

FEDERAL AGRICULTURAL MORTGAGE CORP  
Form 10-Q  
November 10, 2008

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As filed with the Securities and Exchange Commission on  
November 10, 2008

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2008

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)

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      T                      No      £

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

Large accelerated filer    £

Accelerated filer    T

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Non-accelerated filer

Smaller reporting company

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

Yes  No

As of November 1, 2008, the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,601,352 shares of Class C Non-Voting Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

|   |   |
|---|---|
| Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007                            | 3 |
| Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007 | 4 |
| Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007           | 5 |
| Notes to Condensed Consolidated Financial Statements  | 6 |

FEDERAL AGRICULTURAL MORTGAGE CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
|  | (in thousands)        |                      |
| Assets:  |                       |                      |
| Cash and cash equivalents  | \$ 50,661             | \$ 101,445           |
| Investment securities:   |                       |                      |
| Available-for-sale, at fair value (includes securities pledged to counterparties of \$16.6 million and \$7.2 million as of September 30, 2008 and December 31, 2007, respectively) | 1,297,255             | 2,616,187            |
| Trading, at fair value   | 171,046               | 8,179                |
| Total investment securities  | 1,468,301             | 2,624,366            |
| Farmer Mac Guaranteed Securities:  |                       |                      |
| Held-to-maturity, at amortized cost  | -                     | 959,865              |
| Available-for-sale, at fair value  | 1,250,194             | 338,958              |
| Trading, at fair value   | 913,211               | -                    |
| Total Farmer Mac Guaranteed Securities   | 2,163,405             | 1,298,823            |
| Loans:   |                       |                      |
| Loans held for sale, at lower of cost or fair value  | 63,202                | 118,629              |
| Loans held for investment, at amortized cost   | 630,615               | 649,280              |
| Allowance for loan losses  | (2,329)               | (1,690)              |
| Total loans, net of allowance  | 691,488               | 766,219              |
| Real estate owned, at lower of cost or fair value  | 590                   | 590                  |
| Financial derivatives, at fair value   | 3,395                 | 2,288                |
| Interest receivable  | 57,701                | 91,939               |
| Guarantee and commitment fees receivable   | 60,385                | 57,804               |
| Deferred tax asset, net  | 55,073                | 30,239               |
| Prepaid expenses and other assets  | 107,689               | 3,900                |
| Total Assets   | \$ 4,658,688          | \$ 4,977,613         |
| Liabilities, Mezzanine Equity and Stockholders' Equity:  |                       |                      |
| Liabilities:   |                       |                      |
| Notes payable:   |                       |                      |
| Due within one year  | \$ 3,642,228          | \$ 3,829,698         |
| Due after one year   | 664,874               | 744,649              |
| Total notes payable  | 4,307,102             | 4,574,347            |
| Financial derivatives, at fair value   | 65,670                | 55,273               |
| Accrued interest payable   | 32,520                | 50,004               |
| Guarantee and commitment obligation  | 55,582                | 52,130               |
| Accounts payable and accrued expenses  | 24,780                | 20,069               |
| Reserve for losses   | 2,106                 | 2,197                |
| Total Liabilities  | 4,487,760             | 4,754,020            |
| Mezzanine Equity:  |                       |                      |

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|  |              |              |
|--|--------------|--------------|
| Series B redeemable preferred stock, redemption/liquidation value of \$1,000 per share, 65,000 shares authorized, issued and outstanding | 61,039       | -            |
| Stockholders' Equity:  |              |              |
| Preferred stock:   |              |              |
| Series A, stated at redemption/liquidation value, \$50 per share, 700,000 shares authorized, issued and outstanding                      | 35,000       | 35,000       |
| Common stock:  |              |              |
| Class A Voting, \$1 par value, no maximum authorization  | 1,031        | 1,031        |
| Class B Voting, \$1 par value, no maximum authorization  | 500          | 500          |
| Class C Non-Voting, \$1 par value, no maximum authorization  | 8,598        | 8,364        |
| Additional paid-in capital   | 96,194       | 87,134       |
| Accumulated other comprehensive loss   | (41,421)     | (2,793)      |
| Retained earnings  | 9,987        | 94,357       |
| Total Stockholders' Equity   | 109,889      | 223,593      |
| Total Liabilities, Mezzanine Equity and Stockholders' Equity   | \$ 4,658,688 | \$ 4,977,613 |

See accompanying notes to condensed consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

|  | Three Months Ended |               | Nine Months Ended |               |
|--|--------------------|---------------|-------------------|---------------|
|  | September 30,      | September 30, | September 30,     | September 30, |
|  | 2008               | 2007          | 2008              | 2007          |
| Interest income:   |                    |               |                   |               |
| Investments and cash equivalents                                   | \$ 20,395          | \$ 46,621     | \$ 97,305         | \$ 127,143    |
| Farmer Mac Guaranteed Securities                                   | 28,470             | 18,437        | 67,007            | 56,622        |
| Loans  | 11,718             | 11,636        | 35,192            | 34,154        |
| Total interest income  | 60,583             | 76,694        | 199,504           | 217,919       |
| Total interest expense   |                    |               |                   |               |
|  | 39,260             | 66,177        | 135,885           | 189,841       |
| Net interest income  | 21,323             | 10,517        | 63,619            | 28,078        |
| (Provision)/recovery for loan losses                               | (731)              | -             | (731)             | 215           |
| Net interest income after (provision)/recovery for loan losses     | 20,592             | 10,517        | 62,888            | 28,293        |
| Non-interest (loss)/income:  |                    |               |                   |               |
| Guarantee and commitment fees                                      | 7,281              | 6,421         | 20,574            | 18,633        |
| Losses on financial derivatives                                    | (19,021)           | (24,906)      | (29,691)          | (9,040)       |
| Losses on trading assets   | (14,507)           | -             | (21,664)          | (74)          |
| Impairment losses on available-for-sale investment securities      | (97,108)           | -             | (102,452)         | -             |
| (Losses)/gains on sale of available-for-sale investment securities | (85)               | 87            | 65                | 108           |
| Gains on sale of Farmer Mac Guaranteed Securities                  | 1,531              | -             | 1,531             | -             |
| Gains on the repurchase of debt                                    | 840                | -             | 840               | -             |
| Gains on the sale of real estate owned                             | -                  | 98            | -                 | 130           |
| Other income   | 192                | 712           | 1,315             | 1,163         |
| Non-interest (loss)/income   | (120,877)          | (17,588)      | (129,482)         | 10,920        |
| Non-interest expense:  |                    |               |                   |               |
| Compensation and employee benefits                                 | 3,748              | 3,459         | 11,327            | 10,315        |
| General and administrative   | 4,061              | 1,982         | 8,331             | 6,556         |
| Regulatory fees  | 513                | 550           | 1,538             | 1,650         |
| Real estate owned operating costs, net                             | 15                 | (31)          | 102               | (31)          |
| (Recovery)/provision for losses                                    | (91)               | 386           | (91)              | 73            |
| Non-interest expense   | 8,246              | 6,346         | 21,207            | 18,563        |
| (Loss)/income before income taxes                                  | (108,531)          | (13,417)      | (87,801)          | 20,650        |
| Income tax (benefit)/expense                                       | (2,973)            | (5,407)       | 3,463             | 5,249         |
| Net (loss)/income  | (105,558)          | (8,010)       | (91,264)          | 15,401        |
| Preferred stock dividends  | (578)              | (560)         | (1,698)           | (1,680)       |
| Net (loss)/income available to common stockholders                 | \$ (106,136)       | \$ (8,570)    | \$ (92,962)       | \$ 13,721     |

|  |    |         |    |        |    |        |    |      |
|--|----|---------|----|--------|----|--------|----|------|
| <b>(Loss)/earnings per common share and dividends:</b> |    |         |    |        |    |        |    |      |
| Basic (loss)/earnings per common share                 | \$ | (10.55) | \$ | (0.82) | \$ | (9.33) | \$ | 1.32 |
| Diluted (loss)/earnings per common share               | \$ | (10.55) | \$ | (0.82) | \$ | (9.33) | \$ | 1.29 |
| Common stock dividends per common share                | \$ | 0.10    | \$ | 0.10   | \$ | 0.30   | \$ | 0.30 |

See accompanying notes to condensed consolidated financial statements.

