

FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
May 10, 2018

As filed with the Securities and Exchange Commission on May 10, 2018

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
Commission File Number 001-14951

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

(Exact name of registrant as specified in its charter)

Federally chartered instrumentality of the United States 52-1578738

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

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

(Address of principal executive offices) (Zip code)

(202) 872-7700

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition

period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

Yes No

As of May 1, 2018, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock, and 9,120,776 shares of Class C non-voting common stock.

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PART I

Item 1. Financial Statements

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

	As of March 31, 2018	December 31, 2017
	(in thousands)	
Assets:		
Cash and cash equivalents	\$493,258	\$302,022
Investment securities:		
Available-for-sale, at fair value	2,193,352	2,215,405
Held-to-maturity, at amortized cost	45,032	45,032
Total Investment Securities	2,238,384	2,260,437
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	5,839,387	5,471,914
Held-to-maturity, at amortized cost	2,182,043	2,126,274
Total Farmer Mac Guaranteed Securities	8,021,430	7,598,188
USDA Securities:		
Trading, at fair value	11,558	13,515
Held-to-maturity, at amortized cost	2,127,769	2,117,850
Total USDA Securities	2,139,327	2,131,365
Loans:		
Loans held for investment, at amortized cost	3,866,844	3,873,755
Loans held for investment in consolidated trusts, at amortized cost	1,441,718	1,399,827
Allowance for loan losses	(6,365)	(6,796)
Total loans, net of allowance	5,302,197	5,266,786
Real estate owned, at lower of cost or fair value	123	139
Financial derivatives, at fair value	5,142	7,093
Interest receivable (includes \$10,179 and \$17,373, respectively, related to consolidated trusts)	114,070	155,278
Guarantee and commitment fees receivable	39,997	39,895
Deferred tax asset, net	—	2,048
Prepaid expenses and other assets	43,308	29,023
Total Assets	\$18,397,236	\$17,792,274
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$7,896,359	\$8,089,826
Due after one year	8,127,594	7,432,790
Total notes payable	16,023,953	15,522,616
Debt securities of consolidated trusts held by third parties	1,463,653	1,404,945
Financial derivatives, at fair value	22,570	26,599
Accrued interest payable (includes \$8,533 and \$14,631, respectively, related to consolidated trusts)	71,348	75,402
Guarantee and commitment obligation	38,487	38,400
Accounts payable and accrued expenses	25,641	14,096
Deferred tax liability, net	4,227	—
Reserve for losses	2,091	2,070

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Total Liabilities	17,651,970	17,084,128
Commitments and Contingencies (Note 6)		
Equity:		
Preferred stock:		
Series A, par value \$25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	58,333
Series B, par value \$25 per share, 3,000,000 shares authorized, issued and outstanding	73,044	73,044
Series C, par value \$25 per share, 3,000,000 shares authorized, issued and outstanding	73,382	73,382
Common stock:		
Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, \$1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, \$1 par value, no maximum authorization, 9,119,416 shares and 9,087,670 shares outstanding, respectively	9,119	9,088
Additional paid-in capital	118,208	118,979
Accumulated other comprehensive income, net of tax	72,111	51,085
Retained earnings	339,538	322,704
Total Equity	745,266	708,146
Total Liabilities and Equity	\$ 18,397,236	\$ 17,792,274

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

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

	For the Three Months Ended March 31, March 31, 2018 2017 (in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	\$11,463	\$7,243
Farmer Mac Guaranteed Securities and USDA Securities	62,430	42,522
Loans	45,653	36,852
Total interest income	119,546	86,617
Total interest expense	76,317	49,546
Net interest income	43,229	37,071
Release of/(provision for) loan losses	431	(637)
Net interest income after release of (provision for) loan losses	43,660	36,434
Non-interest income:		
Guarantee and commitment fees	3,499	3,844
(Losses)/gains on financial derivatives and hedging activities	(3,850)	2,486
Gains/(losses) on trading securities	16	(82)
Losses on sale of real estate owned	—	(5)
Other income	574	553
Non-interest income	239	6,796
Non-interest expense:		
Compensation and employee benefits	6,654	6,317
General and administrative	4,326	3,800
Regulatory fees	625	625
Real estate owned operating costs, net	16	—
Provision for/(release of) reserve for losses	21	(193)
Non-interest expense	11,642	10,549
Income before income taxes	32,257	32,681
Income tax expense	6,438	10,786
Net income	25,819	21,895
Less: Net loss attributable to non-controlling interest	—	15
Net income attributable to Farmer Mac	25,819	21,910
Preferred stock dividends	(3,295)	(3,295)
Net income attributable to common stockholders	\$22,524	\$18,615
Earnings per common share and dividends:		
Basic earnings per common share	\$2.12	\$1.76
Diluted earnings per common share	\$2.10	\$1.73
Common stock dividends per common share	\$0.58	\$0.36

