminating the program according to its terms. All of the repurchased shares under Farmer Mac’s stock repurchase programs were purchased in open market transactions and were retired to become authorized but unissued shares available for future issuance.

Preferred Stock

Farmer Mac has had three series of preferred stock outstanding. The first, Series A, was permanent equity, was a component of Stockholders’ Equity on the consolidated balance sheets, and was repurchased and retired on December 15, 2008. The second, Series B, was newly issued on September 30, 2008 and on December 15, 2008, was temporary equity and was reported as Mezzanine Equity on the consolidated balance sheets and was repurchased and retired on January 25, 2010. This preferred stock was temporary equity because it contained redemption features that, although remote, were not solely within the control of Farmer Mac. The third, Series C, was newly issued during fourth quarter 2008 and is permanent equity and a component of Stockholders’ Equity on the consolidated balance sheets. 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.

Series B Preferred Stock

On September 30, 2008, Farmer Mac issued 60,000 shares of its newly issued Series B-1 Senior Cumulative Perpetual Preferred Stock ("Initial Series B-1 Preferred Stock") and 5,000 shares of its newly issued Series B-2 Senior Cumulative Perpetual Preferred Stock ("Series B-2 Preferred Stock"), each having a par value and initial liquidation preference of $1,000 per share (collectively, the Initial Series B-1 Preferred Stock and Series B-2 Preferred Stock, the "Initial Series B Preferred Stock") for an aggregate purchase price of $65.0 million, or $1,000 per share. Farmer Mac incurred $4.0 million of direct costs related to the issuance of the Initial Series B Preferred Stock, which reduced the amount of mezzanine equity recorded as of September 30, 2008.

On December 15, 2008, Farmer Mac issued 70,000 shares of its newly issued Series B-3 Senior Cumulative Perpetual Preferred Stock ("Series B-3 Preferred Stock") having a par value and initial liquidation preference of $1,000 per share for a purchase price of $70.0 million and an additional 15,000 shares of Series B-1 Preferred Stock (the "Supplemental Series B-1 Preferred Stock") for a purchase price of $15.0 million. Farmer Mac incurred $1.8 million of direct costs related to the issuance of the Series B-3 Preferred Stock and Supplemental Series B-1 Preferred Stock, which reduced the amount of mezzanine equity recorded as of December 31, 2008. The Initial Series B Preferred Stock, the Supplemental Series B-1 Preferred Stock and the Series B-3 Preferred Stock are together referred to as the "Series B Preferred Stock."

On January 25, 2010, Farmer Mac repurchased and retired all $150.0 million of the outstanding Series B Preferred Stock and recognized a loss on retirement of preferred stock of $5.8 million on the consolidated statements of operations. Prior to that time, the Series B Preferred Stock ranked senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock and Series C Non-Voting Cumulative Preferred Stock ("Series C Preferred Stock")with respect to dividends, distributions upon a change in control, liquidation, and dissolution or winding up of Farmer Mac. Each series of Series B Preferred Stock ranked pari passu with the others.

Series C Preferred Stock

In fourth quarter 2008, Farmer Mac began to require its business partners to purchase an equity interest in Farmer Mac in the form of shares of Farmer Mac's Series C Preferred Stock in connection with transactions involving pools of loans in excess of $20.0 million. The amount of the required investment was equal to 1.25 percent greater than the Corporation's required statutory minimum capital for the pool of loans being accepted by Farmer Mac. The requirement was instituted to ensure that Farmer Mac had adequate capital to support new business in fulfilling its mission. In fourth quarter 2009, Farmer Mac eliminated the requirement to purchase Series C Preferred Stock in connection with new business.

Series C Preferred Stock has a par value of $1,000 per share, an initial liquidation preference of $1,000 per share and shall consist of up to 100,000 shares. Series C Preferred Stock ranks senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock and any other common stock of Farmer Mac issued in the future.

Dividends on Series C Preferred Stock compound quarterly at an annual rate of 5.0 percent of the then-applicable liquidation preference per share. The annual rate will increase to (1) 7.0 percent on the January 1st following the fifth anniversary of the applicable issue date and (2) 9.0 percent on the January 1st following the tenth anniversary of the applicable issue date. Dividends on Series C Preferred Stock will accrue and cumulate from the applicable issue date whether or not declared by the board of directors and will be payable quarterly in arrears out of legally available funds when and as declared by the board of directors on each dividend payment date—March 31, June 30, September 30 and December 31 of each year. Farmer Mac may pay dividends on Series C Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to Series C Preferred Stock.

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

Farmer Mac did not sell any shares of Series C Preferred Stock in 2010. This was due to the elimination of the requirement for business partners to purchase an equity interest in Farmer Mac in the fourth quarter 2009. During 2009 and 2008, Farmer Mac sold 48,378 shares and 9,200 shares, respectively, of Series C Preferred Stock. Farmer Mac sold these shares without registration under the Securities Act of 1933, in reliance upon the exemption provided by Section 3(a)(2), for an aggregate purchase price of $48.4 million and $9.2 million, or $1,000 per share, respectively. Farmer Mac had 57,578 shares of Series C Preferred Stock outstanding as of December 31, 2010, all held by CFC, a related party.

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of $250.0 million of securities issued by a newly formed Delaware statutory trust. The trust securities represent undivided beneficial ownership interests in 250,000 shares of non-cumulative perpetual preferred stock (the "Farmer Mac II LLC Preferred Stock") of Farmer Mac's subsidiary, Farmer Mac II LLC, a Delaware limited liability company. The Farmer Mac II LLC Preferred Stock has a liquidation preference of $1,000 per share.

Dividends on the Farmer Mac II LLC Preferred Stock will be payable if, when and as declared by Farmer Mac II LLC's board of directors, quarterly, on a non-cumulative basis, on March 30, June 30, September 30, and December 30 of each year. For each quarterly period from the date of issuance to but excluding the payment date occurring on March 30, 2015, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 8.875 percent per annum. For each quarterly period from March 30, 2015 to but excluding the payment date occurring on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 10.875 percent per annum. For each quarterly period beginning on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be an annual rate equal to three-month LIBOR plus 8.211 percent. Dividends on the Farmer Mac II LLC Preferred Stock will be non-cumulative, so dividends that are not declared for a payment date will not accrue. The Farmer Mac II LLC Preferred Stock is permanent equity of Farmer Mac II LLC and is presented as "Non-controlling interest – preferred stock" within permanent equity on the consolidated balance sheets of Farmer Mac. Farmer Mac II LLC incurred $8.1 million of direct costs related to the issuance of the Farmer Mac II LLC Preferred Stock, which reduced the amount of non-controlling interest – preferred stock. The accrual of declared dividends is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the consolidated statements of operations on a pre-tax basis. The consolidated tax benefit is included in income tax expense/(benefit).

Farmer Mac used part of the proceeds from the sale of $250.0 million of the Farmer Mac II LLC Preferred Stock to repurchase and retire all $150.0 million of the outstanding Series B Preferred Stock described above.

Equity-based Incentive Compensation Plans

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 10 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.

At the June 5, 2008 Annual Meeting of Stockholders, 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 10 years and those granted to directors expire after 7 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 2010 have exercise prices ranging from $10.43 to $12.20 per share, SARs granted during 2009 have exercise prices ranging from $5.93 to $7.78 per share and SARS granted during 2008 have exercise prices ranging from $7.35 to $28.94 per share. During 2010 and 2009, restricted stock awards were granted to directors with a vesting period of one year, and restricted stock awards were granted to officers vesting in three years provided certain performance targets are met.

The following tables summarize stock options, SARs and non-vested restricted stock activity for the years ended December 31, 2010, 2009 and 2008:

	For the Year Ended December 31,					
	2010		2009		2008	
	Stock Options and SARs	Weighted-Average Exercise Price	Stock Options and SARs	Weighted-Average Exercise Price	Stock Options and SARs	Weighted-Average Exercise Price
Outstanding, beginning of year	1,799,465	$22.68	2,237,711	$25.54	2,218,199	$25.48
Granted	302,000	11.88	210,000	6.33	429,770	24.41
Exercised	(26,998)	11.96	-	-	(264,297)	21.43
Canceled	(150,334)	22.34	(648,246)	27.27	(145,961)	28.86
Outstanding, end of year	1,924,133	$21.16	1,799,465	$22.68	2,237,711	$25.54
Options and SARs exercisable at end of year	1,434,544	$24.59	1,398,262	$25.17	1,490,150	$25.25

	For the Year Ended December 31,					
	2010		2009		2008	
	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value
Outstanding, beginning of year	200,548	$5.93	-	$-	-	$-
Granted	115,807	12.21	200,548	5.93	-	-
Canceled	(11,599)	8.15	-	-	-	-
Vested and issued	(122,147)	6.14	-	-	-	-
Outstanding, end of year	182,609	$9.63	200,548	$5.93	-	$-

The cancellations of stock options, SARs and non-vested restricted stock during 2010, 2009 and 2008 were due either to unvested awards terminating in accordance with the provisions of the applicable stock option plans upon directors' or employees' departures from Farmer Mac, by voluntary forfeiture, or vested awards terminating unexercised on their expiration date. Of the 161,933 awards canceled in 2010, 76,702 were a result of employee or director departures from Farmer Mac and 85,231 were a result of awards terminating unexercised on their expiration date.

Farmer Mac received $0.2 million from the exercise of stock options during 2010. There were no exercises of stock options during 2009. Farmer Mac received $5.7 million from the exercise of stock options during 2008. During 2010 and 2008, the reduction of income taxes payable as a result of the deduction for the exercise of stock options and SARs and the vesting or accelerated tax elections of restricted stock was $0.8 million and $0.9 million, respectively. In total, the additional paid-in capital received from the exercise of stock options was $0.1 million and $5.9 million for 2010 and 2008, respectively.

During 2010 and 2009, Farmer Mac recorded reductions to additional paid-in capital of $0.2 million and $1.2 million, respectively, as vested stock options expired unexercised. There was no such reduction in 2008.

During the year ended December 31, 2010, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued 4,417 shares of Class C non-voting common stock with a fair value of $44,000 to the seven directors who elected to receive such stock in lieu of their cash retainers. During the year ended December 31, 2009, Farmer Mac issued 9,566 shares of Class C non-voting common stock with a fair value of $41,000 to the five directors who elected to receive such stock in lieu of their cash retainers. During the similar period ended December 31, 2008, Farmer Mac issued 5,166 shares of Class C non-voting common stock with a fair value of $70,000 to the seven directors who elected to receive such stock in lieu of their cash retainers. Fair values are determined based on the closing price of the Class C non-voting common stock as of each quarter end date.

The following tables summarize information regarding stock options, SARs and non-vested restricted stock outstanding as of December 31, 2010:

	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	267,333	8.3 years	107,336	8.2 years	239,334	8.3 years
10.00 - 14.99	302,000	9.3 years	-	-	260,800	9.3 years
15.00 - 19.99	73,291	2.6 years	73,291	2.6 years	73,291	2.6 years
20.00 - 24.99	483,457	1.6 years	483,457	1.6 years	483,457	1.6 years
25.00 - 29.99	584,384	3.3 years	556,792	3.1 years	581,422	3.3 years
30.00 - 34.99	213,668	1.0 years	213,668	1.0 years	213,668	1.0 years
	1,924,133		1,434,544		1,851,972	

	Outstanding		Expected to Vest	
Weighted-Average Grant-Date Fair Value	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life
$5.00 - $ 9.99	75,000	1.2 years	67,500	1.2 years
10.00 - 14.99	100,188	1.3 years	90,168	1.3 years
15.00 - 19.99	7,421	0.2 years	6,679	0.2 years
	182,609		164,347	

The weighted average exercise price of the 1,851,972 options or SARs vested or expected to vest as of December 31, 2010 was $21.58.

As of December 31, 2010 and 2009, the intrinsic value of options, SARs and non-vested restricted stock outstanding, exercisable and vested or expected to vest was $6.2 million and $1.4 million, respectively. During 2010, the total intrinsic value of options and SARs exercised was $0.2 million. During 2008, the total intrinsic value of options exercised was $2.6 million. There were no exercises during 2009. As of December 31, 2010, there was $2.9 million of total unrecognized compensation cost related to non-vested stock options, SARS and restricted stock awards. This cost is expected to be recognized over a weighted-average period of 1.7 years.

The weighted-average grant date fair values of options, SARs and restricted stock awards granted in 2010, 2009 and 2008 were $9.24, $5.11 and $9.71 per share, respectively. Under the fair value-based method of accounting for stock-based compensation cost, Farmer Mac recognized compensation expense of $2.8 million, $2.7 million and $2.8 million during 2010, 2009 and 2008, respectively. The fair values of stock options and SARs were estimated using the Black-Scholes option pricing model based on the following assumptions:

	For the Year Ended December 31,					
	2010		2009		2008	
Risk-free interest rate	2.9	%	1.6	%	2.4	%
Expected years until exercise	7 years		7 years		6 years	
Expected stock volatility	91.5	%	103.6	%	52.2	%
Dividend yield	1.8	%	3.2	%	2.2	%

The risk-free interest rates used in the model were based on the U.S. Treasury yield curve in effect at the grant date. Farmer Mac used historical data to estimate the timing of option exercises and stock option cancellation rates used in the model. Expected volatilities were based on historical volatility of Farmer Mac's Class C common stock. The dividend yields were based on the expected dividends as a percentage of the value of Farmer Mac's Class C common stock on the grant date.

Since restricted stock awards will be issued upon vesting regardless of the stock price, expected stock volatility is not considered in determining grant date fair value. Restricted stock awards also accrue dividends which are paid at vesting. The weighted-average grant date fair value of the restricted stock awarded in 2010 and 2009 was $12.21 and $5.93 per share, respectively, which was the closing price of the stock on the date granted.