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

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2008 | September<br>30, 2007 |
|  | (in thousands)        |                       |
| Cash flows from operating activities:  |                       |                       |
| Net (loss) income  | \$ (91,264)           | \$ 15,401             |
| Adjustments to reconcile net income to net cash provided by operating activities:                  |                       |                       |
| Net amortization of premiums and discounts on loans and investments                                | 3,752                 | (1,530)               |
| Amortization of debt premiums, discounts and issuance costs  | 66,790                | 98,154                |
| Purchases of trading investment securities   | -                     | (9,090)               |
| Proceeds from repayment of trading investment securities   | 6,507                 | 5,417                 |
| Purchases of loans held for sale   | (38,461)              | (36,021)              |
| Proceeds from repayment of loans held for sale   | 14,747                | 5,744                 |
| Net change in fair value of trading securities and financial derivatives                           | 30,954                | 8,692                 |
| Amortization of SFAS 133 transition adjustment on financial derivatives                            | 222                   | 297                   |
| Impairment losses on available-for-sale investment securities                                      | 102,452               | -                     |
| Gains on sale of Farmer Mac Guaranteed Securities  | (1,531)               | -                     |
| Gains on sale of available-for-sale investment securities  | (65)                  | (108)                 |
| Gains on repurchase of debt  | (840)                 | -                     |
| Gains on the sale of real estate owned   | -                     | (130)                 |
| Total provision/(recovery) for losses  | 640                   | (142)                 |
| Deferred income taxes  | (11,316)              | (5,588)               |
| Stock-based compensation expense   | 3,389                 | 2,452                 |
| Decrease in interest receivable  | 34,238                | 13,474                |
| Increase in guarantee and commitment fees receivable   | (2,581)               | (14,544)              |
| Increase in other assets   | (41,561)              | (2,276)               |
| (Decrease)/increase in accrued interest payable  | (17,484)              | 3,376                 |
| Increase in other liabilities  | 8,911                 | 11,199                |
| Net cash provided by operating activities  | 67,499                | 94,777                |
| Cash flows from investing activities:  |                       |                       |
| Purchases of available-for-sale investment securities (1)  | (1,160,501)           | (3,211,435)           |
| Purchases of Farmer Mac II Guaranteed Securities and<br>AgVantage Farmer Mac Guaranteed Securities | (305,584)             | (172,503)             |
| Purchases of loans held for investment   | (86,024)              | (51,025)              |
| Purchases of defaulted loans   | (1,746)               | (3,911)               |
| Proceeds from repayment of investment securities (2)   | 445,154               | 2,314,070             |
| Proceeds from repayment of Farmer Mac Guaranteed Securities  | 219,341               | 201,667               |
| Proceeds from repayment of loans held for investment   | 101,964               | 121,261               |
| Proceeds from sale of available-for-sale investment securities                                     | 351,256               | 58,383                |
| Proceeds from sale of real estate owned  | -                     | 1,523                 |
| Proceeds from sale of Farmer Mac Guaranteed Securities   | 649,723               | 2,538                 |
| Net cash provided by/(used in) investing activities  | 213,583               | (739,432)             |
| Cash flows from financing activities:  |                       |                       |
| Proceeds from issuance of discount notes   | 105,086,822           | 88,500,039            |
| Proceeds from issuance of medium-term notes  | 1,486,903             | 1,261,000             |



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|   |               |              |
|---|---------------|--------------|
| Payments to redeem discount notes   | (104,926,504) | (88,604,301) |
| Payments to redeem medium-term notes                                      | (1,979,660)   | (805,665)    |
| Tax benefit from tax deductions in excess of compensation cost recognized | 381           | 593          |
| Proceeds from common stock issuance                                       | 5,722         | 7,531        |
| Purchases of common stock   | (830)         | (15,041)     |
| Dividends paid on common and preferred stock                              | (4,700)       | (4,789)      |
| Net cash (used in)/provided by financing activities                       | (331,866)     | 339,367      |
| Net decrease in cash and cash equivalents                                 | (50,784)      | (305,288)    |
| Cash and cash equivalents at beginning of period                          | 101,445       | 877,714      |
| Cash and cash equivalents at end of period                                | \$ 50,661     | \$ 572,426   |

- (1) Includes purchases of \$349.0 million and \$2.0 billion related to auction-rate certificates for the nine months ended September 30, 2008 and 2007, respectively. See Note 2 to the condensed consolidated financial statements.
- (2) Includes proceeds, through the normal auction process, of \$268.0 million and \$1.9 billion related to auction-rate certificates for the nine months ended September 30, 2008 and 2007, respectively. See Note 2 to the condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Note 1.

Accounting Policies

The interim unaudited condensed consolidated financial statements of the Federal Agricultural Mortgage Corporation (“Farmer Mac” or the “Corporation”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These interim unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations and cash flows of Farmer Mac for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2007 consolidated balance sheet presented in this report has been derived from the Corporation’s audited 2007 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial position, condensed consolidated results of operations and condensed consolidated cash flows as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited 2007 consolidated financial statements of Farmer Mac included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2007. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Below is a summary of Farmer Mac’s significant accounting policies.

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

Farmer Mac considers highly liquid investment securities with original maturities of three months or less at the time of purchase to be cash equivalents. Changes in the balance of cash and cash equivalents are reported in the condensed consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the nine months ended September 30, 2008 and 2007.

|  | Nine Months Ended  |                    |
|--|--------------------|--------------------|
|  | September 30, 2008 | September 30, 2007 |
|  | (in thousands)     |                    |
| Cash paid for:   |                    |                    |
| Interest   | \$ 88,012          | \$ 93,345          |
| Income taxes   | 25,069             | 8,000              |
| Non-cash activity:   |                    |                    |
| Loans acquired and securitized as Farmer Mac Guaranteed Securities   | 79,757             | 1,324              |
| Issuance of Series B redeemable preferred stock (net of deferred offering costs)   | 61,039             | -                  |
| 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 SFAS 159                             | 600,468            | -                  |
| Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting SFAS 159                 | 428,670            | -                  |
| Transfers of 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            | -                  |

(b)

## Allowance for Losses

As of September 30, 2008, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held, real estate owned, and loans underlying long-term standby purchase commitments ("LTSPCs") and Farmer Mac I Guaranteed Securities issued after the Farm Credit System Reform Act of 1996 (the "1996 Act") in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5"), and Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended ("SFAS 114").