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

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	For the Three Months Ended	
	March 31, 2018	March 31, 2017
	(in thousands)	
Net income	\$25,819	\$21,895
Other comprehensive income before taxes:		
Net unrealized gains on available-for-sale securities	21,228	14,838
Net changes in held-to-maturity securities	(1,310)	(3,487)
Net unrealized gains on cash flow hedges	6,663	629
Other comprehensive income before tax	26,581	11,980
Income tax expense related to other comprehensive income	(5,582)	(4,194)
Other comprehensive income net of tax	20,999	7,786
Comprehensive income	46,818	29,681
Less: comprehensive loss attributable to non-controlling interest	—	15
Comprehensive income attributable to Farmer Mac	\$46,818	\$29,696

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

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Non-controlling Interest	Total Equity
	(in thousands)								
Balance as of December 31, 2016	8,400	\$204,759	10,539	\$10,539	\$118,655	\$33,758	\$275,714	\$222	\$643,647
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	21,910	—	21,910
Attributable to non-controlling interest	—	—	—	—	—	—	—	(15)	(15)
Other comprehensive income, net of tax	—	—	—	—	—	7,786	—	—	7,786
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(3,295)	—	(3,295)
Common stock	—	—	—	—	—	—	(3,799)	—	(3,799)
Issuance of Class C Common Stock	—	—	57	57	144	—	—	—	201
Stock-based compensation cost	—	—	—	—	981	—	—	—	981
Other stock-based award activity	—	—	—	—	(1,394)	—	—	—	(1,394)
Balance as of March 31, 2017	8,400	\$204,759	10,596	\$10,596	\$118,386	\$41,544	\$290,530	\$207	\$666,022
Balance as of December 31, 2017	8,400	\$204,759	10,619	\$10,619	\$118,979	\$51,085	\$322,704	\$—	\$708,146
Cumulative effect from change in hedge accounting	—	—	—	—	—	27	471	—	498
Balance as of January 1, 2018	8,400	\$204,759	10,619	\$10,619	\$118,979	\$51,112	\$323,175	\$—	\$708,644
Net income:									
Attributable to Farmer Mac	—	—	—	—	—	—	25,819	—	25,819
Other comprehensive income, net of tax	—	—	—	—	—	20,999	—	—	20,999
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(3,295)	—	(3,295)
Common stock	—	—	—	—	—	—	(6,161)	—	(6,161)
Issuance of Class C Common Stock	—	—	31	31	3	—	—	—	34
Stock-based compensation cost	—	—	—	—	664	—	—	—	664
	—	—	—	—	(1,438)	—	—	—	(1,438)

Other stock-based
award activity

Balance as of March 31, 2018	8,400	\$204,759	10,650	\$10,650	\$118,208	\$ 72,111	\$339,538	\$ —	\$745,266
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The accompanying notes are an integral part of these consolidated financial statements.

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

	For the Three Months Ended	
	March 31, 2018	March 31, 2017
	(in thousands)	
Cash flows from operating activities:		
Net income	\$25,819	\$ 21,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums, and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Securities	309	181
Amortization of debt premiums, discounts and issuance costs	6,008	5,656
Net change in fair value of trading securities, hedged assets, and financial derivatives	19,174	525
(Gains)/losses on sale of real estate owned	—	5
Total provision for losses	(410)	) 444
Excess tax benefits related to stock-based awards	440	679
Deferred income taxes	(161)	) 1,419
Stock-based compensation expense	664	981
Proceeds from repayment of loans purchased as held for sale	34,699	25,928
Net change in:		
Interest receivable	41,219	37,292
Guarantee and commitment fees receivable	(15)	) (357)
Other assets	(11,973)	) 2,236
Accrued interest payable	(4,054)	) (2,855)
Other liabilities	6,111	8,605
Net cash provided by operating activities	117,830	102,634
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(242,677)	) (66,561)
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(931,199)	) (692,245)
Purchases of loans held for investment	(267,756)	) (341,702)
Purchases of defaulted loans	(721)	) (311)
Proceeds from repayment of available-for-sale investment securities	263,621	183,749
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	472,235	338,063
Proceeds from repayment of loans purchased as held for investment	191,298	182,790
Proceeds from sale of Farmer Mac Guaranteed Securities	131,202	149,607
Proceeds from sale of real estate owned	—	697
Net cash used by investing activities	(383,997)	) (245,913)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	10,587,657	13,618,574
Proceeds from issuance of medium-term notes	2,060,844	2,251,535
Payments to redeem discount notes	(10,941,104)	) (14,766,905)
Payments to redeem medium-term notes	(1,200,936)	) (856,300)
Payments to third parties on debt securities of consolidated trusts	(38,197)	) (46,926)
Proceeds from common stock issuance	3	148
Tax payments related to share-based awards	(1,407)	) (1,341)
Dividends paid on common and preferred stock	(9,457)) (7,094)
Net cash provided/(used) by financing activities	457,403	191,691

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Net increase in cash and cash equivalents	191,236	48,412
Cash and cash equivalents at beginning of period	302,022	265,229
Cash and cash equivalents at end of period	\$493,258	\$ 313,641

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac") and subsidiaries have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2017 consolidated balance sheet presented in this report has been derived from Farmer Mac's audited 2017 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements of Farmer Mac and subsidiaries included in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 8, 2018. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Presented below are Farmer Mac's significant accounting policies that contain updated information for the three months ended March 31, 2018.

Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its two subsidiaries during the year: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities; and (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the USDA Guarantees line of business – primarily the acquisition of USDA Securities. The consolidated financial statements also include the accounts of VIEs in which Farmer Mac determined itself to be the primary beneficiary. The accounts of Contour Valuation Services, LLC (which began doing business as AgVisory during first quarter 2016) ("AgVisory"), Farmer Mac's former majority-owned subsidiary, are also included through March 31, 2017. Farmer Mac redeemed its ownership interest in AgVisory on May 1, 2017.

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

Table 1.1

	Consolidation of Variable Interest Entities					Total
	As of March 31, 2018					
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	\$1,441,718	\$ —	\$ —	\$ —	\$ —	—\$1,441,718
Debt securities of consolidated trusts held by third parties ⁽¹⁾	1,463,653	—	—	—	—	1,463,653
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value ⁽²⁾	—	29,900	—	—	—	29,900
Maximum exposure to loss ⁽³⁾	—	29,596	—	—	—	29,596
Investment securities:						
Carrying value ⁽⁴⁾	—	—	—	—	837,840	837,840
Maximum exposure to loss ^{(3) (4)}	—	—	—	—	835,202	835,202
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss ^{(3) (5)}	314,497	284,435	—	—	—	598,932
⁽¹⁾ Includes borrower remittances of \$21.9 million. The borrower remittances had not been passed through to third party investors as of March 31, 2018.						
⁽²⁾ Includes \$0.3 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business.						
⁽³⁾ Farmer Mac uses unpaid principal balance and outstanding face amount of investment securities to represent maximum exposure to loss.						
⁽⁴⁾ Includes auction-rate certificates, asset-backed securities, and government-sponsored enterprise ("GSE")-guaranteed mortgage-backed securities.						
⁽⁵⁾ The amount under the Farm & Ranch line of business relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.						

	Consolidation of Variable Interest Entities					
	As of December 31, 2017					
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Total
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	\$1,399,827	\$ —	\$ —	\$ —		—\$1,399,827
Debt securities of consolidated trusts held by third parties ⁽¹⁾	1,404,945	—	—	—	—	1,404,945
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value ⁽²⁾	—	30,300	—	—	—	30,300
Maximum exposure to loss ⁽³⁾	—	29,980	—	—	—	29,980
Investment securities:						
Carrying value ⁽⁴⁾	—	—	—	—	783,964	783,964
Maximum exposure to loss ^{(3) (4)}	—	—	—	—	783,916	783,916
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss ^{(3) (5)}	333,511	254,217	—	—	—	587,728
(1) Includes borrower remittances of \$5.1 million, which have not been passed through to third party investors as of December 31, 2017.						
(2) Includes \$0.3 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business.						
(3) Farmer Mac uses unpaid principal balance and the outstanding face amount of investment securities to represent maximum exposure to loss.						
(4) Includes auction-rate certificates, asset-backed securities, and GSE-guaranteed mortgage-backed securities.						
(5) The amount under the Farm & Ranch line of business relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.						

(a) Statements of Cash Flows

The following table sets forth information regarding certain cash and non-cash transactions for the three months ended March 31, 2018 and 2017:

Table 1.2

	For the Three Months Ended
	March 31, 2018
	March 31, 2017
	(in thousands)
Non-cash activity:	
Real estate owned acquired through loan liquidation	— 4,630

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Loans acquired and securitized as Farmer Mac Guaranteed Securities	131,202	149,607
Consolidation of Farm & Ranch Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts and to debt securities of consolidated trusts held by third parties	96,909	117,018
Purchases of securities - traded not yet settled	5,640	—

(b) Earnings Per Common Share

Basic earnings per common share ("EPS") is based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share is based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights ("SARs"), and non-vested restricted stock awards. The following schedule reconciles basic and diluted EPS for the three months ended March 31, 2018 and 2017:

Table 1.3

	For the Three Months Ended					
	March 31, 2018			March 31, 2017		
	Net Income	Weighted-Average Shares	\$ per Share	Net Income	Weighted-Average Shares	\$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	\$22,524	10,622	\$2.12	\$18,615	10,551	\$1.76
Effect of dilutive securities ⁽¹⁾						
Stock options, SARs and restricted stock	—	119	(0.02)	—	231	(0.03)
Diluted EPS	\$22,524	10,741	\$2.10	\$18,615	10,782	\$1.73