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to three statutory and regulatory capital requirements:

- Statutory minimum capital requirement – Farmer Mac's statutory minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income plus mezzanine equity) equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, specifically including:
  - o the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
  - o instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
  - o other off-balance sheet obligations of Farmer Mac.
- Statutory critical capital requirement – Farmer Mac's critical capital level is an amount of core capital equal to 50 percent of the total minimum capital requirement at that time.
- Risk-based capital requirement – Farmer Mac's charter directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters.

Farmer Mac is required to comply with the higher of the minimum capital requirement and the risk-based capital requirement.

As of December 31, 2010, Farmer Mac's minimum and critical capital requirements were $301.0 million and $150.5 million, respectively, and its actual core capital level was $460.6 million, which was $159.6 million above the minimum capital requirement and $310.1 million above the critical capital requirement as of that date. As of December 31, 2009, Farmer Mac's minimum and critical capital requirements were $217.0 million and $108.5 million, respectively, and its actual core capital level was $337.2 million, which was $120.2 million above the minimum capital requirement and $228.7 million above the critical capital requirement as of that date.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2010 was $42.1 million, and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $480.7 million exceeded that amount by approximately $438.6 million. As of December 31, 2009, Farmer Mac's risk-based capital requirement was $35.9 million, and Farmer Mac's regulatory capital of $351.3 million exceeded that amount by approximately $315.4 million.

10. INCOME TAXES

Farmer Mac is subject to federal income taxes but is exempt from state and local income taxes. The components of the federal income tax expense/(benefit) for the years ended December 31, 2010, 2009 and 2008 were as follows:

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Current income tax expense	$ 14,321	$ 16,902	$ 17,514
Deferred income tax (benefit)/expense	(524)	35,615	(40,378)
Income tax expense/(benefit)	$ 13,797	$ 52,517	$ (22,864)

A reconciliation of tax at the statutory federal tax rate to the income tax expense/(benefit) for the years ended December 31, 2010, 2009 and 2008 is as follows:

	For the Year Ended December 31,		
	2010	2009	2008
		(dollars in thousands)	
Tax expense/(benefit) at statutory rate	$ 23,274	$ 53,241	$ (60,630)
Non-taxable dividend income	(2,183)	(1,934)	(2,337)
Income from non-controlling interest	(7,248)	-	-
Valuation allowance	(235)	1,120	39,989
Other	189	90	114
Income tax expense/(benefit)	$ 13,797	$ 52,517	$ (22,864)
Statutory tax rate	35.0 %	35.0 %	35.0 %
Effective tax rate	20.7 %	34.5 %	13.2 %

The components of the deferred tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

	As of December 31,	
	2010	2009
	(in thousands)	
Deferred tax assets:		
Basis differences related to financial derivatives	$ 27,518	$ 34,192
Allowance for losses	7,040	4,965
Stock-based compensation	2,725	2,438
Capital loss carryforwards	37,887	37,408
Valuation allowance	(37,887)	(36,788)
Lower of cost or fair value adjustment on loans held for sale	3,110	-
Basis difference in subsidiary	2,437	-
Amortization of premiums on capital investments	2,987	4,322
Valuation allowance	(2,987)	(4,322)
Other	3,225	1,780
Total deferred tax assets	46,055	43,995
Deferred tax liability:		
Basis differences related to securities	20,047	17,941
Unrealized gains on available-for-sale securities	9,841	1,777
Other	1,637	131
Total deferred tax liability	31,525	19,849
Net deferred tax asset	$ 14,530	$ 24,146

A valuation allowance is required to reduce a deferred tax asset to an amount that is more likely than not to be realized. Future realization of the tax benefit from a deferred tax asset depends on the existence of sufficient taxable income of the appropriate character. After the evaluation of both positive and negative objective evidence regarding the likelihood that its deferred tax assets will be realized, Farmer Mac established a valuation allowance of $40.9 million and $41.1 million as of December 31, 2010 and 2009, respectively, which was attributable to non-deductible capital losses on investment securities. Farmer Mac did not establish a valuation allowance for the remainder of its deferred tax assets because it believes it is more likely than not that those deferred tax assets will be realized. In determining its deferred tax asset valuation allowance, Farmer Mac considered its taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback and carryforward periods available under the tax law. As of December 31, 2010, the amount of capital loss carryforwards was $106.0 million. These capital loss carryforwards will expire in 2014.

As of December 31, 2010 and 2009, both the recorded liability for uncertain tax positions and the corresponding deferred tax asset were $1.5 million and $1.4 million, respectively.

The following table presents the changes in unrecognized tax benefits for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31, 2010	2009 (in thousands)	2008
Beginning balance	$ 1,392	$ 934	$ 851
Increases based on tax positions related to current year	62	458	126
Reductions for tax positions of prior years	-	-	(43)
Ending balance	$ 1,454	$ 1,392	$ 934

The resolution of the unrecognized tax benefits presented above would represent temporary differences between Farmer Mac's net income and taxable income and, therefore, would not result in a change to the Corporation's effective tax rate. As of December 31, 2010 and 2009, accrued interest payable and the associated interest expense related to unrecognized tax benefits was immaterial and is presented as a component of income taxes. Farmer Mac does not expect to be subject to, and has not recorded tax penalties. It is reasonably possible that changes in the gross balance of unrecognized tax benefits may occur within the next 12 months due to the lapse of statutory limitations. Any changes would not be material to Farmer Mac's consolidated financial statements. Tax years 2007 through 2010 remain subject to examination.

11. EMPLOYEE BENEFITS

Farmer Mac makes contributions to a defined contribution retirement plan for all of its employees. Farmer Mac contributed 13.2 percent of the lesser of an employee's gross salary or the maximum compensation permitted under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") ($245,000 for 2010 and 2009, and $230,000 for 2008), plus 5.7 percent of the difference between: (1) the lesser of the gross salary or the amount established under EGTRRA; and (2) the Social Security Taxable Wage Base. Employees are fully vested after having been employed for approximately three years. Expense for this plan for the years ended December 31, 2010, 2009 and 2008 was $0.9 million, $0.8 million and $0.7 million, respectively.

12. OFF-BALANCE SHEET GUARANTEES AND LTSPCs, COMMITMENTS AND CONTINGENCIES

Farmer Mac offers approved agricultural and rural residential mortgage 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 the Farmer Mac I program, the Farmer Mac II program or the Rural Utilities program, and (2) LTSPCs, which are available through the Farmer Mac I program or Rural Utilities program. For securitization trusts where Farmer Mac is the primary beneficiary, as described in Note 2(q), the trust assets and liabilities are included on Farmer Mac's consolidated balance sheet. Upon consolidation, Farmer Mac eliminates the portion of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. For the remainder of these transactions, or in the event of deconsolidation, both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac. Farmer Mac accounts for these transactions and other financial guarantees in accordance with FASB guidance on accounting for guarantees. 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, which include 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 loans.

72

The contractual terms of Farmer Mac's guarantees range from less than 1 year to 30 years. However, the actual term of each guarantee may be significantly less than the contractual term based on the prepayment characteristics of the related agricultural real estate mortgage loans. Farmer Mac's maximum potential exposure under these guarantees is comprised of the unpaid principal balance of the underlying agricultural real estate mortgage loans. Guarantees issued or modified on or after January 1, 2003 are recorded in the consolidated balance sheets. Farmer Mac's maximum potential exposure was $5.2 billion and $6.2 billion as of December 31, 2010 and 2009, respectively. Farmer Mac's maximum potential exposure for guarantees issued prior to January 1, 2003, which are not recorded on the consolidated balance sheets, was $246.8 million and $377.2 million as of December 31, 2010 and 2009, respectively. The maximum exposure from these guarantees is not representative of the actual loss Farmer Mac is likely to incur, based on historical loss experience. In the event Farmer Mac was required to make payments under its guarantees, Farmer Mac would have the right to enforce the terms of the loans, and in the event of default, would have access to the underlying collateral. For information on Farmer Mac's methodology for determining the reserve for losses for its financial guarantees, see Note 2(j) and Note 8. The following table presents changes in Farmer Mac's guarantee and commitment obligations in the consolidated balance sheets for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Beginning balance, January 1	$ 48,526	$ 54,954	$ 52,130
Additions to the guarantee and commitment obligation (1)	4,539	3,168	8,512
Adjustments related to new consolidation guidance	(12,812)	-	-
Amortization of the guarantee and commitment obligation	(9,945)	(9,596)	(5,688)
Ending balance, December 31	$ 30,308	$ 48,526	$ 54,954

(1) Represents the fair value of the guarantee and commitment obligation at inception.

Off-Balance Sheet Farmer Mac Guaranteed Securities

Agricultural real estate mortgage loans, rural utilities loans and other related 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. Farmer Mac is obligated under its guarantee to ensure that the securities make timely payments to investors of principal and interest based on the underlying loans, regardless of whether the trust has actually received such scheduled loan payments. As consideration for Farmer Mac's assumption of the credit risk on these securities, Farmer Mac receives guarantee fees that are recognized as earned on an accrual basis over the life of the loan and based upon the outstanding balance of the Farmer Mac Guaranteed Security.

Farmer Mac is required to perform under its obligation when the underlying loans for the off-balance sheet Farmer Mac Guaranteed Securities do not make their scheduled installment payments. When a loan underlying a Farmer Mac I Guaranteed Security becomes 90 days or more past due, Farmer Mac may, in its sole discretion, repurchase the loan from the trust and generally does repurchase such loans, thereby reducing the principal balance of the outstanding Farmer Mac I Guaranteed Security.

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 December 31, 2010 and 2009, 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

	As of December 31,			
		2010		2009
	(in thousands)			
Farmer Mac I:				
Farmer Mac Guaranteed Securities - AgVantage	$	2,945,000	$	2,945,000
Farmer Mac Guaranteed Securities		750,217		1,492,239
Farmer Mac II:				
Farmer Mac Guaranteed Securities		48,103		34,802
Rural Utilities:				
Farmer Mac Guaranteed Securities - AgVantage		15,292		14,240
Total off-balance sheet Farmer Mac Guaranteed Securities	$	3,758,612	$	4,486,281

If Farmer Mac repurchases a loan that is collateral for a Farmer Mac Guaranteed Security, Farmer Mac would have the right to enforce the terms of the loan, and in the event of a default, would have access to the underlying collateral. Farmer Mac typically recovers its investment in the defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties or foreclosure and sale of the property securing the loans.

Farmer Mac has recourse to the USDA for any amounts advanced for the timely payment of principal and interest on Farmer Mac II Guaranteed Securities. That recourse is the USDA guarantee, a full faith and credit obligation of the United States that becomes enforceable if a lender fails to repurchase the USDA-guaranteed portion from its owner within 30 days after written demand from the owner when (a) the borrower under the guaranteed loan is in default not less than 60 days in the payment of any principal or interest due on the USDA-guaranteed portion, or (b) the lender has failed to remit to the owner the payment made by the borrower on the USDA-guaranteed portion or any related loan subsidy within 30 days after the lender's receipt of the payment.

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

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Proceeds from new securitizations	$ 8,594	$ 28,736	$ 98,843
Guarantee fees received	7,488	12,206	12,134
Purchases of assets from the trusts	(3,456)	(1,157)	(647)
Servicing advances	(32)	(20)	(9)
Repayments of servicing advances	22	29	2

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 consolidated balance sheets. This liability approximated $17.7 million and $33.9 million as of December 31, 2010 and 2009, respectively. The decrease in 2010 is primarily the result of the new accounting guidance related to consolidations. Upon adoption of the new consolidation guidance on January 1, 2010, Farmer Mac eliminated $15.5 million of the guarantee and commitment obligation related to the consolidated trusts. During second quarter 2010, Farmer Mac deconsolidated $414.5 million of certain securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities because Farmer Mac was no longer determined to be the primary beneficiary when the counterparty to the transaction ceased being a related party as a result of changes to the membership of Farmer Mac's board of directors. This deconsolidation resulted in an increase to the guarantee and commitment obligation of $2.7 million as of June 30, 2010. See Note 2(q) for more information. As of December 31, 2010 and 2009, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.7 years and 13.3 years, respectively. As of December 31, 2010 and 2009, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 2.4 years and 3.4 years, respectively. For information on Farmer Mac's methodology for determining the reserve for losses on off-balance sheet Farmer Mac Guaranteed Securities, see Note 2(j) and Note 8.

Long-Term Standby Purchase Commitments

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 a swap for Farmer Mac Guaranteed Securities.

An LTSPC permits a seller to nominate from its portfolio a segregated pool of loans for participation in the Farmer Mac I program, which are retained in the seller's portfolio and serviced by the seller. Farmer Mac reviews the loan pool to confirm that it conforms to Farmer Mac's underwriting standards. Upon Farmer Mac's approval of the eligible loans, the seller effectively transfers the credit risk on those loans to Farmer Mac, thereby reducing the seller's credit and concentration risk exposures and, consequently, its regulatory capital requirements and its loss reserve requirements. Credit risk is transferred through Farmer Mac's commitment to purchase the segregated loans from the counterparty based on Farmer Mac's original credit review and acceptance of the credit risk on the loans.

The specific events or circumstances that would require Farmer Mac to purchase some or all of the segregated loans under its LTSPCs include: (1) the failure of the borrower under any loan to make installment payments under that loan for a period of either 90 days or 120 days (depending on the provisions of the applicable agreement); or (2) the determination by the holder of the LTSPC to sell or exchange some or all of the loans under the LTSPC to Farmer Mac.

Farmer Mac purchases loans subject to an LTSPC at:

- par (if the loans become delinquent for either 90 days or 120 days, depending on the provisions of the applicable agreement, or are in material non-monetary default), with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received;
- a mark-to-market price or in exchange for Farmer Mac I Guaranteed Securities (if the loans are not delinquent and are standard loan products as to which Farmer Mac offers daily rates for commitments to purchase); or
- either (1) a mark-to-market negotiated price for all (but not some) loans in the pool, based on the sale of Farmer Mac I Guaranteed Securities in the capital markets or the funding obtained by Farmer Mac through the issuance of matching debt in the capital markets, or (2) in exchange for Farmer Mac I Guaranteed Securities (if the loans are not delinquent for either 90 days or 120 days, depending on the provisions of the applicable agreement).