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

Farmer Mac's methodology for determining its allowance for losses incorporates the Corporation's proprietary automated loan classification system. That system scores loans based on criteria such as historical repayment performance, 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 post-1996 Act 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 post-1996 Act Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of 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 reliable estimate of probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs in accordance with SFAS 5 and SFAS 114.

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The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three and nine months ended September 30, 2008 and 2007:

|                                 | September 30, 2008              |                               |                       |                                  |
|---------------------------------|---------------------------------|-------------------------------|-----------------------|----------------------------------|
|                                 | Allowance<br>for Loan<br>Losses | REO<br>Valuation<br>Allowance | Reserve for<br>Losses | Total<br>Allowance<br>for Losses |
| (in thousands)                  |                                 |                               |                       |                                  |
| <b>Three Months Ended:</b>      |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,592                        | \$ -                          | \$ 2,197              | \$ 3,789                         |
| Provision/(recovery) for losses | 731                             | -                             | (91)                  | 640                              |
| Charge-offs                     | -                               | -                             | -                     | -                                |
| Recoveries                      | 6                               | -                             | -                     | 6                                |
| Ending balance                  | \$ 2,329                        | \$ -                          | \$ 2,106              | \$ 4,435                         |
| <b>Nine Months Ended:</b>       |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,690                        | \$ -                          | \$ 2,197              | \$ 3,887                         |
| Provision/(recovery) for losses | 731                             | -                             | (91)                  | 640                              |
| Charge-offs                     | (108)                           | -                             | -                     | (108)                            |
| Recoveries                      | 16                              | -                             | -                     | 16                               |
| Ending balance                  | \$ 2,329                        | \$ -                          | \$ 2,106              | \$ 4,435                         |

  

|                                 | September 30, 2007              |                               |                       |                                  |
|---------------------------------|---------------------------------|-------------------------------|-----------------------|----------------------------------|
|                                 | Allowance<br>for Loan<br>Losses | REO<br>Valuation<br>Allowance | Reserve for<br>Losses | Total<br>Allowance<br>for Losses |
| (in thousands)                  |                                 |                               |                       |                                  |
| <b>Three Months Ended:</b>      |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,681                        | \$ -                          | \$ 2,197              | \$ 3,878                         |
| Provision/(recovery) for losses | -                               | -                             | 386                   | 386                              |
| Charge-offs                     | -                               | -                             | (386)                 | (386)                            |
| Recoveries                      | 20                              | -                             | -                     | 20                               |
| Ending balance                  | \$ 1,701                        | \$ -                          | \$ 2,197              | \$ 3,898                         |
| <b>Nine Months Ended:</b>       |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,945                        | \$ -                          | \$ 2,610              | \$ 4,555                         |
| Provision/(recovery) for losses | (215)                           | 100                           | (27)                  | (142)                            |
| Charge-offs                     | (49)                            | (100)                         | (386)                 | (535)                            |
| Recoveries                      | 20                              | -                             | -                     | 20                               |
| Ending balance                  | \$ 1,701                        | \$ -                          | \$ 2,197              | \$ 3,898                         |

Prior to third quarter 2007, no allowance for losses had been made for loans underlying Farmer Mac I Guaranteed Securities issued prior to the 1996 Act ("Pre-1996 Act Farmer Mac I Guaranteed Securities"), AgVantage securities or securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"). Pre-1996 Act Farmer Mac I Guaranteed Securities are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. Through September 30, 2008, Farmer Mac had charged off \$0.4 million

related to one loan underlying Pre-1996 Act Farmer Mac I Guaranteed Securities. The remaining \$1.7 million of Pre-1996 Act Farmer Mac I Guaranteed Securities represent interests in seasoned performing loans with low loan-to-value ratios. Farmer Mac does not expect to incur any further losses on the remaining Pre-1996 Act Farmer Mac I Guaranteed Securities in the future. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of September 30, 2008, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the high credit quality of the obligors, as well as the underlying collateral. As of September 30, 2008, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the United States Department of Agriculture ("USDA"). Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of September 30, 2008, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

On May 22, 2008, Congress enacted into law the Food, Conservation and Energy Act of 2008 (the “Farm Bill”), which expanded Farmer Mac’s authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders. During second quarter 2008, Farmer Mac placed its guarantee on \$430.7 million 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”). During third quarter 2008, \$500.0 million of the obligations collateralized by rural electric cooperative loans matured and was repaid and \$5.7 million of the securities representing interests in rural electric cooperative loans was repaid. Farmer Mac evaluated the remaining \$825.0 million Farmer Mac Guaranteed Securities – Rural Utilities outstanding as of September 30, 2008 and determined that there were no probable losses inherent in the securities or the underlying rural utilities loans. Accordingly, no allowance for losses was recorded as of September 30, 2008 with respect to those securities.

The table below summarizes the components of Farmer Mac’s allowance for losses as of September 30, 2008 and December 31, 2007:

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
|  | (in thousands)        |                      |
| Allowance for loan losses                            | \$ 2,329              | \$ 1,690             |
| Real estate owned valuation allowance                | -                     | -                    |
| Reserve for losses:                                  |                       |                      |
| On-balance sheet Farmer Mac I Guaranteed Securities  | 868                   | 857                  |
| Off-balance sheet Farmer Mac I Guaranteed Securities | 895                   | 655                  |
| LTSPCs   | 343                   | 685                  |
| Farmer Mac Guaranteed Securities - Rural Utilities   | -                     | -                    |
| Total  | \$ 4,435              | \$ 3,887             |

As of September 30, 2008, Farmer Mac individually analyzed \$3.7 million of its \$47.8 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining \$44.1 million of impaired assets, for which updated valuations were not available, in the aggregate in consideration of their similar risk characteristics and historical statistics. All of the \$3.7 million of assets analyzed individually were adequately collateralized. Accordingly, Farmer Mac did not record any specific allowances for any of its impaired assets as of September 30, 2008. Similarly, as of December 31, 2007, Farmer Mac did not record any specific allowances related to its \$36.6 million of impaired assets as of that date.

Farmer Mac recognized interest income of approximately \$1.0 million and \$3.1 million on impaired loans during the three and nine months ended September 30, 2008, respectively, compared to \$1.1 million and \$2.9 million, respectively, during the same periods in 2007. During the three and nine months ended September 30, 2008, Farmer Mac's average investment in impaired loans was \$46.9 million and \$42.2 million, respectively, compared to \$44.5 million and \$50.1 million, respectively, for the same periods in 2007.

(c) Adoption of Fair Value Accounting Standards

Effective January 1, 2008, Farmer Mac adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") and Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 ("SFAS 159"). These standards require disclosures about financial assets and liabilities that are measured at fair value and provide an election option to report financial instruments at fair value with changes in fair value recorded in earnings as they occur.

Fair Value Measurements

SFAS 157 defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on the extent to which fair value is used to measure assets and liabilities, the inputs used to develop measurements and the effects of certain of the measurements on earnings or changes in net assets.

The principal impact of SFAS 157 to Farmer Mac is to require expanded disclosures regarding fair value measurements. SFAS 157 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Farmer Mac's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS 157. The levels of fair value hierarchy are described below:



### Basis of Fair Value Measurement

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Farmer Mac has classified exchange-traded Treasury futures as Level 1 measurements.