For the three months ended March 31, 2018, 25,062 SARs were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive, compared to 50,757 stock options and SARs for the three months ended March 31, 2017. For the three months ended March 31, 2018 and 2017, contingent shares of non-vested restricted stock of 13,138 and 32,892, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

(c) Comprehensive Income

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

The following table presents the changes in accumulated other comprehensive income ("AOCI"), net of tax, by component for the three months ended March 31, 2018 and 2017:

Table 1.4

	As of March 31, 2018				As of March 31, 2017			
	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total
(in thousands)								
For the Three Months Ended:								
Balance as of December 31, 2017	\$(1,676)	\$ 48,236	\$ 4,525	\$ 51,085	\$(14,387)	\$ 45,752	\$ 2,393	\$ 33,758
Cumulative effect from change in hedge accounting	—	—	27	27	—	—	—	—
Balance as of January 1, 2018	(1,676)	48,236	4,552	51,112	(14,387)	45,752	2,393	33,758
Other comprehensive income before reclassifications	18,187	—	5,053	23,240	12,223	—	76	12,299
Amounts reclassified from AOCI	(1,417)	(1,035)	211	(2,241)	(2,578)	(2,267)	332	(4,513)
Net comprehensive income/(loss)	16,770	(1,035)	5,264	20,999	9,645	(2,267)	408	7,786
Ending Balance	\$ 15,094	\$ 47,201	\$ 9,816	\$ 72,111	\$(4,742)	\$ 43,485	\$ 2,801	\$ 41,544

The following table presents other comprehensive income activity, the impact on net income of amounts reclassified from each component of AOCI, and the related tax impact for the three months ended March 31, 2018 and 2017:

Table 1.5

	For the Three Months Ended					
	March 31, 2018			March 31, 2017		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income:						
Available-for-sale-securities:						
Unrealized holding gains/(losses) on available-for-sale-securities	\$23,022	\$ 4,835	\$18,187	\$18,804	\$ 6,581	\$12,223
Less reclassification adjustments included in:						
Net Interest Income ⁽¹⁾	(1,787)	(375)	(1,412)	—	—	—
Gains/(losses) on financial derivatives and hedging activities ⁽¹⁾	—	—	—	(3,959)	(1,386)	(2,573)
Other income ⁽²⁾	(7)	(2)	(5)	(7)	(2)	(5)
Total	\$21,228	\$ 4,458	\$16,770	\$14,838	\$ 5,193	\$ 9,645
Held-to-maturity securities:						
Less reclassification adjustments included in:						
Net interest income ⁽³⁾	(1,310)	(275)	(1,035)	(3,487)	(1,220)	(2,267)
Total	\$(1,310)	\$(275)	\$(1,035)	\$(3,487)	\$(1,220)	\$(2,267)
Cash flow hedges						
Unrealized gains/(losses) on cash flow hedges	\$6,396	\$ 1,343	\$5,053	\$ 117	\$ 41	\$ 76
Less reclassification adjustments included in:						
Net interest income ⁽⁴⁾	267	56	211	512	180	332
Total	\$6,663	\$ 1,399	\$5,264	\$ 629	\$ 221	\$ 408
Other comprehensive income/(loss)	\$26,581	\$ 5,582	\$20,999	\$11,980	\$ 4,194	\$ 7,786

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

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

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

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

(d) New Accounting Standards

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments—Credit Losses," which will require entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will be required to use forward-looking information to form their credit loss estimates. The ASU will also require enhanced disclosures to help users of financial statements better understand significant estimates and judgments used in

estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Farmer Mac is currently developing its accounting policy, planning for changes to its loss estimation methodologies and evaluating the impact that the new guidance will have on its consolidated financial statements. That impact will primarily be from the new requirement to recognize all expected losses rather than just incurred losses as of the reporting date.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

In first quarter 2018 Farmer Mac adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which amends hedge accounting recognition and presentation requirements to better align a reporting entity's risk management activities and hedge accounting. The new guidance reduces the complexity and simplifies the application of hedge accounting by eliminating the requirement to separately measure and report hedge ineffectiveness and by requiring the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The cumulative-effect adjustment to retained earnings as of January 1, 2018 reflected application of the new guidance and did not have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

(e) Reclassifications

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

2. INVESTMENT SECURITIES

The following tables set forth information about Farmer Mac's investment securities as of March 31, 2018 and December 31, 2017:

Table 2.1

	As of March 31, 2018				Fair Value
	Amount Outstanding (in thousands)	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains / Unrealized Losses	
Available-for-sale:					
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$ 19,700	\$ —	\$ 19,700	\$ (690)	