As of December 31, 2010 and 2009, 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 $1.8 billion and $2.2 billion, respectively.

In the event of loan default, Farmer Mac would have the right to enforce the terms of the loans including the right to foreclose upon the collateral underlying such loans. Farmer Mac believes that it will typically recover its investment in the defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties or foreclosure and sale of the collateral.

As of December 31, 2010 and 2009, the weighted-average remaining maturity of all loans underlying LTSPCs was 13.8 years and 14.9 years, respectively. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the consolidated balance sheet. This liability approximated $12.6 million as of December 31, 2010 and $14.7 million as of December 31, 2009. For information on Farmer Mac's methodology for determining the reserve for losses for LTSPCs, see Note 2(j) and Note 8.

Commitments

Farmer Mac enters into mandatory and optional delivery commitments to purchase loans. Most loan purchase commitments entered into by Farmer Mac are mandatory commitments, in which Farmer Mac charges a fee to extend or cancel the commitment. As of December 31, 2010 and 2009, commitments to purchase Farmer Mac I and II loans totaled $62.4 million and $33.2 million, respectively, all of which were mandatory commitments. As of December 31, 2010 and 2009, commitments to purchase rural utilities loans totaled $18.0 million and $20.8 million, respectively. Any optional loan purchase commitments are sold forward under optional commitments to deliver Farmer Mac Guaranteed Securities that may be cancelled by Farmer Mac without penalty.

Farmer Mac is exposed to interest rate risk from the time it commits to purchase a loan to the time it either: (a) sells Farmer Mac Guaranteed Securities backed by the loan or (b) issues debt to retain the loan in its portfolio. There were no commitments to sell Farmer Mac Guaranteed Securities as of December 31, 2010 and 2009. Farmer Mac manages the interest rate risk related to loans not yet sold or funded as a retained investment through the use of forward sale contracts involving government-sponsored enterprise debt, futures contracts involving U.S. Treasury securities and interest rate swaps. See Note 2(h) and Note 6 for information regarding financial derivatives.

Rental expense for Farmer Mac's office space for each of the years ended December 31, 2010, 2009 and 2008 was $0.7 million, $0.7 million and $0.6 million, respectively. The future minimum lease payments under Farmer Mac's non-cancelable leases for its office space and other contractual obligations are as follows:

	Future Minimum Lease Payments	Other Contractual Obligations
	(in thousands)	
2011	$ 1,230	$ 755
2012	1,218	358
2013	1,246	123
2014	1,264	3
2015	1,281	-
Thereafter	12,305	-
Total	$ 18,544	$ 1,239

The future minimum lease payments in the table above include the sublease for new office space that begins on October 1, 2011. Other contractual obligations in the table above include minimum amounts due under non-cancelable agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. These agreements include agreements for the provision of consulting services, information technology support, equipment maintenance, and financial analysis software and services. The amounts actually paid under these agreements will likely be higher due to the variable components of some of these agreements under which the ultimate obligation owed is determined by reference to actual usage or hours worked.

Legal Proceedings

On December 5, 2008, a lawsuit was filed in the United States District Court for the District of Columbia against Farmer Mac and certain of its present and former officers and directors on behalf of purchasers of the securities of the Corporation between March 15, 2007 and September 12, 2008. This lawsuit was voluntarily dismissed by the lead plaintiffs on February 26, 2010.

13. FAIR VALUE DISCLOSURES

Fair Value Measurement

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

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

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

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

Farmer Mac performs 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 financial instruments that are not reported at fair value each period but are subject to fair value adjustments in certain circumstances are referred to as non-recurring fair value measurements.

Recurring Fair Value Measurements and Classification

Available-for-Sale and Trading Investment Securities

The fair value of investments in U.S. Treasuries is based on unadjusted quoted prices in active markets. Farmer Mac classifies these fair value measurements as level 1.

For a significant portion of Farmer Mac's investment portfolio, including most asset-backed securities, corporate debt securities, senior agency debt securities, Government/GSE guaranteed mortgage-backed securities and preferred stock issued by GSEs, fair value is primarily determined using a reputable and nationally recognized third party pricing service. The prices obtained are non-binding and generally representative of recent market trades. The fair value 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 that 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, duration, interest rate yield curves, measures of volatility and prepayment rates. Farmer Mac generally considers a market to be thinly traded or not quoted 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.

Farmer Mac classifies its estimates of fair value for ARCs as level 3 measurements. During 2008 and 2009, Farmer Mac used a discounted cash flow model to determine the estimated fair value of these investments as of each quarter end. The assumptions used in preparing the model include estimates for the amount and timing of future interest and principal payments and the rate of return required by investors to own these securities in the current environment. In making these assumptions, Farmer Mac considered relevant factors including: the formula for each security that defines the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the underlying student loans are backed by the full faith and credit of the United States; and, publicly available pricing data for student loan asset-backed securities that are not subject to auctions. Beginning in 2010, Farmer Mac used unadjusted quotes from a broker specializing in these types of securities to determine the estimated fair value of these investments as of each quarter end. Farmer Mac believes these quotes are the best indication of fair value as of the measurement date, although there is uncertainty regarding the ability to transact at such levels. Considering (1) there is no active secondary market for these securities, although limited observable transactions do occasionally occur, (2) price quotes vary significantly among dealers or independent pricing services, if provided at all, and (3) there is little transparency in the price determination, Farmer Mac believes these measurements are appropriately classified as level 3. The increase in the unrealized losses recognized on the ARCs as of December 31, 2010 compared to December 31, 2009 was the result of the change in the pricing methodology described above.

Net transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets and liabilities as of the beginning of the quarterly reporting period. Transfers within the fair value hierarchy for the fair value measurements of Farmer Mac’s investment securities during 2009 and 2010 are described below.

During second quarter 2009, Farmer Mac transferred its investment in the subordinated debt of CoBank, ACB 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. Farmer Mac used its internally-developed models as an alternative valuation technique to estimate fair value as a level 3 investment.

During first quarter 2010, Farmer Mac transferred its investments in the subordinated debt and preferred stock of CoBank, ACB and its investment in the preferred stock of AgFirst Farm Credit Bank, with par values of $70.0 million, $88.5 million and $88.0 million, respectively, as of December 31, 2009, from level 3 measurements to level 2 measurements. Taking into consideration its own recently executed trades during first quarter 2010, along with an increase in observable trading activity for these securities, Farmer Mac determined that the best estimates of fair value for these securities as of March 31, 2010, and continuing throughout 2010, were the fair values provided by an independent third party pricing service.

Available-for-Sale and Trading Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

Farmer Mac estimates the fair value of its Farmer Mac Guaranteed Securities and USDA 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 and USDA Guaranteed Securities by obtaining a secondary valuation from an independent third party service.

Transfers out of level 3 during 2009 and 2010 resulted from the consolidation of certain trusts whereby the underlying assets were no longer reported at fair value on a recurring basis. Transfers out of level 3 are based on the fair values of the assets as of the beginning of the quarterly reporting period and are described in more detail below.

In first quarter 2009, Farmer Mac transferred $263.4 million amortized cost basis of available-for-sale Farmer Mac I Guaranteed Securities to loans held-for-sale upon the consolidation of certain trusts in which Farmer Mac held 100 percent of the beneficial ownership interests. Farmer Mac then terminated the trusts and sold a portion of the underlying loans. Because loans held-for-sale are subject to fair value adjustments only when the amortized cost exceeds the fair value, these fair value measurements will be classified as level 3 on a nonrecurring basis.

Upon the adoption of the new consolidation guidance on January 1, 2010, Farmer Mac was deemed to be the primary beneficiary of certain VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of agricultural real estate mortgage loans or rural utilities loans. Prior to 2010, Farmer Mac presented these beneficial interests as "Farmer Mac Guaranteed Securities" on the consolidated balance sheets and reported them at their fair value. Upon consolidation, Farmer Mac transferred these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts." These loans are reported at their amortized cost and are no longer included in recurring fair value measurements. Farmer Mac transferred these securities out of level 3 based on their fair values as of the beginning of the first quarter 2010.

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, credit default 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 estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discounted rates commensurate with the risks involved.

As of December 31, 2010, 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 $(0.4) million. As of December 31, 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 $0.7 million.

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 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 December 31, 2010, Farmer Mac recorded an adjustment of $8.7 million to report loans held for sale at the lower of cost or fair value. As of December 31, 2009, Farmer Mac recorded an adjustment of $0.1 million to report loans held for sale at the lower of cost or fair value.

Real Estate Owned

Farmer Mac initially records 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 December 31, 2010, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $4.6 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 49 percent of total assets and 71 percent of financial instruments measured at fair value as of December 31, 2010. As of December 31, 2009, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $3.7 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 61 percent of total assets and 80 percent of financial instruments measured at fair value as of December 31, 2009.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2010 and 2009, 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 December 31, 2010

	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	$ -	$ -	$ 64,335	$ 64,335
Floating rate asset-backed securities	-	29,458	-	29,458
Floating rate corporate debt securities	-	163,188	-	163,188
Floating rate Government/GSE guaranteed mortgage-backed securities	-	576,780	-	576,780
Fixed rate GSE guaranteed mortgage-backed securities	-	4,821	-	4,821
Floating rate GSE subordinated debt	-	55,329	-	55,329
Fixed rate GSE preferred stock	-	84,828	-	84,828
U.S. Treasuries	692,994	-	-	692,994
Senior agency debt	-	5,500	-	5,500
Total available-for-sale	692,994	919,904	64,335	1,677,233
Trading:				
Floating rate asset-backed securities	-	-	1,400	1,400
Fixed rate GSE preferred stock	-	84,696	-	84,696
Total trading	-	84,696	1,400	86,096
Total Investment Securities	692,994	1,004,600	65,735	1,763,329
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	942,809	942,809
Farmer Mac II	-	-	37,637	37,637
Rural Utilities	-	-	1,926,818	1,926,818
Total available-for-sale	-	-	2,907,264	2,907,264
Total Farmer Mac Guaranteed Securities	-	-	2,907,264	2,907,264
USDA Guaranteed Securities:				
Available-for-sale	-	-	1,005,679	1,005,679
Trading	-	-	311,765	311,765
Total USDA Guaranteed Securities	-	-	1,317,444	1,317,444
Financial derivatives	-	41,492	-	41,492
Total Assets at fair value	$ 692,994	$ 1,046,092	$ 4,290,443	$ 6,029,529
Liabilities:				
Financial derivatives	$ 6	$ 110,291	$ 3,390	$ 113,687
Total Liabilities at fair value	$ 6	$ 110,291	$ 3,390	$ 113,687
Nonrecurring:				
Assets:				
Loans held for sale	$ -	$ -	$ 331,076	$ 331,076
Loans held for investment	-	-	11,971	11,971
REO	-	-	1,925	1,925

Total Nonrecurring Assets at fair value	$	-	$	-	$	344,972	$	344,972

Assets and Liabilities Measured at Fair Value as of December 31, 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	$ -	$ -	$ 72,884	$ 72,884
Floating rate asset-backed securities	-	58,143	-	58,143
Floating rate corporate debt securities	-	245,605	-	245,605
Floating rate Government/GSE guaranteed mortgage-backed securities	-	404,221	-	404,221
Fixed rate GSE guaranteed mortgage-backed securities	-	6,537	-	6,537
Floating rate GSE subordinated debt	-	-	47,562	47,562
Fixed rate GSE preferred stock	-	-	89,211	89,211
U.S. Treasuries	117,760	-	-	117,760
Total available-for-sale	117,760	714,506	209,657	1,041,923
Trading:				
Floating rate asset-backed securities	-	-	1,824	1,824
Fixed rate GSE preferred stock	-	-	88,148	88,148
Total trading	-	-	89,972	89,972
Total Investment Securities	117,760	714,506	299,629	1,131,895
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	56,864	56,864
Farmer Mac II	-	-	764,792	764,792
Rural Utilities	-	-	1,703,211	1,703,211
Total available-for-sale	-	-	2,524,867	2,524,867
Trading:				
Farmer Mac II	-	-	422,681	422,681
Rural Utilities	-	-	451,448	451,448
Total trading	-	-	874,129	874,129
Total Farmer Mac Guaranteed Securities	-	-	3,398,996	3,398,996
Financial derivatives	3	15,037	-	15,040
Total Assets at fair value	$ 117,763	$ 729,543	$ 3,698,625	$ 4,545,931
Liabilities:				
Financial derivatives	$ -	$ 103,714	$ 3,653	$ 107,367
Total Liabilities at fair value	$ -	$ 103,714	$ 3,653	$ 107,367
Nonrecurring:				
Assets:				
Loans held for sale	$ -	$ -	$ 28,505	$ 28,505
Total Nonrecurring Assets at fair value	$ -	$ -	$ 28,505	$ 28,505

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. Net transfers in and/or out of level 3 are based on the fair values of the assets and liabilities as of the beginning of the quarterly reporting period.