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 2 inputs include inputs other than quoted prices that are observable for the financial instrument, such as interest rates and yield curves that are observable at commonly quoted intervals. Farmer Mac has classified financial instruments for which there are continuous and verifiable pricing sources as Level 2 inputs, including certificates of deposit, commercial paper, asset-backed securities, corporate debt securities, mortgage-backed securities, preferred stock issued by Fannie Mae, and most financial derivatives.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument. For financial instruments that are thinly traded, Farmer Mac uses as its primary fair value source analytical models that project cash flows based on internal and external inputs, including transaction terms, yield curves, benchmark data, volatility data, prepayment assumptions and default assumptions. Financial instruments requiring Level 3 inputs include available-for-sale Farmer Mac I Guaranteed Securities, available-for-sale and trading Farmer Mac II Guaranteed Securities, available-for-sale and trading Farmer Mac Guaranteed Securities – Rural Utilities, auction-rate certificates, basis swaps, preferred stock issued by institutions of the Farm Credit System and loans held for sale.

In some cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Farmer Mac's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial instrument.

Both observable and unobservable inputs may be used to determine the fair value of positions that Farmer Mac has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the following tables 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.

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The following table presents information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of September 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by Farmer Mac to determine such fair value.

Assets and Liabilities Measured at Fair Value as of September 30, 2008

|   | Level 1        | Level 2      | Level 3      | Total        |
|---|----------------|--------------|--------------|--------------|
|   | (in thousands) |              |              |              |
| Recurring:  |                |              |              |              |
| Assets:   |                |              |              |              |
| Investment Securities:  |                |              |              |              |
| Available-for-sale:   |                |              |              |              |
| Fixed rate certificates of deposit  | \$ -           | \$ 60,000    | \$ -         | \$ 60,000    |
| Fixed rate commercial paper   | -              | 84,571       | -            | 84,571       |
| Floating rate auction-rate certificates backed by Government guaranteed student loans | -              | -            | 192,010      | 192,010      |
| Floating rate asset-backed securities   | -              | 94,437       | -            | 94,437       |
| Floating rate corporate debt securities   | -              | 448,950      | -            | 448,950      |
| Floating rate Government/GSE guaranteed mortgage-backed securities                    | -              | 355,748      | -            | 355,748      |
| Fixed rate GSE guaranteed mortgage-backed securities                                  | -              | 7,508        | -            | 7,508        |
| Floating rate GSE subordinated debt   | -              | 51,562       | -            | 51,562       |
| Floating rate GSE preferred stock   | -              | 2,469        | -            | 2,469        |
| Total available-for-sale investment securities  | -              | 1,105,245    | 192,010      | 1,297,255    |
| Trading:  |                |              |              |              |
| Floating rate asset-backed securities   | -              | -            | 4,357        | 4,357        |
| Fixed rate GSE preferred stock  | -              | -            | 166,689      | 166,689      |
| Total trading investment securities   | -              | -            | 171,046      | 171,046      |
| Total investment securities   | -              | 1,105,245    | 363,056      | 1,468,301    |
| Farmer Mac Guaranteed Securities:   |                |              |              |              |
| Available-for-sale:   |                |              |              |              |
| Farmer Mac I  | -              | -            | 354,712      | 354,712      |
| Farmer Mac II   | -              | -            | 493,997      | 493,997      |
| Rural Utilities   | -              | -            | 401,485      | 401,485      |
| Total available-for-sale guaranteed securities  | -              | -            | 1,250,194    | 1,250,194    |
| Trading:  |                |              |              |              |
| Farmer Mac II   | -              | -            | 476,880      | 476,880      |
| Rural Utilities   | -              | -            | 436,331      | 436,331      |
| Total trading guaranteed securities   | -              | -            | 913,211      | 913,211      |
| Total Farmer Mac guaranteed securities  | -              | -            | 2,163,405    | 2,163,405    |
| Financial Derivatives   | 238            | 3,157        | -            | 3,395        |
| Total Assets at fair value  | \$ 238         | \$ 1,108,402 | \$ 2,526,461 | \$ 3,635,101 |
| Liabilities:  |                |              |              |              |
| Financial Derivatives   | \$ -           | \$ 64,461    | \$ 1,209     | \$ 65,670    |

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|                                 |    |   |    |        |    |        |    |        |
|---------------------------------|----|---|----|--------|----|--------|----|--------|
| Total Liabilities at fair value | \$ | - | \$ | 64,461 | \$ | 1,209  | \$ | 65,670 |
| Nonrecurring:                   |    |   |    |        |    |        |    |        |
| Loans held for sale             | \$ | - | \$ | -      | \$ | 63,202 | \$ | 63,202 |

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

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

|  | Beginning<br>Balance | Purchases,<br>Sales,<br>Issuances<br>and<br>Settlements,<br>Net | Realized and<br>Unrealized<br>Gains/(Losses)<br>included in<br>Income | Unrealized<br>Gains/(Losses)<br>included in<br>Other<br>Comprehensive<br>Income | Net<br>Transfers<br>In and/or<br>Out | Ending<br>Balance |
|--|----------------------|---|---|---|--------------------------------------|-------------------|
|  | (in thousands)       |   |   |   |                                      |                   |
| <b>Recurring:</b>  |                      |   |   |   |                                      |                   |
| <b>Assets:</b>   |                      |   |   |   |                                      |                   |
| <b>Investment Securities:</b>  |                      |   |   |   |                                      |                   |
| <b>Available-for-sale:</b>   |                      |   |   |   |                                      |                   |
| Floating rate auction-rate<br>certificates backed by<br>Government guaranteed<br>student loans | \$ 209,360           | \$ (17,525)   | \$ -  | \$ 175  | \$ -                                 | \$ 192,010        |
| Floating rate corporate debt<br>securities   | -                    | -   | -   | -   | -                                    | -                 |
| Fixed rate corporate debt<br>securities  | -                    | -   | -   | -   | -                                    | -                 |
| <b>Total available-for-sale</b>  | <b>209,360</b>       | <b>(17,525)</b>   | <b>-</b>  | <b>175</b>  | <b>-</b>                             | <b>192,010</b>    |
| <b>Trading:</b>  |                      |   |   |   |                                      |                   |
| Floating rate asset-backed<br>securities (1)   | 7,414                | (143)   | (2,914)   | -   | -                                    | 4,357             |
| Fixed rate mortgage-backed<br>securities   | -                    | -   | -   | -   | -                                    | -                 |
| Fixed rate GSE preferred<br>stock(1)   | -                    | (338)   | (12,073)  | -   | 179,100                              | 166,689           |
| <b>Total trading</b>   | <b>7,414</b>         | <b>(481)</b>  | <b>(14,987)</b>   | <b>-</b>  | <b>179,100</b>                       | <b>171,046</b>    |
| <b>Total investment securities</b>   | <b>216,774</b>       | <b>(18,006)</b>   | <b>(14,987)</b>   | <b>175</b>  | <b>179,100</b>                       | <b>363,056</b>    |
| <b>Farmer Mac Guaranteed<br/>Securities:</b>   |                      |   |   |   |                                      |                   |
| <b>Available-for-sale:</b>   |                      |   |   |   |                                      |                   |
| Farmer Mac I   | 391,904              | (64,387)  | -   | 2,203   | 24,992                               | 354,712           |
| Farmer Mac II  | -                    | -   | -   | 419   | 493,578                              | 493,997           |
| Rural Utilities  | 901,639              | (500,000)   | -   | (154)   | -                                    | 401,485           |
| <b>Total available-for-sale</b>  | <b>1,293,543</b>     | <b>(564,387)</b>  | <b>-</b>  | <b>2,468</b>  | <b>518,570</b>                       | <b>1,250,194</b>  |
| <b>Trading:</b>  |                      |   |   |   |                                      |                   |
| Farmer Mac II (2)  | 450,562              | 26,218  | 100   | -   | -                                    | 476,880           |
| Rural Utilities (1)  | 441,685              | (5,735)   | 381   | -   | -                                    | 436,331           |
| <b>Total trading</b>   | <b>892,247</b>       | <b>20,483</b>   | <b>481</b>  | <b>-</b>  | <b>-</b>                             | <b>913,211</b>    |
| <b>Total Farmer Mac<br/>Guaranteed Securities</b>  | <b>2,185,790</b>     | <b>(543,904)</b>  | <b>481</b>  | <b>2,468</b>  | <b>518,570</b>                       | <b>2,163,405</b>  |