Level 3 Assets and Liabilities Measured at Fair Value for the Year Ended December 31, 2010

	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	$ 72,884	$ -	$ -	$ (8,549)	$ -	$ 64,335
Floating rate GSE subordinated debt	47,562	-	-	-	(47,562)	-
Fixed rate GSE preferred stock	89,211	-	-	-	(89,211)	-
Total available-for-sale	209,657	-	-	(8,549)	(136,773)	64,335
Trading:						
Floating rate asset-backed securities(1)	1,824	(748)	324	-	-	1,400
Fixed rate GSE preferred stock	88,148	-		-	(88,148)	-
Total trading	89,972	(748)	324	-	(88,148)	1,400
Total Investment Securities	299,629	(748)	324	(8,549)	(224,921)	65,735
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	56,864	892,670	-	(1,340)	(5,385)	942,809
Farmer Mac II	764,792	(1,607)	-	(2,364)	(723,184)	37,637
Rural Utilities	1,703,211	212,202	-	11,405	-	1,926,818
Total available-for-sale	2,524,867	1,103,265	-	7,701	(728,569)	2,907,264
Trading:						
Farmer Mac II	422,681	-		-	(422,681)	-
Rural Utilities	451,448	-	-	-	(451,448)	-
Total trading	874,129	-	-	-	(874,129)	-
Total Farmer Mac Guaranteed Securities	3,398,996	1,103,265	-	7,701	(1,602,698)	2,907,264

USDA Guaranteed Securities:						
Available-for-sale	-	277,987	-	4,508	723,184	1,005,679
Trading(2)	-	(113,491)	2,575	-	422,681	311,765
Total USDA Guaranteed Securities	-	164,496	2,575	4,508	1,145,865	1,317,444
Total Assets at fair value	$ 3,698,625	$ 1,267,013	$ 2,899	$ 3,660	$ (681,754)	$ 4,290,443
Liabilities:						
Financial derivatives(3)	$ (3,653)	$ -	$ 263	$ -	$ -	$ (3,390)
Total Liabilities at fair value	$ (3,653)	$ -	$ 263	$ -	$ -	$ (3,390)
Nonrecurring:						
Assets:						
Loans held for sale	$ 28,505	$ -	$ (8,748)	$ -	$ 311,319	$ 331,076
Loans held for investment	-	-	(4,743)	-	16,714	11,971
REO	-	-	(2,183)	-	4,108	1,925
Total Nonrecurring Assets at fair value	$ 28,505	$ -	$ (15,674)	$ -	$ 332,141	$ 344,972

(1) Unrealized gains are attributable to assets still held as of December 31, 2010 and are recorded in gains/(losses) on trading assets.

(2) Includes unrealized losses of $2.0 million attributable to assets still held as of December 31, 2010 that are recorded in gains/(losses) on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of December 31, 2010 and are recorded in (losses)/gains on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Year Ended December 31, 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)	$ -	$ 14,157	$ -	$ 72,884
Floating rate GSE subordinated debt	-	-	-	(1,570)	49,132	47,562
Fixed rate GSE preferred stock	-	(114)	-	(1,332)	90,657	89,211
Total available-for-sale	178,577	(119,964)	-	11,255	139,789	209,657
Trading:						
Floating rate asset-backed securities(1)	2,211	(785)	398	-	-	1,824
Fixed rate GSE preferred stock(2)	161,552	(1,168)	18,421	-	(90,657)	88,148
Total trading	163,763	(1,953)	18,819	-	(90,657)	89,972
Total Investment Securities	342,340	(121,917)	18,819	11,255	49,132	299,629
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	349,292	(2,219)	-	(2,197)	(288,012)	56,864
Farmer Mac II	522,565	228,773	-	13,454	-	764,792
Rural Utilities	639,837	1,045,000	-	18,374	-	1,703,211
Total available-for-sale	1,511,694	1,271,554	-	29,631	(288,012)	2,524,867
Trading:						
Farmer Mac II(3)	496,863	(77,881)	3,699	-	-	422,681
Rural Utilities(1)	442,687	(11,994)	20,755	-	-	451,448
Total trading	939,550	(89,875)	24,454	-	-	874,129
Total Farmer Mac Guaranteed Securities	2,451,244	1,181,679	24,454	29,631	(288,012)	3,398,996
Total Assets at fair value	$ 2,793,584	$ 1,059,762	$ 43,273	$ 40,886	$ (238,880)	$ 3,698,625
Liabilities:						
Financial Derivatives(4)	$ (3,719)	$ -	$ 66	$ -	$ -	$ (3,653)
Total Liabilities at fair value	$ (3,719)	$ -	$ 66	$ -	$ -	$ (3,653)
Nonrecurring:						
Assets:						
Loans held for sale	$ -	$ -	$ (139)	$ -	$ 28,644	$ 28,505

REO	-	(41,786)	-	-	41,786	-
Total Nonrecurring Assets at fair value	$ -	$ (41,786)	$ (139)	$ -	$ 70,430	$ 28,505

(1) Unrealized gains are attributable to assets still held as of December 31, 2009 and are recorded in gains/(losses) on trading assets.
(2) Includes unrealized gains of $8.3 million for assets still held as of December 31, 2009 that are recorded in gains/(losses) on trading assets.
(3) Includes unrealized gains of approximately $1.4 million attributable to assets still held as of December 31, 2009 that are recorded in gains/(losses) on trading assets.
(4) Unrealized gains are attributable to liabilities still held as of December 31, 2009 and are recorded in (losses)/gains on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Year Ended December 31, 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 (1)	$ -	$ 62,406	$ -	$ (15,373)	$ 131,544	$ 178,577
Floating rate corporate debt securities	-	400,000	-	(669)	(399,331)	-
Fixed rate corporate debt securities	500,138	-	-	2,951	(503,089)	-
Total available-for-sale securities	500,138	462,406	-	(13,091)	(770,876)	178,577
Trading:						
Floating rate asset-backed securities(2)	8,179	(939)	(5,029)	-	-	2,211
Fixed rate mortgage-backed securities	415,813	29,367	13,846	-	(459,026)	-
Fixed rate GSE preferred stock(2)	-	(659)	(16,889)	-	179,100	161,552
Total trading	423,992	27,769	(8,072)	-	(279,926)	163,763
Total investment securities	924,130	490,175	(8,072)	(13,091)	(1,050,802)	342,340
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	338,958	(23,036)	-	8,378	24,992	349,292
Farmer Mac II	-	41,856	-	(12,869)	493,578	522,565
Rural Utilities	-	(270,000)	-	7,417	902,420	639,837
Total available-for-sale	338,958	(251,180)	-	2,926	1,420,990	1,511,694
Trading:						
Farmer Mac II(3)	428,670	55,234	12,959	-	-	496,863
Rural Utilities(2)	-	(5,734)	(10,605)	-	459,026	442,687
Total trading	428,670	49,500	2,354	-	459,026	939,550
Total Farmer Mac Guaranteed Securities	767,628	(201,680)	2,354	2,926	1,880,016	2,451,244
Total Assets at fair value	$ 1,691,758	$ 288,495	$ (5,718)	$ (10,165)	$ 829,214	$ 2,793,584
Liabilities:						

Financial Derivatives(4)	$ (1,106)	$ -	$ (2,613)	$ -	$ -	$ (3,719)
Total Liabilities at fair value	$ (1,106)	$ -	$ (2,613)	$ -	$ -	$ (3,719)
Nonrecurring:						
Loans held for sale	$ -	$ (142,756)	$ -	$ -	$ 142,756	$ -

(1) Includes the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its ARC holdings. See Note 4 to the consolidated financial statements for more information related to these put rights.
(2) Unrealized losses are attributable to assets still held as of December 31, 2008 and are recorded in gains/(losses) on trading assets.
(3) Includes unrealized gains of approximately $13.8 million attributable to assets still held as of December 31, 2008 that are recorded in gains/(losses) on trading assets.
(4) Unrealized losses are attributable to liabilities still held as of December 31, 2008 and are recorded in (losses)/gains on financial derivatives.

Fair Value Option

Accounting guidance on the fair value option for financial instruments permits entities to make a one-time irrevocable election to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. This guidance provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

On January 1, 2008, with the adoption of this accounting guidance, Farmer Mac elected to measure $600.5 million of investment securities and $427.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Upon adoption, 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. During 2008, Farmer Mac elected to measure an additional $113.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Farmer Mac selected all of these assets for the fair value option because they were funded or hedged principally with financial derivatives and, therefore, it was expected that the changes in fair value of the assets would provide partial economic and financial reporting offsets to the related financial derivatives. Due to the significant declines in the fair values of investment securities attributable to the widening of credit spreads experienced during 2008, such financial reporting offsets were not achieved. For 2008, Farmer Mac recorded net losses on trading assets of $5.6 million for changes in fair values of the assets selected for the fair value option. These losses are presented as “Gains/(losses) on trading assets” in the consolidated statements of operations.

During fourth quarter 2008, Farmer Mac also elected to measure put rights related to $119.9 million (par value) of its ARC holdings at fair value upon the election of the fair value option.

Farmer Mac made no fair value option elections during 2010 and 2009. For the year ended December 31, 2010 and 2009, Farmer Mac recorded gains of $4.9 million and $42.9 million, respectively, for changes in the fair value of the assets selected for the fair value option during 2008. These gains are presented as “Gains/(losses) on trading assets” in the consolidated statements of operations.

Disclosures about Fair Value of Financial Instruments

The following table sets forth the estimated fair values and the carrying values for financial assets, liabilities and guarantees and commitments as of December 31, 2010 and 2009 in accordance with FASB guidance on disclosures about fair value of financial instruments.

	As of December 31,			
	2010		2009	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$729,920	$729,920	$654,794	$654,794
Investment securities	1,763,329	1,763,329	1,131,895	1,131,895
Farmer Mac Guaranteed Securities	2,907,264	2,907,264	3,398,996	3,398,996
USDA Guaranteed Securities	1,317,444	1,317,444	-	-
Loans	2,642,399	2,558,599	779,185	753,720
Financial derivatives	41,492	41,492	15,040	15,040
Interest receivable	90,295	90,295	67,178	67,178
Guarantee and commitment fees receivable:				
LTSPCs	14,191	13,666	14,591	15,896
Farmer Mac Guaranteed Securities	19,058	21,086	36,135	39,120
Financial liabilities:				
Notes payable:				
Due within one year	4,510,758	4,509,419	3,665,282	3,662,898
Due after one year	3,530,656	3,430,656	1,964,526	1,908,713
Debt securities of consolidated trusts held by third parties	883,669	827,411	-	-
Financial derivatives	113,687	113,687	107,367	107,367
Accrued interest payable	57,131	57,131	39,562	39,562
Guarantee and commitment obligations:				
LTSPCs	13,152	12,627	13,370	14,676
Farmer Mac Guaranteed Securities	15,653	17,681	30,865	33,850

The carrying value of cash and cash equivalents, certain short-term investment securities, interest receivable and accrued interest payable is a reasonable estimate of their approximate fair value. Farmer Mac estimates the fair value of its loans, guarantee and commitment fees receivable/obligation and notes payable 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. 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.

Different market assumptions and estimation methodologies could significantly affect estimated fair value amounts.

14. BUSINESS SEGMENT REPORTING

Farmer Mac accomplishes its congressional mission of providing liquidity and lending capacity to rural lenders through three programs – Farmer Mac I, Farmer Mac II and Rural Utilities. Prior to first quarter 2010, Farmer Mac reported its financial results as a single segment using GAAP-basis income. Beginning in first quarter 2010, Farmer Mac revised its segment financial reporting, by using core earnings, a non-GAAP financial measure, to reflect the manner in which management has begun assessing the Corporation's performance since the contribution of substantially all of the Farmer Mac II program business to a subsidiary, Farmer Mac II LLC. Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings more accurately represents Farmer Mac's economic performance, transaction economics and business trends. Core earnings differs from GAAP net income primarily by excluding unrealized gains or losses on financial derivatives and trading assets, lower of cost or fair value adjustments on loans held for sale and other items related to the retirement of preferred stock and the amortization of premiums on assets consolidated at fair value. This non-GAAP financial measure may not be similar to non-GAAP financial measures disclosed by other companies.

The financial information presented below reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, the core earnings for Farmer Mac's reportable operating segments will differ from the stand-alone financial statements of Farmer Mac's subsidiaries. These differences will be due to various factors, including the reversal of unrealized gains and losses related to fair value changes of trading assets and financial derivatives, as well as the allocation of certain expenses such as dividends and interest expense related to the issuance of capital and the incurrence of indebtedness managed at the corporate level. The allocation of general and administrative expenses that are not directly attributable to an operating segment may also result in differences. The assets of Farmer Mac's subsidiary, Farmer Mac II LLC, will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. As of December 31, 2010, Farmer Mac II LLC held assets with a fair value of $1.4 billion, had debt outstanding of $124.0 million, had preferred stock outstanding with a liquidation preference of $250.0 million, and had $1.0 billion of common stock outstanding held by Farmer Mac.

Management has determined that the Corporation's operations consist of three reportable segments – Farmer Mac I, Farmer Mac II and Rural Utilities. Farmer Mac uses these three segments to generate revenue and manage business risk, and each segment is based on distinct products and distinct business activities. In addition to these three program operating segments, a corporate segment is presented. That segment represents activity in Farmer Mac's non-program investment portfolio and other corporate activities. The segment financial results include directly attributable revenues and expenses. Corporate charges for administrative expenses that are not directly attributable to an operating segment are allocated based on headcount.

Each of the program operating segments generates revenue through purchasing loans or securities, committing to purchase loans, or guaranteeing securities backed by eligible loans. Purchases of both program and non-program assets are funded through debt issuance of various maturities. Management makes decisions about pricing, funding and guarantee and commitment fee levels based on inherent credit risks, resource allocation and target returns on equity separately for each segment.

Under the Farmer Mac I program, Farmer Mac purchases or commits to purchase eligible mortgage loans secured by first liens on agricultural real estate, including through the issuance of LTSPCs. Farmer Mac also guarantees securities representing interests in, or obligations secured by, pools of eligible agricultural real estate mortgage loans, and may purchase those securities.

Under the Farmer Mac II program, Farmer Mac II LLC purchases USDA-guaranteed portions of loans. Farmer Mac currently operates only that part of the Farmer Mac II program that involves the guarantee of Farmer Mac II Guaranteed Securities to investors other than Farmer Mac or Farmer Mac II LLC.

Under the Rural Utilities program, Farmer Mac's business activities include loan purchases, guarantees and purchases of securities with respect to eligible rural utilities loans. To date, all of the business under the Rural Utilities program has been with one lender, CFC, a related party.

The following tables present core earnings for Farmer Mac's reportable operating segments and a reconciliation to GAAP net income for the years ended December 31, 2010, 2009 and 2008. Farmer Mac has presented the financial information and disclosures for the prior periods to reflect the segment disclosures as if they had been in effect for all periods reported.