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|                                 |              |              |             |          |            |              |
|---------------------------------|--------------|--------------|-------------|----------|------------|--------------|
| Total Assets at fair value      | \$ 2,402,564 | \$ (561,910) | \$ (14,506) | \$ 2,643 | \$ 697,670 | \$ 2,526,461 |
| <b>Liabilities:</b>             |              |              |             |          |            |              |
| Financial Derivatives (3)       | \$ (1,457)   | \$ -         | \$ 248      | \$ -     | \$ -       | \$ (1,209)   |
| Total Liabilities at fair value | \$ (1,457)   | \$ -         | \$ 248      | \$ -     | \$ -       | \$ (1,209)   |
| <b>Nonrecurring:</b>            |              |              |             |          |            |              |
| Loans held for sale             | \$ 142,695   | \$ (79,534)  | \$ 41       | \$ -     | \$ -       | \$ 63,202    |

- (1) Unrealized gains/(losses) are attributable to assets still held as of September 30, 2008 and are recorded in losses on trading assets.
- (2) Includes unrealized gains of approximately \$455,000 attributable to assets still held as of September 30, 2008 that are recorded in losses on trading assets.
- (3) Unrealized gains are attributable to liabilities still held as of September 30, 2008 and are recorded in losses on financial derivatives.

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

|  | Beginning<br>Balance | Purchases,<br>Sales,<br>Issuances<br>and<br>Settlements,<br>Net | Realized and<br>Unrealized<br>Gains/(Losses)<br>included in<br>Income | Unrealized<br>Gains/(Losses)<br>included in<br>Other<br>Comprehensive<br>Income | Net<br>Transfers In<br>and/or Out | Ending<br>Balance |
|--|----------------------|---|---|---|-----------------------------------|-------------------|
|  | (in thousands)       |   |   |   |                                   |                   |
| Recurring:   |                      |   |   |   |                                   |                   |
| Assets:  |                      |   |   |   |                                   |                   |
| Investment Securities:   |                      |   |   |   |                                   |                   |
| Available-for-sale:  |                      |   |   |   |                                   |                   |
| Floating rate auction-rate<br>certificates backed by<br>Government guaranteed<br>student loans | \$ -                 | \$ 62,406   | \$ -  | \$ (1,940)  | \$ 131,544                        | \$ 192,010        |
| Floating rate corporate debt<br>securities   | -                    | 400,000   | -   | (669)   | (399,331)                         | -                 |
| Fixed rate corporate debt<br>securities  | 500,138              | -   | -   | 2,951   | (503,089)                         | -                 |
| Total available-for-sale   | 500,138              | 462,406   | -   | 342   | (770,876)                         | 192,010           |
| Trading:   |                      |   |   |   |                                   |                   |
| Floating rate asset-backed<br>securities (1)   | 8,179                | (771)   | (3,051)   | -   | -                                 | 4,357             |
| Fixed rate mortgage-backed<br>securities   | 415,813              | 29,367  | 13,846  | -   | (459,026)                         | -                 |
| Fixed rate GSE preferred<br>stock(1)   | -                    | (338)   | (12,073)  | -   | 179,100                           | 166,689           |
| Total trading  | 423,992              | 28,258  | (1,278)   | -   | (279,926)                         | 171,046           |
| Total investment securities  | 924,130              | 490,664   | (1,278)   | 342   | (1,050,802)                       | 363,056           |
| Farmer Mac Guaranteed<br>Securities:   |                      |   |   |   |                                   |                   |
| Available-for-sale:  |                      |   |   |   |                                   |                   |
| Farmer Mac I   | 338,958              | (15,161)  | -   | 5,923   | 24,992                            | 354,712           |
| Farmer Mac II  | -                    | -   | -   | 419   | 493,578                           | 493,997           |
| Rural Utilities  | -                    | (500,000)   | -   | (935)   | 902,420                           | 401,485           |
| Total available-for-sale   | 338,958              | (515,161)   | -   | 5,407   | 1,420,990                         | 1,250,194         |
| Trading:   |                      |   |   |   |                                   |                   |
| Farmer Mac II (2)  | 428,670              | 46,715  | 1,495   | -   | -                                 | 476,880           |
| Rural Utilities (1)  | -                    | (5,735)   | (16,960)  | -   | 459,026                           | 436,331           |
| Total trading  | 428,670              | 40,980  | (15,465)  | -   | 459,026                           | 913,211           |
| Total Farmer Mac<br>Guaranteed Securities  | 767,628              | (474,181)   | (15,465)  | 5,407   | 1,880,016                         | 2,163,405         |
| Total Assets at fair value   | \$ 1,691,758         | \$ 16,483   | \$ (16,743)   | \$ 5,749  | \$ 829,214                        | \$ 2,526,461      |
| Liabilities:   |                      |   |   |   |                                   |                   |
| Financial Derivatives (3)  | \$ (1,106)           | \$ -  | \$ (103)  | \$ -  | \$ -                              | \$ (1,209)        |
| Total Liabilities at fair value  | \$ (1,106)           | \$ -  | \$ (103)  | \$ -  | \$ -                              | \$ (1,209)        |

Nonrecurring:

|                     |    |   |             |    |      |    |   |            |    |        |
|---------------------|----|---|-------------|----|------|----|---|------------|----|--------|
| Loans held for sale | \$ | - | \$ (79,534) | \$ | (20) | \$ | - | \$ 142,756 | \$ | 63,202 |
|---------------------|----|---|-------------|----|------|----|---|------------|----|--------|

- (1) Unrealized losses are attributable to assets still held as of September 30, 2008 and are recorded in losses on trading assets.
- (2) Includes unrealized gains of approximately \$2.3 million attributable to assets still held as of September 30, 2008 that are recorded in losses on trading assets.
- (3) Unrealized losses are attributable to liabilities still held as of September 30, 2008 and are recorded in losses on financial derivatives.

## Fair Value Option

SFAS 159 permits entities to make a one-time election to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. The objective is to improve financial reporting by providing 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.

Farmer Mac adopted the provisions of SFAS 159 on January 1, 2008 and 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. These assets were selected for the fair value option under SFAS 159 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.