Core Earnings by Business Segment
For the Year Ended December 31, 2010

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
	(in thousands)					
Interest income (1)	$ 109,220	$ 55,129	$ 56,072	$ 27,497	$ (9,207)	$ 238,711
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(4,627)	-	-	-	4,627	-
Interest expense (2)	(71,147)	(45,076)	(44,207)	(16,384)	34,146	(142,668)
Net effective spread	33,446	10,053	11,865	11,113	29,566	96,043
Guarantee and commitment fees	22,270	458	5,990	-	(4,627)	24,091
Other income/(expense) (3)	3,389	299	1	(1,711)	(21,095)	(19,117)
Non-interest income/(loss)	25,659	757	5,991	(1,711)	(25,722)	4,974
Provision for loan losses	(1,893)	-	-	-	-	(1,893)
Reserve for losses	(2,417)	-	-	-	-	(2,417)
Other non-interest expense	(15,430)	(2,796)	(4,335)	(7,649)	-	(30,210)
Non-interest expense (4)	(17,847)	(2,796)	(4,335)	(7,649)	-	(32,627)
Core earnings before income taxes	39,365	8,014	13,521	1,753	3,844 (5)	66,497
Income tax (expense)/benefit	(13,778)	(2,805)	(4,733)	8,864	(1,345)	(13,797)
Core earnings before preferred stock dividends, attribution of income to non-controlling interest, and loss on retirement of preferred stock	25,587	5,209	8,788	10,617	2,499 (5)	52,700
Preferred stock dividends	-	-	-	(4,129)	-	(4,129)
Non-controlling interest	-	-	-	(20,707)	-	(20,707)

Loss on retirement of preferred stock	-	-	-	-	(5,784)	(5,784)
Segment core earnings	$ 25,587	$ 5,209	$ 8,788	$ (14,219)	$ (3,285) (5)	$ 22,080
Total assets at carrying value	$ 2,800,367	$ 1,378,265	$ 2,727,332	$ 2,573,950	$ -	$ 9,479,914
Total on- and off-balance sheet program assets at principal balance	8,188,628	1,385,398	2,642,683	-	-	12,216,709

(1) Includes reconciling adjustments for yield maintenance income and discount amortization on certain prepaid loans, and amortization of premiums on assets consolidated at fair value to reflect core earnings amounts.
(2) Based on effective funding cost determined for each operating segment, including the expense related to interest rate swaps, which is included in (Losses)/gains on financial derivatives on the GAAP financial statements.
(3) Includes reconciling adjustments for the reclassification of yield maintenance, discount amortization on certain prepaid loans and the expense related to interest rate swaps and fair value adjustments on loans held for sale and financial derivatives and trading assets.
(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.
(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends, attribution of income to non-controlling interest, and loss on retirement of preferred stock; and segment core earnings to corresponding GAAP measures: income before income taxes, net income, and net income available to common stockholders, respectively.

94

Core Earnings by Business Segment
For the Year Ended December 31, 2009

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$ 44,251	$ 47,523	$ 55,538	$ 28,727	$ 454	$ 176,493
Interest expense (2)	(20,036)	(40,909)	(49,677)	(15,639)	35,676	(90,585)
Net effective spread	24,215	6,614	5,861	13,088	36,130	85,908
Guarantee and commitment fees	23,062	2,778	5,965	-	-	31,805
Other income/(expense) (3)	3,475	-	-	(2,165)	65,639	66,949
Non-interest income/(loss)	26,537	2,778	5,965	(2,165)	65,639	98,754
Provision for loan losses	(2,853)	-	-	-	-	(2,853)
Reserve for losses	(2,389)	-	-	-	-	(2,389)
Other non-interest expense	(12,557)	(3,560)	(4,068)	(7,118)	-	(27,303)
Non-interest expense (4)	(14,946)	(3,560)	(4,068)	(7,118)	-	(29,692)
Core earnings before income taxes	32,953	5,832	7,758	3,805	101,769 (5)	152,117
Income tax expense	(11,533)	(2,041)	(2,715)	(609)	(35,619)	(52,517)
Core earnings before preferred stock dividends	21,420	3,791	5,043	3,196	66,150 (5)	99,600
Preferred stock dividends	-	-	-	(17,302)	-	(17,302)
Segment core earnings	$ 21,420	$ 3,791	$ 5,043	$ (14,106)	$ 66,150 (5)	$ 82,298
Total assets at carrying value	$ 850,134	$ 1,211,198	$ 2,201,688	$ 1,875,793	$ -	$ 6,138,813
Total on- and off-balance sheet program assets at principal balance	7,391,213	1,199,798	2,130,832	-	-	10,721,843

(1) Includes reconciling adjustments for yield maintenance income to reflect core earnings amounts.
(2) Based on effective funding cost determined for each operating segment, including the expense related to interest rate swaps, which is included in (Losses)/gains on financial derivatives on the GAAP financial statements.

(3) Includes reconciling adjustments for the reclassification of yield maintenance and the expense related to interest rate swaps and fair value adjustments on financial derivatives and trading assets.

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

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and segment core earnings to corresponding GAAP measures: income before income taxes, net income, and net income available to common stockholders, respectively.

Core Earnings by Business Segment
For the Year Ended December 31, 2008

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
	(in thousands)					
Interest income (1)	$ 67,128	$ 48,211	$ 48,865	$ 87,935	$ 3,556	$ 255,695
Interest expense (2)	(41,879)	(44,395)	(44,556)	(63,125)	26,975	(166,980)
Net effective spread	25,249	3,816	4,309	24,810	30,531	88,715
Guarantee and commitment fees	24,825	2,407	1,149	-	-	28,381
Other income/(expense) (3)	6,458	20	-	(107,479)	(142,179)	(243,180)
Non-interest income/(loss)	31,283	2,427	1,149	(107,479)	(142,179)	(214,799)
Provision for loan losses	(14,531)	-	-	-	-	(14,531)
Reserve for losses	(3,309)	-	-	-	-	(3,309)
Other non-interest expense	(13,352)	(4,073)	(3,733)	(8,145)	-	(29,303)
Non-interest expense (4)	(16,661)	(4,073)	(3,733)	(8,145)	-	(32,612)
Core earnings before income taxes	25,340	2,170	1,725	(90,814)	(111,648) (5)	(173,227)
Income tax (expense)/benefit	(8,869)	(760)	(604)	(5,981)	39,078	22,864
Core earnings before preferred stock dividends	16,471	1,410	1,121	(96,795)	(72,570) (5)	(150,363)
Preferred stock dividends	-	-	-	(3,717)	-	(3,717)
Segment core earnings	$ 16,471	$ 1,410	$ 1,121	$ (100,512)	$ (72,570) (5)	$ (154,080)
Total assets at carrying value	$ 1,210,244	$ 1,041,678	$ 1,095,657	$ 1,759,728	$ -	$ 5,107,307
Total on- and off-balance sheet program assets at principal balance	7,984,561	1,043,425	1,054,941	-	-	10,082,927

(1) Includes reconciling adjustments for yield maintenance income to reflect core earnings amounts.
(2) Based on effective funding cost determined for each operating segment, including the expense related to interest rate swaps, which is included in (Losses)/gains on financial derivatives on the GAAP financial statements.

(3) Includes reconciling adjustments for the reclassification of yield maintenance and the expense related to interest rate swaps and fair value adjustments on financial derivatives and trading assets.

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

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and segment core earnings to corresponding GAAP measures: income before income taxes, net income, and net income available to common stockholders, respectively.

15. RESTATEMENT OF ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table sets forth the effects of the restatement of the consolidated statements of cash flows for the years ended December 31, 2010 and 2009, respectively. See also Note 2(b).

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,					
	2010			2009		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	(In thousands)					
Cash flows from operating activities:						
Net income	$ 52,700	$ -	$ 52,700	$ 99,600	$ -	$ 99,600
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:						
Net amortization of premiums and discounts on loans, investments, andFarmer Mac Guaranteed Securities and USDA Guaranteed Securities	11,845	-	11,845	3,926	-	3,926
Amortization of debt premiums, discounts and issuance costs	7,982	-	7,982	12,876	-	12,876
Net change in fair value of trading securities, financial derivatives and loans held for sale	(16,653)	-	(16,653)	(105,060)	-	(105,060)
Amortization of transition adjustment on financial derivatives	70	-	70	152	-	152
Other-than-temporary impairment losses	-	-	-	3,994	-	3,994
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	-	(1,581)	-	(1,581)
Gains on the sale of available-for-sale investment securities	(266)	-	(266)	(3,353)	-	(3,353)
Gain on repurchase of debt	-	-	-	-	-	-
	(10)	-	(10)	-	-	-

Gain on the sale of real estate owned						
Total provision for losses	4,310	-	4,310	5,242	-	5,242
Deferred income taxes	(524)	-	(524)	35,615	-	35,615
Stock-based compensation expense	2,774	-	2,774	2,694	-	2,694
Proceeds from repayment and sale of trading investment securities	747	-	747	787	-	787
Purchases of loans held for sale	(661,310)	-	(661,310)	(164,335)	-	(164,335)
Proceeds from repayment of loans purchased as held for sale	98,430	(54,610)	43,820	62,125	(31,461)	30,664
Proceeds from sale of loans purchased as held for sale	-	-	-	-	73,641	73,641
Net change in:						
Interest receivable	(23,117)	-	(23,117)	5,880	-	5,880
Guarantee and commitment fees receivable	20,264	-	20,264	6,093	-	6,093
Other assets	19,229	-	19,229	76,382	-	76,382
Accrued interest payable	17,569	-	17,569	(908)	-	(908)
Other liabilities	(18,243)	-	(18,243)	(9,019)	-	(9,019)
Net cash (used in)/provided by operating activities	(484,203)	(54,610)	(538,813)	31,110	42,180	73,290
Cash flows from investing activities:						
Purchases of available-for-sale investment securities	(1,075,852)	-	(1,075,852)	(325,871)	-	(325,871)
Purchases of Farmer Mac Guaranteed Securities	(2,010,991)	-	(2,010,991)	(2,047,954)	-	(2,047,954)
Purchases of loans held for investment	(34,387)	-	(34,387)	(59,627)	-	(59,627)
Purchases of defaulted loans	(6,082)	-	(6,082)	(21,269)	-	(21,269)
Proceeds from repayment of available-for-sale investment securities	350,197	-	350,197	195,589	-	195,589
Proceeds from repayment of Farmer Mac Guaranteed Securities	711,462	-	711,462	725,761	-	725,761

Proceeds from repayment of loans purchased as held for investment	237,168	54,610	291,778	41,298	31,461	72,759
Proceeds from sale of available-for-sale investment securities	100,833	-	100,833	306,506	-	306,506
Proceeds from sale of trading securities - fair value option	5,013	-	5,013	-	-	-
Proceeds from sale of Farmer Mac Guaranteed Securities	30,725	-	30,725	188,204	-	188,204
Proceeds from sale of real estate owned	1,055	-	1,055	40,955	-	40,955
Proceeds from sale of loans purchased as held for investment	-	-	-	358,953	(73,641)	285,312
Net cash used in investing activities	(1,690,859)	54,610	(1,636,249)	(597,455)	(42,180)	(639,635)
Cash flows from financing activities:						
Proceeds from issuance of discount notes	66,804,224	-	66,804,224	54,840,697	-	54,840,697
Proceeds from issuance of medium-term notes	2,729,530	-	2,729,530	3,475,856	-	3,475,856
Payments to redeem discount notes	(65,300,682)	-	(65,300,682)	(54,675,917)	-	(54,675,917)
Payments to redeem medium-term notes	(1,872,590)	-	(1,872,590)	(2,727,000)	-	(2,727,000)
Excess tax benefits related to stock-based awards	763	-	763	-	-	-
Payments to third parties on debt securities of consolidated trusts	(176,260)	-	(176,260)	-	-	-
Proceeds from common stock issuance	172	-	172	42	-	42
Issuance costs on retirement of preferred stock	(5,784)	-	(5,784)	-	-	-
Proceeds from preferred stock issuance - Farmer Mac II LLC	241,853	-	241,853	-	-	-
Proceeds from preferred stock issuance	-	-	-	48,378	-	48,378
Retirement of Series B Preferred stock	(144,216)	-	(144,216)	-	-	-
Dividends paid - Non-controlling interest - preferred stock	(20,644)	-	(20,644)	-	-	-

Dividends paid on common and preferred stock	(6,178)	-	(6,178)	(19,329)	-	(19,329)
Net cash provided by financing activities	2,250,188	-	2,250,188	942,727	-	942,727
Net increase in cash and cash equivalents	75,126	-	75,126	376,382	-	376,382
Cash and cash equivalents at beginning of period	654,794	-	654,794	278,412	-	278,412
Cash and cash equivalents at end of period	$ 729,920	$ -	$ 729,920	$ 654,794	$ -	$ 654,794

See accompanying notes to consolidated financial statements.

16. RESTATEMENT OF QUARTERLY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

As discussed in Note 2(b), Farmer Mac has restated its condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009, and the three and six months ended June 30, 2010 and 2009 to correct errors regarding the classification of cash flows within the statements of cash flows. These errors related to the transferring of loans between the held for investment and held for sale classifications on the balance sheet based on a change in management's intent to hold or sell such loans and the incorrect classification of cash flow activities of such loans in a manner consistent with this change in management's intent. Historically, cash receipts from the repayment of loans were classified within the statements of cash flows consistent with the then current balance sheet classification as opposed to the original balance sheet classification assigned based on management's intent upon purchase of the loans, as prescribed by accounting guidance related to the statement of cash flows. As a result of these restatements, this footnote is being presented in lieu of filing amended Forms 10-Q/A for the quarters September 30, 2010 and June 30, 2010 as described above, as all material information related to the corrections of these errors are reflected in this Form 10-K/A. Farmer Mac will also present "as restated" its year to date June 30, 2010 and September 30, 2010 condensed consolidated statements of cash flows prospectively in its June 30, 2011 Form 10-Q and September 30, 2011 Form 10-Q, respectively. Additionally, the condensed consolidated statements of cash flows for the three months ended March 31, 2010 has been restated in Farmer Mac's quarterly report on Form 10-Q filed with the SEC on May 10, 2011.