## Impact of Adopting SFAS 159 to Retained Earnings as of January 1, 2008

|  | Carrying Value as<br>of January 1, 2008<br>Prior to Adoption<br>of Fair Value<br>Option | Transition Gain<br>(in thousands) | Fair Value as of<br>January 1, 2008<br>After Adoption of<br>Fair Value Option |
|--|---|-----------------------------------|---|
| Available-for-sale Investment Securities:                    |   |                                   |   |
| Fixed rate GSE preferred stock (1)                           | \$ 184,655  | \$ 2,783                          | \$ 184,655  |
| Fixed rate mortgage-backed securities (1)                    | 415,813   | 14,504                            | 415,813   |
| Held-to-maturity Farmer Mac Guaranteed Securities:           |   |                                   |   |
| Farmer Mac II Guaranteed Securities                          | 427,330   | 1,340                             | 428,670   |
| Pre-tax cumulative effect of adoption                        |   | 18,627                            |   |
| Tax effect   |   | 6,519                             |   |
| Cumulative effect of adoption to beginning retained earnings |   | \$ 12,108                         |   |

(1) Farmer Mac adopted the fair value option for certain securities classified within its investment portfolio previously classified as available-for-sale. These securities are presented in the condensed consolidated balance sheet at fair value in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities and the amount of the transition gain was recognized in accumulated other comprehensive loss prior to the adoption of SFAS 159.

(d)

## 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. Principally, Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and



other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and also to derive 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 swaps, as part of its overall strategy in managing interest rate risk. 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 as promulgated by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (“SFAS 133”).

Farmer Mac manages the interest rate risk related to loans it has committed to acquire, but has not yet purchased and permanently funded, through the use of forward sale contracts on mortgage-backed securities and the debt of other government-sponsored enterprises (“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 changes in funding costs or Farmer Mac Guaranteed Securities sale prices that occur during the hedge period.

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

The following table summarizes information related to Farmer Mac’s financial derivatives as of September 30, 2008 and December 31, 2007:

|                      | September 30, 2008 |             | December 31, 2007 |             |
|----------------------|--------------------|-------------|-------------------|-------------|
|                      | Notional Amount    | Fair Value  | Notional Amount   | Fair Value  |
|                      | (in thousands)     |             |                   |             |
| Interest rate swaps: |                    |             |                   |             |
| Pay-fixed            | \$ 1,540,286       | \$ (56,452) | \$ 1,411,772      | \$ (52,941) |
| Receive-fixed        | 2,011,074          | (4,903)     | 1,098,000         | 1,065       |
| Basis                | 131,863            | (1,209)     | 161,967           | (1,106)     |
| Pay-fixed swaption   | 100,000            | 10          | -                 | -           |
| Agency forwards      | 12,932             | 41          | 4,233             | (2)         |
| Treasury futures     | 12,900             | 238         | 1,000             | (1)         |
| Total                | \$ 3,809,055       | \$ (62,275) | \$ 2,676,972      | \$ (52,985) |

As of September 30, 2008, Farmer Mac had approximately \$0.3 million of net after-tax unrealized losses on financial derivatives included in accumulated other comprehensive loss related to the SFAS 133 transition adjustment. These amounts will be reclassified into earnings in the same period or periods during which the hedged forecasted transactions (either the payment of interest or the issuance of discount notes) affect earnings or immediately when it becomes probable that the original hedged forecasted transaction will not occur within two months of the originally specified date. Over the next 12 months, Farmer Mac estimates that \$0.2 million of the amount currently reported in accumulated other comprehensive loss will be reclassified into earnings.

As of September 30, 2008, Farmer Mac had outstanding basis swaps with a related party with a notional amount of \$131.9 million and a fair value of \$(1.2) million. As of December 31, 2007, these swaps had an outstanding notional amount of \$162.0 million and a fair value of \$(1.1) million. Under the terms of those basis swaps, which are not in designated hedge relationships, Farmer Mac pays Constant Maturity Treasury-based rates and receives London Interbank Offered Rate, or 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. Historically, the pricing of discount notes has correlated to LIBOR rates. Farmer Mac recorded an unrealized gain on those basis swaps of \$0.2 million during third quarter 2008 and a \$0.1 million unrealized loss for the nine month period ended September 30, 2008. See Note 3 "Related Party Transactions" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 17, 2008, for additional information on these related party transactions.

## (e) (Loss)/Earnings Per Common Share

Basic (loss)/earnings per common share are based on the weighted-average number of shares of common stock outstanding. Diluted (loss)/earnings per common share are based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options and stock appreciation rights ("SARs"). The following schedule reconciles basic and diluted (loss)/earnings per common share ("EPS") for the three and nine months ended September 30, 2008 and 2007:

|   | Three Months Ended                       |        |              |                    |        |              |
|---|--|--------|--------------|--------------------|--------|--------------|
|   | September 30, 2008                       |        |              | September 30, 2007 |        |              |
|   | Net (Loss)                               | Shares | \$ per Share | Net (Loss)         | Shares | \$ per Share |
|   | (in thousands, except per share amounts) |        |              |                    |        |              |
| Basic EPS                                   |  |        |              |                    |        |              |
| Net (loss) available to common stockholders | \$ (106,136)                             | 10,065 | \$ (10.55)   | \$ (8,570)         | 10,420 | \$ (0.82)    |
| Effect of dilutive securities:              |  |        |              |                    |        |              |
| Stock options and SARs (1)                  |  | -      |              |                    | -      |              |
| Diluted EPS                                 | \$ (106,136)                             | 10,065 | \$ (10.55)   | \$ (8,570)         | 10,420 | \$ (0.82)    |

(1) For the three months ended September 30, 2008 and 2007, stock options and SARs of 2,381,503 and 2,310,599, respectively, were outstanding but not included in the computation of diluted (losses)/earnings per share of common stock because they were anti-dilutive.

|  | Nine Months Ended                        |        |              |                    |        |              |
|--|--|--------|--------------|--------------------|--------|--------------|
|  | September 30, 2008                       |        |              | September 30, 2007 |        |              |
|  | Net (Loss)                               | Shares | \$ per Share | Net Income         | Shares | \$ per Share |
|  | (in thousands, except per share amounts) |        |              |                    |        |              |
| Basic EPS  |  |        |              |                    |        |              |
| Net (loss)/income available to common stockholders | \$ (92,962)                              | 9,966  | \$ (9.33)    | \$ 13,721          | 10,391 | \$ 1.32      |
| Effect of dilutive securities:                     |  |        |              |                    |        |              |
| Stock options and SARs (1)                         |  | -      |              |                    | 237    |              |
| Diluted EPS  | \$ (92,962)                              | 9,966  | \$ (9.33)    | \$ 13,721          | 10,628 | \$ 1.29      |

(1) For the nine months ended September 30, 2008 and 2007, stock options and SARs of 2,385,890 and 224,169, respectively, were outstanding but not included in the computation of diluted (losses)/earnings per share of common stock because they were anti-dilutive.

In February 2007, Farmer Mac announced the establishment of a program to repurchase up to one million shares of the Corporation's outstanding Class C Non-Voting Common Stock. The aggregate number of shares purchased by

Farmer Mac under that stock repurchase program reached the maximum number of authorized shares during first quarter 2008, thereby terminating the program according to its terms. During the three months ended March 31, 2008, Farmer Mac repurchased 31,691 shares of its Class C Non-Voting Common Stock at an average price of \$26.13 per share pursuant to the stock repurchase program. These repurchases reduced the Corporation's stockholders' equity by approximately \$0.8 million. All of the shares repurchased under Farmer Mac's stock repurchase program were purchased in open market transactions and were retired to become authorized but unissued shares available for future issuance.

(f)

Stock-Based Compensation

In 1997, Farmer Mac adopted a stock option plan for directors, officers and other employees to acquire shares of Class C Non-Voting Common Stock. Upon stock option exercise, new shares are issued by the Corporation. Under the plan, stock options awarded vest annually in thirds, with the first third vesting one year after the date of grant. If not exercised, any options granted under the 1997 plan expire 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, options and SARs, among other alternative forms of equity-based compensation, to directors, officers and other employees. At its June 5, 2008 meeting, the Board and the Compensation Committee awarded SARs to Farmer Mac's directors and officers. Under the grants, the SARs awarded to officers vest annually in thirds, with the first third vesting on May 31, 2009, and awards to directors vesting in full on May 31, 2009. If not exercised or terminated earlier due to the termination of employment or service on the Board, any SARs granted June 5, 2008 to officers expire on June 5, 2018 and those granted to directors expire on June 5, 2015. 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.

Farmer Mac recognized no compensation expense and \$0.9 million of compensation expense during the three and nine months ended September 30, 2008, respectively, and \$0.3 million and \$1.2 million of compensation expense during the three and nine months ended September 30, 2007, respectively, related to the non-vested portion of stock option awards that were outstanding as of December 31, 2005. Additionally, Farmer Mac recognized \$1.1 million and \$2.5 million of compensation expense related to stock options and SARs awarded subsequent to December 31, 2005 for the three and nine months ended September 30, 2008, respectively, compared to \$0.6 million and \$1.3 million of similar compensation expense for the three and nine months ended September 30, 2007, respectively.

The following table summarizes stock option and SARs activity for the three and nine months ended September 30, 2008 and 2007:

|   | September 30, 2008        |   | September 30, 2007        |   |
|---|---------------------------|---|---------------------------|---|
|   | Stock Options<br>and SARs | Weighted-<br>Average<br>Exercise<br>Price | Stock Options<br>and SARs | Weighted-<br>Average<br>Exercise<br>Price |
| <b>Three Months Ended:</b>                    |                           |   |                           |   |
| Outstanding, beginning of period              | 2,381,503                 | \$ 26.24                                  | 2,305,599                 | \$ 25.15                                  |
| Granted                                       | -                         | -   | 5,000                     | 28.24                                     |
| Exercised                                     | (106,331)                 | 21.99                                     | (100,732)                 | 20.13                                     |
| Canceled                                      | (12,667)                  | 28.50                                     | (1,668)                   | 23.53                                     |
| Outstanding, end of period                    | 2,262,505                 | \$ 26.43                                  | 2,208,199                 | \$ 25.39                                  |
| <b>Nine Months Ended:</b>                     |                           |   |                           |   |
| Outstanding, beginning of period              | 2,218,199                 | \$ 25.48                                  | 2,145,705                 | \$ 23.83                                  |
| Granted                                       | 339,770                   | 28.92                                     | 462,427                   | 29.31                                     |
| Exercised                                     | (264,297)                 | 21.43                                     | (363,596)                 | 21.08                                     |
| Canceled                                      | (31,167)                  | 28.67                                     | (36,337)                  | 26.62                                     |
| Outstanding, end of period                    | 2,262,505                 | \$ 26.43                                  | 2,208,199                 | \$ 25.39                                  |
| Options and SARs exercisable at end of period | 1,520,944                 | \$ 25.32                                  | 1,337,795                 | \$ 24.34                                  |

The cancellations of stock options were due either to unvested options terminating in accordance with the provisions of the applicable stock option plans upon directors' or employees' departures from Farmer Mac or vested options terminating unexercised on their expiration date. For the three and nine months ended September 30, 2008, the additional paid-in capital received from stock option exercises was \$2.2 million and \$5.4 million, respectively, compared to \$1.8 million and \$7.1 million for the comparable periods in 2007. For the three and nine months ended September 30, 2008, the reduction of income taxes to be paid as a result of the deduction for stock option exercises was \$0.3 million and \$0.9 million, respectively, compared to \$0.5 million and \$1.3 million for the comparable periods in 2007.

The following table summarizes information regarding stock options and SARs outstanding as of September 30, 2008:

| Range of Exercise Prices | Outstanding            |   | Exercisable            |   |
|--------------------------|------------------------|---|------------------------|---|
|                          | Stock Options and SARs | Weighted-Average Remaining Contractual Life | Stock Options and SARs | Weighted-Average Remaining Contractual Life |
| \$10.00 - \$19.99        | 81,722                 | 5.5 years                                   | 81,722                 | 5.5 years                                   |
| 20.00 - 24.99            | 656,952                | 4.8 years                                   | 646,114                | 4.8 years                                   |
| 25.00 - 29.99            | 1,310,163              | 7.2 years                                   | 595,443                | 6.1 years                                   |
| 30.00 - 34.99            | 213,668                | 3.4 years                                   | 197,665                | 2.9 years                                   |
|                          | 2,262,505              |   | 1,520,944              |   |

The weighted-average grant date fair values of stock options and SARs granted during the nine months ended September 30, 2008 and 2007 were \$11.33 and \$11.23 per share, respectively. The fair values were estimated using the Black-Scholes option pricing model based on the following assumptions:

|                               | 2008    | 2007    |
|-------------------------------|---------|---------|
| Risk-free interest rate       | 2.5%    | 4.8%    |
| Expected years until exercise | 6 years | 6 years |
| Expected stock volatility     | 43.2%   | 35.9%   |
| Dividend yield                | 1.4%    | 1.4%    |

(g) Reclassifications

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

(h) New Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS 157, which defined fair value, established a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, and expanded disclosures about fair value measurements. In particular, disclosures are required to provide information on the extent to which fair value is used to measure assets and liabilities, the inputs used to develop measurements and the effects of certain of the measurements on earnings or changes in net assets. In February 2008, FASB issued a final FASB Staff Position (“FSP”) No. FAS 157-2, Effective Date of FASB Statement No. 157. This FSP delayed the effective date of SFAS 157, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In addition, the FSP removed certain leasing transactions from the scope of SFAS 157. The effective date of SFAS 157 for nonfinancial assets and liabilities has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS 157 for financial assets and liabilities was effective for fiscal years



beginning after November 15, 2007 and interim periods within those fiscal years. Farmer Mac's adoption of SFAS 157 on January 1, 2008 did not result in a material difference to its fair value measurements.

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In February 2007, FASB issued SFAS 159, which permitted entities to make a one-time election to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. The objective was to improve financial reporting by providing 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. Farmer Mac adopted the provisions of SFAS 159 on January 1, 2008 and 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. These assets were selected for the fair value option under SFAS 159 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.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings (“SAB 109”), which expressed the SEC’s views regarding written loan commitments that are accounted for at fair value through earnings. SAB 109 revised and rescinded portions of Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments. SAB 109 revised the SEC’s views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB 109 retained the SEC’s views on incorporating net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. SAB 109 was effective on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The adoption of SAB 109 did not have a material effect on Farmer Mac’s results of operations or financial position.

In April 2007, FASB issued FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 (“FSP FIN 39-1”). This FSP amended FIN 39 to allow an entity to offset cash collateral receivables and payables reported at fair value against derivative instruments (as defined by SFAS 133) for contracts executed with the same counterparty under master netting arrangements. The decision to offset cash collateral under this FSP must be applied consistently to all derivatives counterparties where the entity has master netting arrangements. If an entity nets derivative positions as permitted under FIN 39, this FSP requires the entity to also offset the cash collateral receivables and payables with the same counterparty under a master netting arrangement. FSP FIN 39-1 was effective for fiscal years beginning after November 15, 2007. The adoption of FSP FIN 39-1 did not have a material effect on Farmer Mac’s results of operations or financial position.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (“SFAS 161”). This standard applies to derivative instruments, non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 does not change the accounting for derivatives and hedging activities, but requires enhanced disclosures concerning the effect on the financial statements from their use. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Since SFAS 161 only requires additional disclosures, it will not have an impact on Farmer Mac’s results of operations or financial position.