The following tables set forth the effects of the restatement of the quarterly condensed consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009, respectively, and the six months ended June 30, 2010 and 2009, respectively. See also Note 2 (b).

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

	September 30, 2010	December 31, 2009
	(in thousands)	
Assets:		
Cash and cash equivalents	$453,273	$ 654,794
Investment securities:		
Available-for-sale, at fair value	1,375,518	1,041,923
Trading, at fair value	81,913	89,972
Total investment securities	1,457,431	1,131,895
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	2,434,467	2,524,867
Trading, at fair value	-	874,129
Total Farmer Mac Guaranteed Securities	2,434,467	3,398,996
USDA Guaranteed Securities:		
Available-for-sale, at fair value	970,901	-
Trading, at fair value	354,539	-
Total USDA Guaranteed Securities	1,325,440	-
Loans:		
Loans held for sale, at lower of cost or fair value	981,985	666,534
Loans held for investment, at amortized cost	88,498	93,478
Loans held for investment in consolidated trusts, at amortized cost	1,292,716	-
Allowance for loan losses	(9,442)	(6,292)
Total loans, net of allowance	2,353,757	753,720
Real estate owned, at lower of cost or fair value	3,434	739
Financial derivatives, at fair value	52,471	15,040
Interest receivable	67,424	67,178
Guarantee and commitment fees receivable	34,058	55,016
Deferred tax asset, net	-	24,146
Prepaid expenses and other assets	40,987	37,289
Total Assets	$8,222,742	$ 6,138,813
Liabilities, Mezzanine Equity and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$3,645,811	$ 3,662,898
Due after one year	2,979,147	1,908,713
Total notes payable	6,624,958	5,571,611
Debt securities of consolidated trusts held by third parties	849,430	-
Financial derivatives, at fair value	144,715	107,367
Accrued interest payable	45,094	39,562
Guarantee and commitment obligation	30,922	48,526
Accounts payable and accrued expenses	20,239	23,445
Deferred tax liability, net	2,441	-
Reserve for losses	9,575	7,895

Total Liabilities	7,727,374	5,798,406
Commitments and Contingencies		
Mezzanine Equity:		
Series B redeemable preferred stock, par value $1,000 per share, 150,000 shares authorized, issued and outstanding as of December 31, 2009 (redemption value $150,000,000)	-	144,216
Stockholders' Equity:		
Preferred stock:		
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 share issued and outstanding	57,578	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 8,746,123 shares outstanding as of September 30, 2010 and 8,610,918 shares outstanding as of December 31, 2009	8,746	8,611
Additional paid-in capital	99,468	97,090
Accumulated other comprehensive income	47,332	3,254
Retained earnings	38,860	28,127
Total Stockholders' Equity	253,515	196,191
Non-controlling interest - preferred stock	241,853	-
Total Equity	495,368	196,191
Total Liabilities, Mezzanine Equity and Equity	$8,222,742	$ 6,138,813

99

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	$ 6,430	$ 6,345	$ 19,303	$ 22,303
Farmer Mac and USDA Guaranteed Securities	22,971	27,668	62,597	81,232
Loans	29,174	8,815	94,734	28,196
Total interest income	58,575	42,828	176,634	131,731
Total interest expense	33,526	23,031	106,360	68,593
Net interest income	25,049	19,797	70,274	63,138
Provision for loan losses	(412)	(3,098)	(1,392)	(939)
Net interest income after provision for loan losses	24,637	16,699	68,882	62,199
Non-interest (loss)/income:				
Guarantee and commitment fees	5,977	8,168	17,606	23,486
(Losses)/gains on financial derivatives	(6,864)	(7,733)	(28,508)	15,506
(Losses)/gains on trading assets	(1,722)	25,047	6,703	56,707
Other-than-temporary impairment losses	-	(1,621)	-	(3,994)
Gains on sale of available-for-sale investment securities	24	63	264	2,913
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	-	1,581
Lower of cost or fair value adjustment on loans held for sale	(906)	-	(3,090)	-
Other income	140	874	1,180	1,209
Non-interest (loss)/income	(3,351)	24,798	(5,845)	97,408
Non-interest expense:				
Compensation and employee benefits	4,501	2,896	11,919	10,493
General and administrative	1,775	2,432	6,329	8,332
Regulatory fees	568	512	1,693	1,537
Real estate owned operating costs, net	1,189	203	1,497	208
Provision for losses	105	89	1,680	2,079
Non-interest expense	8,138	6,132	23,118	22,649
Income before income taxes	13,148	35,365	39,919	136,958
Income tax expense	885	13,097	5,977	47,721
Net income	12,263	22,268	33,942	89,237
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,546)	-	(15,160)	-
Net income attributable to Farmer Mac	6,717	22,268	18,782	89,237

Preferred stock dividends	(720)	(4,368)	(3,410)	(12,434)
Loss on retirement of preferred stock	-	-	(5,784)	-
Net income available to common stockholders	$ 5,997	$ 17,900	$ 9,588	$ 76,803
Earnings per common share and dividends:				
Basic earnings per common share	$ 0.58	$ 1.77	$ 0.94	$ 7.58
Diluted earnings per common share	$ 0.56	$ 1.74	$ 0.91	$ 7.54
Common stock dividends per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

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

	For the Nine Months Ended			
	September 30, 2010		September 30, 2009	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	58	$57,578	9	$9,200
Issuance of Series C preferred stock	-	-	48	47,800
Balance, end of period	58	$57,578	57	$57,000
Common stock:				
Balance, beginning of period	10,142	$10,142	10,132	$10,132
Issuance of Class C common stock	122	122	8	8
Exercise of stock options and SARs	13	13	-	-
Balance, end of period	10,277	$10,277	10,140	$10,140
Additional paid-in capital:				
Balance, beginning of period		$97,090		$95,572
Stock-based compensation expense		2,187		2,160
Issuance of Class C common stock		33		21
Exercise, vesting and cancellation of stock options SARs and restricted stock		158		(1,206)
Balance, end of period		$99,468		$96,547
Retained earnings/(accumulated deficit):				
Balance, beginning of period		$28,127		$(52,144)
Net income attributable to Farmer Mac		18,782		89,237
Cash dividends:				
Preferred stock, Series B ($8.33 per share in 2010 and $75.00 per share in 2009)		(1,250)		(11,250)
Preferred stock, Series C ($37.50 per share)		(2,160)		(1,184)
Common stock ($0.15 per share)		(1,534)		(1,520)
Loss on retirement of preferred stock		(5,784)		-
Cumulative effect of adoption of new accounting standard, net of tax		2,679		-
Balance, end of period		$38,860		$23,139
Accumulated other comprehensive income/(loss):				
Balance, beginning of period		$3,254		$(47,412)
Change in unrealized gain on available-for-sale securities, net of tax and reclassification adjustments		44,000		65,427
Change in unrealized gain on financial derivatives, net of tax and reclassification adjustments		78		124
Balance, end of period		$47,332		$18,139
Total Stockholders' Equity		$253,515		$204,965
Non-controlling interest:				
Balance, beginning of period		$-		$-
Preferred stock - Farmer Mac II LLC		241,853		-
Balance, end of period		$241,853		$-
Total Equity		$495,368		$204,965

Comprehensive income:		
Net income	$33,942	$89,237
Change in accumulated other comprehensive income, net of tax	44,078	65,551
Comprehensive income	78,020	154,788
Less: Comprehensive income attributable to non-controlling interest	15,160	-
Total comprehensive income	$62,860	$154,788

101

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

	For the Nine Months Ended September 30,					
	2010			2009		
	As Previously Reported	Adjustments (in thousands)	As Restated	As Previously Reported	Adjustments	As Restated
Cash flows from operating activities:						
Net income	$ 33,942	$ -	$ 33,942	$ 89,237	$ -	$ 89,237
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:						
Net amortization of premiums and discounts on loans, investments, and Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	8,421	-	8,421	3,123	-	3,123
Amortization of debt premiums, discounts and issuance costs	5,057	-	5,057	10,982	-	10,982
Net change in fair value of trading securities, financial derivatives and loans held for sale	(5,970)	-	(5,970)	(104,312)	-	(104,312)
Amortization of transition adjustment on financial derivatives	120	-	120	124	-	124
Other-than-temporary impairment losses	-	-	-	3,994	-	3,994
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	-	(1,581)	-	(1,581)
Gains on the sale of available-for-sale investment securities	(264)	-	(264)	(2,913)	-	(2,913)
Total provision for losses	3,072	-	3,072	3,018	-	3,018
Deferred income taxes	809	-	809	73,629	-	73,629
Stock-based compensation expense	2,188	-	2,188	2,159	-	2,159
Proceeds from repayment and sale of	586	-	586	644	-	644

trading investment securities						
Purchases of loans held for sale	(404,072)	-	(404,072)	(122,421)	-	(122,421)
Proceeds from repayment of loans purchased as held for sale	82,988	(50,482)	32,506	51,896	(26,908)	24,988
Proceeds from sale of loans purchased as held for sale	-	-	-	-	73,641	73,641
Net change in:						
Interest receivable	(246)	-	(246)	16,852	-	16,852
Guarantee and commitment fees receivable	20,958	-	20,958	6,637	-	6,637
Other assets	522	-	522	24,287	-	24,287
Accrued interest payable	5,532	-	5,532	(3,082)	-	(3,082)
Other liabilities	(17,865)	-	(17,865)	11,725	-	11,725
Net cash (used in)/provided by operating activities	(264,222)	(50,482)	(314,704)	63,998	46,733	110,731
Cash flows from investing activities:						
Purchases of available-for-sale investment securities	(626,678)	-	(626,678)	(41,721)	-	(41,721)
Purchases of Farmer Mac Guaranteed Securities	(1,151,375)	-	(1,151,375)	(1,952,704)	-	(1,952,704)
Purchases of loans held for investment	(26,367)	-	(26,367)	(48,147)	-	(48,147)
Purchases of defaulted loans	(5,317)	-	(5,317)	(19,631)	-	(19,631)
Proceeds from repayment of available-for-sale investment securities	213,315	-	213,315	148,544	-	148,544
Proceeds from repayment of Farmer Mac Guaranteed Securities	372,862	-	372,862	690,741	-	690,741
Proceeds from repayment of loans purchased as held for investment	196,424	50,482	246,906	37,308	26,908	64,216
Proceeds from sale of available-for-sale investment securities	92,767	-	92,767	207,879	-	207,879
Proceeds from sale of trading securities - fair	5,013	-	5,013	-	-	-

value option						
Proceeds from sale of Farmer Mac Guaranteed Securities	18,860	-	18,860	24,232	-	24,232
Proceeds from sale of real estate owned	-	-	-	31,056		31,056
Proceeds from sale of loans purchased as held for investment	-	-	-	358,953	(73,641)	285,312
Net cash used in by investing activities	(910,496)	50,482	(860,014)	(563,490)	(46,733)	(610,223)
Cash flows from financing activities:						
Proceeds from issuance of discount notes	50,774,678	-	50,774,678	40,680,191	-	40,680,191
Proceeds from issuance of medium-term notes	1,977,609	-	1,977,609	2,962,189	-	2,962,189
Payments to redeem discount notes	(50,262,407)	-	(50,262,407)	(41,077,281)	-	(41,077,281)
Payments to redeem medium-term notes	(1,441,590)	-	(1,441,590)	(2,103,000)	-	(2,103,000)
Tax benefit from tax deduction in excess of compensation cost recognized	747	-	747	-	-	-
Payments to third parties on debt securities of consolidated trusts	(147,832)	-	(147,832)	-	-	-
Proceeds from common stock issuance	180	-	180	29	-	29
Issuance costs on retirement of preferred stock	(5,784)	-	(5,784)	-	-	-
Proceeds from preferred stock issuance - Farmer Mac II LLC	241,853	-	241,853	-	-	-
Proceeds from preferred stock issuance	-	-	-	47,800	-	47,800
Retirement of Series B Preferred stock	(144,216)	-	(144,216)	-	-	-
Dividends paid - Non-controlling interest - preferred stock	(15,097)	-	(15,097)	-	-	-
Dividends paid on common and preferred stock	(4,944)	-	(4,944)	(13,954)	-	(13,954)
Net cash provided by financing activities	973,197	-	973,197	495,974	-	495,974
Net decrease in cash and cash equivalents	(201,521)	-	(201,521)	(3,518)	-	(3,518)
	654,794	-	654,794	278,412	-	278,412

Cash and cash equivalents at beginning of period						
Cash and cash equivalents at end of period	$ 453,273	$ -	$ 453,273	$ 274,894	$ -	$ 274,894

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

	June 30, 2010	December 31, 2009
	(in thousands)	
Assets:		
Cash and cash equivalents	$325,333	$ 654,794
Investment securities:		
Available-for-sale, at fair value	1,175,376	1,041,923
Trading, at fair value	81,956	89,972
Total investment securities	1,257,332	1,131,895
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	1,718,140	2,524,867
Trading, at fair value	-	874,129
Total Farmer Mac Guaranteed Securities	1,718,140	3,398,996
USDA Guaranteed Securities:		
Available-for-sale, at fair value	880,424	-
Trading, at fair value	386,496	-
Total USDA Guaranteed Securities	1,266,920	-
Loans:		
Loans held for sale, at lower of cost or fair value	908,778	666,534
Loans held for investment, at amortized cost	96,057	93,478
Loans held for investment in consolidated trusts, at amortized cost	1,332,624	-
Allowance for loan losses	(9,495)	(6,292)
Total loans, net of allowance	2,327,964	753,720
Real estate owned, at lower of cost or fair value	4,023	739
Financial derivatives, at fair value	37,121	15,040
Interest receivable	72,616	67,178
Guarantee and commitment fees receivable	36,579	55,016
Deferred tax asset, net	10,405	24,146
Prepaid expenses and other assets	43,057	37,289
Total Assets	$7,099,490	$ 6,138,813
Liabilities, Mezzanine Equity and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$3,226,745	$ 3,662,898
Due after one year	2,269,421	1,908,713
Total notes payable	5,496,166	5,571,611
Debt securities of consolidated trusts held by third parties	882,629	-
Financial derivatives, at fair value	132,675	107,367
Accrued interest payable	52,913	39,562
Guarantee and commitment obligation	32,762	48,526
Accounts payable and accrued expenses	19,397	23,445
Reserve for losses	9,470	7,895
Total Liabilities	6,626,012	5,798,406

Commitments and Contingencies		
Mezzanine Equity:		
Series B redeemable preferred stock, par value $1,000 per share, 150,000 shares authorized, issued and outstanding as of December 31, 2009 (redemption value $150,000,000)	-	144,216
Stockholders' Equity:		
Preferred stock:		
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 issued and outstanding	57,578	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 8,745,269 shares outstanding as of June 30, 2010 and 8,610,918 shares outstanding as of December 31, 2009	8,745	8,611
Additional paid-in capital	98,925	97,090
Accumulated other comprehensive income	31,469	3,254
Retained earnings	33,377	28,127
Total Stockholders' Equity	231,625	196,191
Non-controlling interest - preferred stock	241,853	-
Total Equity	473,478	196,191
Total Liabilities, Mezzanine Equity and Equity	$7,099,490	$ 6,138,813

103

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	$6,390	$ 7,049	$12,873	$ 15,958
Farmer Mac and USDA Guaranteed Securities	18,795	25,805	39,626	53,564
Loans	32,142	8,896	65,560	19,381
Total interest income	57,327	41,750	118,059	88,903
Total interest expense	35,719	21,849	72,834	45,562
Net interest income	21,608	19,901	45,225	43,341
Recoveries/(provision) for loan losses	1,870	5,693	(980)	2,159
Net interest income after recoveries/(provision) for loan losses	23,478	25,594	44,245	45,500
Non-interest (expense)/income:				
Guarantee and commitment fees	5,710	7,908	11,629	15,318
(Losses)/gains on financial derivatives	(15,840)	21,528	(21,644)	23,239
Gains on trading assets	5,058	35	8,425	31,660
Other-than-temporary impairment losses	-	(2,292)	-	(2,373)
(Losses)/gains on sale of available-for-sale investment securities	-	(300)	240	2,850
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	-	1,581
Lower of cost or fair value adjustment on loans held for sale	90	-	(2,184)	-
Other income	211	101	1,040	335
Non-interest (expense)/income	(4,771)	26,980	(2,494)	72,610
Non-interest expense:				
Compensation and employee benefits	3,907	3,572	7,418	7,597
General and administrative	2,051	2,986	4,554	5,900
Regulatory fees	562	512	1,125	1,025
Real estate owned operating costs/(income), net	298	(16)	308	5
Provision/(recoveries) for losses	3,043	(529)	1,575	1,990
Non-interest expense	9,861	6,525	14,980	16,517
Income before income taxes	8,846	46,049	26,771	101,593
Income tax expense	756	16,534	5,092	34,624
Net income	8,090	29,515	21,679	66,969
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,546)	-	(9,614)	-
Net income attributable to Farmer Mac	2,544	29,515	12,065	66,969
Preferred stock dividends	(720)	(4,130)	(2,690)	(8,066)

Loss on retirement of preferred stock	-	-	(5,784)	-
Net income available to common stockholders	$1,824	$ 25,385	$3,591	$ 58,903
Earnings per common share and dividends:				
Basic earnings per common share	$0.18	$ 2.50	$0.35	$ 5.81
Diluted earnings per common share	$0.17	$ 2.49	$0.34	$ 5.80
Common stock dividends per common share	$0.05	$ 0.05	$0.10	$ 0.10

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

	For the Six Months Ended			
	June 30, 2010		June 30, 2009	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	58	$57,578	9	$9,200
Issuance of Series C preferred stock	-	-	31	30,800
Balance, end of period	58	$57,578	40	$40,000
Common stock:				
Balance, beginning of period	10,142	$10,142	10,132	$10,132
Issuance of Class C common stock	121	121	6	6
Exercise of stock options and SARs	13	13	-	-
Balance, end of period	10,276	$10,276	10,138	$10,138
Additional paid-in capital:				
Balance, beginning of period		$97,090		$95,572
Stock-based compensation expense		1,507		1,543
Issuance of Class C common stock		22		11
Exercise, vesting and cancelation of stock options, SARs and restricted stock		306		(1,165)
Balance, end of period		$98,925		$95,961
Retained earnings/(accumulated deficit):				
Balance, beginning of period		$28,127		$(52,144)
Net income attributable to Farmer Mac		12,065		66,969
Cash dividends:				
Preferred stock, Series B ($8.33 per share)		(1,250)		(7,476)
Preferred stock, Series C ($12.50 per share)		(1,440)		(590)
Common stock ($0.05 per share)		(1,020)		(1,014)
Loss on retirement of preferred stock		(5,784)		-
Cumulative effect of adoption of new accounting standard, net of tax		2,679		-
Balance, end of period		$33,377		$5,745
Accumulated other comprehensive income/(loss):				
Balance, beginning of period		$3,254		$(47,412)
Change in unrealized gain on available-for-sale securities, net of tax and reclassification adjustments		28,163		34,776
Change in unrealized gain on financial derivatives, net of tax and reclassification adjustments		52		90
Balance, end of period		$31,469		$(12,546)
Total Stockholders' Equity		$231,625		$139,298
Non-controlling interest:				
Balance, beginning of period		$-		$-
Preferred stock - Farmer Mac II LLC		241,853		-
Balance, end of period		$241,853		$-
Total Equity		$473,478		$139,298

Comprehensive income:		
Net income	$21,679	$66,969
Changes in accumulated other comprehensive income, net of tax	28,215	34,866
Comprehensive income	49,894	101,835
Less: Comprehensive income attributable to non-controlling interest	9,614	-
Total comprehensive income	$40,280	$101,835

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

	For the Six Months Ended June 30,					
	2010			2009		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	(in thousands)					
Cash flows from operating activities:						
Net income	$ 21,679	$ -	$ 21,679	$ 66,969	$ -	$ 66,969
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:						
Net amortization of premiums and discounts on loans, investments, and Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	6,150	-	6,150	2,207	-	2,207
Amortization of debt premiums, discounts and issuance costs	3,033	-	3,033	8,116	-	8,116
Net change in fair value of trading securities, financial derivatives and loans held for sale	(5,288)	-	(5,288)	(77,939)	-	(77,939)
Amortization of transition adjustment on financial derivatives	80	-	80	89	-	89
Other-than-temporary impairment losses	-	-	-	2,373	-	2,373
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	-	(1,581)	-	(1,581)
Gains on the sale of available-for-sale investment securities	(240)	-	(240)	(2,850)	-	(2,850)
Total provision for losses	2,555	-	2,555	(169)	-	(169)
Deferred income taxes	(3,347)	-	(3,347)	37,164	-	37,164
Stock-based compensation expense	1,508	-	1,508	1,543	-	1,543
Proceeds from repayment and sale of	400	-	400	472	-	472

trading investment securities						
Purchases of loans held for sale	(293,003)	-	(293,003)	(53,045)	-	(53,045)
Proceeds from repayment of loans purchased as held for sale	46,835	(31,593)	15,242	16,117	(8,640)	7,477
Proceeds from sale of loans purchased as held for sale	-	-	-	-	73,641	73,641
Net change in:						
Interest receivable	(5,438)	-	(5,438)	19,262	-	19,262
Guarantee and commitment fees receivable	18,437	-	18,437	5,026	-	5,026
Other assets	(2,576)	-	(2,576)	42,734	-	42,734
Accrued interest payable	13,351	-	13,351	(1,711)	-	(1,711)
Other liabilities	(19,294)	-	(19,294)	(7,686)	-	(7,686)
Net cash (used in)/provided by operating activities	(215,158)	(31,593)	(246,751)	57,091	65,001	122,092
Cash flows from investing activities:						
Purchases of available-for-sale investment securities	(306,239)	-	(306,239)	-	-	-
Purchases of Farmer Mac Guaranteed Securities	(216,302)	-	(216,302)	(949,480)	-	(949,480)
Purchases of loans held for investment	(19,924)	-	(19,924)	(14,670)	-	(14,670)
Purchases of defaulted loans	(3,403)	-	(3,403)	(5,602)	-	(5,602)
Proceeds from repayment of available-for-sale investment securities	112,337	-	112,337	129,265	-	129,265
Proceeds from repayment of Farmer Mac Guaranteed Securities	202,526	-	202,526	137,572	-	137,572
Proceeds from repayment of loans purchased as held for investment	142,328	31,593	173,921	34,252	8,640	42,892
Proceeds from sale of available-for-sale investment securities	69,175	-	69,175	153,100	-	153,100
Proceeds from sale of trading securities - fair	5,013	-	5,013	-	-	-

value option						
Proceeds from sale of Farmer Mac Guaranteed Securities	12,906	-	12,906	17,224	-	17,224
Proceeds from sale of loans purchased as held for investment	-	-	-	358,953	(73,641)	285,312
Net cash (used in)/provided by investing activities	(1,583)	31,593	30,010	(139,386)	(65,001)	(204,387)
Cash flows from financing activities:						
Proceeds from issuance of discount notes	31,919,565	-	31,919,565	27,760,730	-	27,760,730
Proceeds from issuance of medium-term notes	1,006,272	-	1,006,272	2,074,185	-	2,074,185
Payments to redeem discount notes	(32,095,725)	-	(32,095,725)	(27,974,911)	-	(27,974,911)
Payments to redeem medium-term notes	(908,590)	-	(908,590)	(1,715,000)	-	(1,715,000)
Tax benefit from tax deduction in excess of compensation cost recognized	747	-	747	-	-	-
Payments to third parties on debt securities of consolidated trusts	(113,749)	-	(113,749)	-	-	-
Proceeds from common stock issuance	168	-	168	17	-	17
Issuance costs on retirement of preferred stock	(5,784)	-	(5,784)	-	-	-
Proceeds from preferred stock issuance - Farmer Mac II LLC	241,853	-	241,853	-	-	-
Proceeds from preferred stock issuance	-	-	-	30,800	-	30,800
Retirement of Series B Preferred stock	(144,216)	-	(144,216)	-	-	-
Dividends paid - Non-controlling interest - preferred stock	(9,551)	-	(9,551)	-	-	-
Dividends paid on common and preferred stock	(3,710)	-	(3,710)	(9,080)	-	(9,080)
Net cash (used in)/provided by financing activities	(112,720)	-	(112,720)	166,741	-	166,741
Net (decrease)/increase in cash and cash equivalents	(329,461)	-	(329,461)	84,446	-	84,446

Cash and cash equivalents at beginning of period	654,794	-	654,794	278,412	-	278,412
Cash and cash equivalents at end of period	$ 325,333	$ -	$ 325,333	$ 362,858	$ -	$ 362,858

106

17. QUARTERLY FINANCIAL INFORMATION (Unaudited)

	2010 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
	(in thousands, except per share amounts)			
Interest income:				
Interest income	$62,077	$58,575	$57,327	$60,732
Interest expense	36,308	33,526	35,719	37,115
Net interest income	25,769	25,049	21,608	23,617
(Provision)/recovery for loan losses	(501)	(412)	1,870	(2,850)
Net interest income after (provision)/ recovery for loan losses	25,268	24,637	23,478	20,767
Non-interest income:				
Guarantee and commitment fees	6,485	5,977	5,710	5,919
Gains/(losses) on financial derivatives	11,349	(6,864)	(15,840)	(5,804)
(Losses)/gains on trading assets	(1,433)	(1,722)	5,058	3,367
Gains on sale of available-for-sale investment securities	2	24	-	240
Gain on Sale of REO	10	-	-	-
Lower of cost or fair value adjustment on loans held for sale	(5,658)	(906)	90	(2,274)
Other income	64	140	211	829
Non-interest income/(loss)	10,819	(3,351)	(4,771)	2,277
Non-interest expense	9,509	8,138	9,861	5,119
Income before income taxes	26,578	13,148	8,846	17,925
Income tax expense	7,820	885	756	4,336
Net income	18,758	12,263	8,090	13,589
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,547)	(5,546)	(5,546)	(4,068)
Net income attributable to Farmer Mac	13,211	6,717	2,544	9,521
Preferred stock dividends	(719)	(720)	(720)	(1,970)
Loss on retirement of preferred stock	-	-	-	(5,784)
Net income available to common stockholders	$12,492	$5,997	$1,824	$1,767
Earnings per common share:				
Basic earnings per common share	$1.21	$0.58	$0.18	$0.17
Diluted earnings per common share	$1.16	$0.56	$0.17	$0.17
Common stock dividends per common share	$0.05	$0.05	$0.05	$0.05

	2009 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
	(in thousands, except per share amounts)			
Interest income:				
Interest income	$44,762	$42,828	$41,750	$47,153
Interest expense	21,992	23,031	21,849	23,713
Net interest income	22,770	19,797	19,901	23,440
(Provision)/recovery for loan losses	(1,914)	(3,098)	5,693	(3,534)
Net interest income after (provision)/ recovery for loan losses	20,856	16,699	25,594	19,906
Non-interest income:				
Guarantee and commitment fees	8,319	8,168	7,908	7,410
Gains/(losses) on financial derivatives	5,791	(7,733)	21,528	1,711
(Losses)/gains on trading assets	(13,434)	25,047	35	31,625
Other-than-temporary impairment losses	-	(1,621)	(2,292)	(81)
Gains/(losses) on sale of available-for-sale investment securities	440	63	(300)	3,150
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	-	1,581
Lower of cost or fair value adjustment on loans held for sale	176	(315)	-	-
Other income	54	1,189	101	234
Non-interest income	1,346	24,798	26,980	45,630
Non-interest expense	7,043	6,132	6,525	9,992
Income before income taxes	15,159	35,365	46,049	55,544
Income tax expense	4,796	13,097	16,534	18,090
Net income	10,363	22,268	29,515	37,454
Preferred stock dividends	(4,868)	(4,368)	(4,130)	(3,936)
Net income available to common stockholders	$5,495	$17,900	$25,385	$33,518
Earnings per common share:				
Basic earnings per common share	$0.54	$1.77	$2.50	$3.31
Diluted earnings per common share	$0.53	$1.74	$2.49	$3.31
Common stock dividends per common share	$0.05	$0.05	$0.05	$0.05

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Management's Evaluation of Disclosure Controls and Procedures. Farmer Mac maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the Corporation's periodic filings under the Exchange Act, including this Annual Report on Form 10-K/A, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Corporation's management on a timely basis to allow decisions regarding required disclosure. Management, including Farmer Mac's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2010. In connection with the restatement discussed in the explanatory note to this Form 10-K/A and in Notes 2(b), 15 and 16 to the consolidated financial statements, under the direction of the CEO and CFO, management re-evaluated Farmer Mac's disclosure controls and procedures. Based on management's assessment, the CEO and CFO indentified a material weakness in internal control over financial reporting related to incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows. Solely as a result of this material weakness, Farmer Mac concluded that its disclosure controls and procedures were not effective as of December 31, 2010 and for each of the quarterly periods ended March 31, 2010, June 30, 2010 and September 30, 2010.

As of June 1, 2011, Farmer Mac remediated the internal control weakness related to incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows. In connection with this amendment to Form 10-K, under the direction of the CEO and CFO, management has evaluated its disclosure controls and procedures as currently in effect, including the remedial actions described below, and has concluded, that as of this date, Farmer Mac's disclosure controls and procedures are effective.

Management's Annual Report on Internal Control Over Financial Reporting (as restated). The management of Farmer Mac is responsible for establishing and maintaining adequate internal control over financial reporting. With the participation of the Corporation's CEO and CFO, Farmer Mac's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010. In making this assessment, the Corporation's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on its initial evaluation under the COSO criteria, management initially concluded that the Corporation's internal control over financial reporting as of December 31, 2010 was effective. Subsequently, in second quarter 2011, management concluded that the Corporation did not maintain effective controls over the appropriate classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows. On May 10, 2011, the Corporation's Board of Directors authorized management to restate the Corporation's previously issued condensed consolidated statements of cash flows for the three, six and nine month periods ended March 31, 2010, and June 30 and September 30, 2010 and 2009, respectively, and its consolidated statements of cash flows for the years ended December 31, 2010 and 2009. Accordingly, management concluded that the control deficiency that resulted in incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows constituted a material weakness as of December 31, 2010. Solely as a result of this material weakness, management revised its earlier assessment and concluded that Farmer Mac's internal control over financial reporting was not effective as of December 31, 2010.

109

Remediation Plan. In second quarter 2011, Farmer Mac conducted a comprehensive evaluation of the classifications of cash flows within the Corporation's consolidated statements of cash flows, established a new policy and developed a process to report cash flows based on management's original intent upon purchase of a loan. Management believes these efforts and the filing of this Form 10-K/A for the year ended December 31, 2010 have remediated the identified material weakness.

See Item 8 above for management's report on internal control over financial reporting and the accompanying reports of independent registered public accounting firms.

(b) Changes in Internal Control Over Financial Reporting. There were no changes in Farmer Mac's internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, Farmer Mac's internal control over financial reporting. However, as described above, management implemented changes in internal control over financial reporting during second quarter 2011 that remediated a material weakness related to incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows.

Item 9B. Other Information

None.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements.

Refer to Item 8 above.

(2) Financial Statement Schedules.

All schedules are omitted since they are not applicable, not required or the information required to be set forth therein is included in the consolidated financial statements or in notes thereto.

(3) Exhibits.

*	3.1	-	Title VIII of the Farm Credit Act of 1971, as most recently amended by the Food, Conservation and Energy Act of 2008 (Form 10-Q filed August 12, 2008).
*	3.2	-	Amended and Restated By-Laws of the Registrant (Form 10-K filed March 16, 2011).
*	4.1	-	Specimen Certificate for Farmer Mac Class A Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.2	-	Specimen Certificate for Farmer Mac Class B Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.3	-	Specimen Certificate for Farmer Mac Class C Non-Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.4	-	Amended and Restated Certificate of Designation of Terms and Conditions of Non-Voting Cumulative Preferred Stock, Series C (Previously filed as Exhibit 4.7 to Form 10-Q filed November 9, 2009).
†*	10.1	-	Amended and Restated 1997 Incentive Plan (Form 10-Q filed November 14, 2003).
†*	10.1.1	-	Form of stock option award agreement under 1997 Incentive Plan (Form 10-K filed March 16, 2005).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

†*	10.1.2	-	2008 Omnibus Incentive Plan (Form 10-Q filed August 12, 2008).
†*	10.1.3	-	Form of SAR Agreement under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10 to Form 8-K filed June 11, 2008).
†*	10.1.4	-	Form of Restricted Stock Agreement (Officers) under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10.1 to Form 8-K filed June 10, 2009).
†*	10.1.5	-	Form of Restricted Stock Agreement (Directors) under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10.2 to Form 8-K filed June 10, 2009).
†*	10.2	-	Employment Agreement dated as of March 1, 2009 between Michael A. Gerber and the Registrant (Form 10-Q filed May 12, 2009).
†*	10.3	-	Compiled Amended and Restated Employment Contract dated as of June 5, 2008 between Tom D. Stenson and the Registrant (Form 10-Q filed August 12, 2008).
†*	10.4	-	Compiled Amended and Restated Employment Contract dated June 5, 2008 between Timothy L. Buzby and the Registrant (Form 10-Q filed August 12, 2008).
†*	10.4.1	-	Amendment No. 6 to Employment Contract between Timothy L. Buzby and the Registrant, dated as of April 2, 2009 (Form 10-Q filed August 10, 2009).
	10.5	-	Exhibit number reserved for future use.
†*	10.6	-	Description of compensation agreement between the Registrant and its directors (Form 10-K filed March 16, 2011).
*	10.7	-	Farmer Mac I Seller/Servicer Agreement dated as of August 7, 1996 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.8	-	Medium-Term Notes U.S. Selling Agency Agreement dated as of October 1, 1998 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*	10.9	-	Discount Note Dealer Agreement dated as of September 18, 1996 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*#	10.10	-	ISDA Master Agreement and Credit Support Annex dated as of June 26, 1997 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*#	10.11	-	Amended and Restated Master Central Servicing Agreement dated as of May 1, 2004 between Zions First National Bank and the Registrant (Previously filed as Exhibit 10.11.2 to Form 10-Q filed August 9, 2004).
*#	10.11.1	-	Amendment No. 1 to Amended and Restated Master Central Servicing Agreement between Zions First National Bank and the Registrant, dated as of June 1, 2009 (Form 10-Q filed August 10, 2009).
*#	10.11.2	-	Amendment No. 2 to Amended and Restated Master Central Servicing Agreement between Zions First National Bank and the Registrant, dated as of August 25, 2010 (Form 10-Q filed August 10, 2010).
*#	10.12	-	Loan Closing File Review Agreement dated as of August 2, 2005 between Zions First National Bank and the Registrant (Form 10-Q filed November 9, 2005).
*#	10.13	-	Long Term Standby Commitment to Purchase dated as of August 1, 1998 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).
*#	10.13.1	-	Amendment No. 1 dated as of January 1, 2000 to Long Term Standby Commitment to Purchase dated as of August 1, 1998 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.13.2	-	Amendment No. 2 dated as of September 1, 2002 to Long Term Standby Commitment to Purchase dated as of August 1, 1998, as amended by Amendment No. 1 dated as of January 1, 2000, between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.14	-	Lease Agreement, dated June 28, 2001 between EOP – Two Lafayette, L.L.C. and the Registrant (Previously filed as Exhibit 10.10 to Form 10-K filed March 27, 2002).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*#	10.15	-	Long Term Standby Commitment to Purchase dated as of August 1, 2007 between Farm Credit Bank of Texas and the Registrant (Previously filed as Exhibit 10.20 to Form 10-Q filed November 8, 2007).
*#	10.16	-	Long Term Standby Commitment to Purchase dated as of June 1, 2003 between Farm Credit Bank of Texas and the Registrant (Form 10-Q filed November 9, 2004).
*#	10.16.1	-	Amendment No. 1 dated as of December 8, 2006 to Long Term Standby Commitment to Purchase dated as of June 1, 2003 between Farm Credit Bank of Texas and the Registrant (Form 10-K filed March 15, 2007).
*#	10.17	-	Central Servicer Delinquent Loan Servicing Transfer Agreement dated as of July 1, 2004 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 9, 2004).
†*	10.18	-	Form of Indemnification Agreement for Directors (Previously filed as Exhibit 10.1 to Form 8-K filed April 9, 2008).
	10.19	-	Exhibit number reserved for future use.
†*	10.20	-	Agreement and General Release dated as of January 30, 2009 between Henry D. Edelman and the Registrant (Form 10-Q filed May 12, 2009).
†*	10.21	-	Agreement and General Release dated as of February 6, 2009 between Nancy E. Corsiglia and the Registrant (Form 10-Q filed May 12, 2009).
*	10.22	-	Master Trust, Sale and Servicing Agreement dated as of October 20, 2006 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation, U.S. Bank National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.23	-	Registration Rights Agreement Series 2007-1 dated as of February 15, 2007 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.24	-	Registration Rights Agreement Series 2007-2 dated as of August 10, 2007 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*	10.25	-	Note Purchase Agreement dated as of December 15, 2008 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.25.1	-	First Amendment to Note Purchase Agreement dated as of July 13, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.26	-	Pledge Agreement dated as of December 15, 2008 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.26.1	-	First Amendment to Pledge Agreement dated as of September 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.27	-	Setoff Rights Letter Agreement dated as of December 15, 2008 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.28	-	Note Purchase Agreement dated as of February 5, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.28.1	-	First Amendment to Note Purchase Agreement dated as of July 13, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.29	-	Pledge Agreement dated as of February 5, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.29.1	-	First Amendment to Pledge Agreement dated as of September 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*	10.30	-	Setoff Rights Letter Agreement dated as of February 5, 2009 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.31	-	Note Purchase Agreement dated as of March 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.32	-	Pledge Agreement dated as of March 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.32.1	-	First Amendment to Pledge Agreement dated as of September 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.33	-	Setoff Rights Letter Agreement dated as of March 23, 2009 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.34	-	Note Purchase Agreement dated as of May 22, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.35	-	Pledge Agreement dated as of May 22, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.36	-	Setoff Rights Letter Agreement dated as of May 22, 2009 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.37	-	Master Sale and Servicing Agreement dated as of July 24, 2009 between National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*	10.37.1	-	Amendment No. 1 to Master Sale and Servicing Agreement dated as of February 1, 2010 between National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).
*#	10.38	-	Credit Support Agreement dated as of September 1, 2009 between National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).
*	10.39	-	Indenture dated as of September 1, 2009 between National Rural Utilities Cooperative Finance Corporation, U.S. Bank National Association and the Registrant (Form 10-Q filed August 9, 2010).
*	10.40	-	Note Purchase Agreement dated as of January 11, 2011 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-K filed March 16, 2011).
*	10.41	-	Pledge Agreement dated as of January 11, 2011 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-K filed March 16, 2011).
*	10.42	-	Setoff Rights Letter Agreement dated as of January 11, 2011 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-K filed March 16, 2011).
**	10.43	-	Sublease Agreement dated as of December 6, 2010 between Mayer Brown LLP and the Registrant.
*	21	-	List of the Registrant's subsidiaries (Form 10-K filed March 16, 2010).
*	31.1	-	Certification of Chief Executive Officer relating to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Form 10-K filed March 16, 2011).
*	31.2	-	Certification of Chief Financial Officer relating to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Form 10-K filed March 16, 2011).
**	31.3	-	Certification of Chief Executive Officer relating to the Amendment No. 1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	31.4	-	Certification of Chief Financial Officer relating to the Amendment No. 1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*	32	-	Certification of Chief Executive Officer and Chief Financial Officer relating to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Form 10-K filed March 16, 2011).
**	32.1	-	Certification of Chief Executive Officer and Chief Financial Officer relating to the Amendment No. 1 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

/s/ Michael A. Gerber		June 1, 2011	
By:	Michael A. Gerber President and Chief Executive Officer		Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Lowell L. Junkins Lowell L. Junkins	Chairman of the Board and Director	June 1, 2011
/s/ Michael A. Gerber Michael A. Gerber	President and Chief Executive Officer (Principal Executive Officer)	June 1, 2011
/s/ Timothy L. Buzby Timothy L. Buzby	Senior Vice President – Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	June 1, 2011

Name	Title	Date
/s/ Julia Bartling Julia Bartling	Director	June 1, 2011
/s/ Dennis L. Brack Dennis L. Brack	Director	June 1, 2011
/s/ Richard H. Davidson Richard H. Davidson	Director	June 1, 2011
/s/ James R. Engebretsen James R. Engebretsen	Director	June 1, 2011
/s/ Dennis A. Everson Dennis A. Everson	Director	June 1, 2011
/s/ Sara L. Faivre-Davis Sara L. Faivre-Davis	Director	June 1, 2011
/s/ Ernest M. Hodges Ernest M. Hodges	Director	June 1, 2011
/s/ Brian P. Jackson Brian P. Jackson	Director	June 1, 2011
/s/ Mitchell A. Johnson Mitchell A. Johnson	Director	June 1, 2011
/s/ Glen O. Klippenstein Glen O. Klippenstein	Director	June 1, 2011
/s/ Clark B. Maxwell Clark B. Maxwell	Director	June 1, 2011
/s/ Brian J. O'Keane Brian J. O'Keane	Director	June 1, 2011
/s/ John Dan Raines, Jr. John Dan Raines, Jr.	Director	June 1, 2011
/s/ Myles J. Watts Myles J. Watts	Director	June 1, 2011