In May 2008, FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with GAAP. This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Farmer Mac does not expect the adoption of this statement to have a material impact on the Corporation's financial condition, results of operations or cash flows in future periods.

In September 2008, FASB issued three separate but related Exposure Drafts for public comment. The proposed FASB Statements, Accounting for Transfers of Financial Assets and Amendments to FASB Interpretation No. 46(R), address amendments to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and to FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities. The two proposed FASB statements would be effective for fiscal years beginning after November 15, 2009. The proposed statements, amending SFAS 140 and FIN 46(R), would remove the concept of a qualifying special-purpose entity (QSPE) from SFAS 140 and remove the exception from applying FIN 46(R) to QSPEs. While the proposed standards have not been finalized and are subject to a public comment period until November 14, 2008, these changes may result in the consolidation of assets and liabilities onto Farmer Mac's consolidated balance sheet in connection with trusts that currently meet the QSPE criteria.

Proposed FASB Staff Position (FSP) FAS 140-e and FIN 46(R)-e, Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities, addresses related disclosure requirements for public entities. The proposed FSP amends SFAS 140 to require additional disclosures about transfers of financial assets and also amends FIN 46(R) to require additional disclosures about involvement with variable interest entities. The effective date for the proposed FSP would be the first reporting period that ends after the issuance of the FSP for public entities; FASB expects to issue the FSP in the fourth quarter of 2008.

In October 2008, FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The example emphasizes the principles of SFAS 157, including the objective of fair value, the necessary considerations pertaining to distressed transactions, the relevance of observable data, management's assumptions about nonperformance and liquidity risks, third-party pricing quotes and disclosure requirements. The FSP became effective on October 10, 2008 and applies to prior periods for which financial statements have not yet been issued. Entities must account for revisions to fair value estimates resulting from the adoption of the FSP as a change in accounting estimate under SFAS 154, Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3, but do not need to provide the disclosures required by that Statement. Farmer Mac adopted the provisions of FSP 157-3 on September 30, 2008 due to the lack of an active market for its investments in GSE preferred stock issued by CoBank, ACB and AgFirst Farm Credit Bank.

## Note 2.

## Investments

The following tables present the amortized cost and fair values of Farmer Mac's investments as of September 30, 2008 and December 31, 2007.

|  | Amortized<br>Cost | As of September 30, 2008 |                      | Fair Value   |
|--|-------------------|--------------------------|----------------------|--------------|
|  |                   | Unrealized<br>Gains      | Unrealized<br>Losses |              |
| (in thousands)   |                   |                          |                      |              |
| Available-for-sale:  |                   |                          |                      |              |
| Fixed rate certificates of deposit   | \$ 60,000         | \$ -                     | \$ -                 | \$ 60,000    |
| Fixed rate commercial paper  | 84,571            | -                        | -                    | 84,571       |
| Floating rate auction-rate certificates backed by Government<br>guaranteed student loans (1) | 193,950           | -                        | (1,940)              | 192,010      |
| Floating rate asset-backed securities  | 95,345            | -                        | (908)                | 94,437       |
| Floating rate corporate debt securities (2)  | 506,723           | -                        | (57,773)             | 448,950      |
| Floating rate Government/GSE guaranteed mortgage-backed<br>securities (3)                    | 352,156           | 4,698                    | (1,106)              | 355,748      |
| Fixed rate GSE guaranteed mortgage-backed securities   | 7,576             | 1                        | (69)                 | 7,508        |
| Floating rate GSE subordinated debt  | 70,000            | -                        | (18,438)             | 51,562       |
| Floating rate GSE preferred stock (4)  | 2,469             | -                        | -                    | 2,469        |
| Total available-for-sale   | 1,372,790         | 4,699                    | (80,234)             | 1,297,255    |
| Trading:   |                   |                          |                      |              |
| Floating rate asset-backed securities  | 7,661             | -                        | (3,304)              | 4,357        |
| Fixed rate GSE preferred stock   | 180,900           | -                        | (14,211)             | 166,689      |
| Total trading  | 188,561           | -                        | (17,515)             | 171,046      |
| Total investment securities  | \$ 1,561,351      | \$ 4,699                 | \$ (97,749)          | \$ 1,468,301 |

- (1) AAA-rated callable auction-rate certificates collateralized by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States, the interest rates of which are reset through an auction process, most commonly at intervals of 28 days or at formula-based floating rates in the event of a failed auction.
- (2) Includes a \$52.4 million other-than-temporary impairment loss on Lehman Brothers Holdings Inc. floating rate corporate debt. The amortized cost of this investment was written down to its fair value of \$7.5 million as of September 30, 2008.
- (3) Includes \$16.6 million fair value of floating rate GSE mortgage-backed securities that Farmer Mac has pledged as collateral and for which the counterparty has the right to sell or repledge.
- (4) Includes a \$50.0 million other-than-temporary impairment loss on Fannie Mae floating rate preferred stock. The amortized cost of this investment was written down to its fair value of \$2.5 million as of September 30, 2008.

|  | Amortized<br>Cost | As of December 31, 2007 |                      | Fair Value   |
|--|-------------------|-------------------------|----------------------|--------------|
|  |                   | Unrealized<br>Gains     | Unrealized<br>Losses |              |
|  |                   | (in thousands)          |                      |              |
| Available-for-sale:  |                   |                         |                      |              |
| Fixed rate certificates of deposit   | \$ 181,864        | \$ -                    | \$ -                 | \$ 181,864   |
| Fixed rate commercial paper  | 66,339            | -                       | -                    | 66,339       |
| Floating rate auction-rate certificates backed by Government<br>guaranteed student loans (1) | 131,544           | -                       | -                    | 131,544      |
| Floating rate asset-backed securities  | 30,000            | 13                      | -                    | 30,013       |
| Floating rate corporate debt securities  | 561,193           | 1                       | (19,345)             | 541,849      |
| Fixed rate corporate debt securities (2)   | 501,490           | 138                     | (3)                  | 501,625      |
| Fixed rate mortgage-backed securities (3)  | 401,309           | 14,504                  | -                    | 415,813      |
| Floating rate Government/GSE guaranteed mortgage-backed<br>securities (4)                    | 437,680           | 5,016                   | (192)                | 442,504      |
| Fixed rate GSE guaranteed mortgage-backed securities   | 8,330             | 1                       | (47)                 | 8,284        |
| Floating rate GSE subordinated debt  | 70,000            | -                       | (4,397)              | 65,603       |
| Floating rate GSE preferred stock  | 52,500            | -                       | (6,406)              | 46,094       |
| Fixed rate GSE preferred stock   | 181,873           | 4,206                   | (1,424)              | 184,655      |
| Total available-for-sale   | 2,624,122         | 23,879                  | (31,814)             | 2,616,187    |
| Trading:   |                   |                         |                      |              |
| Floating rate asset-backed securities (5)  | 8,432             | -                       | (253)                | 8,179        |
| Total trading  | 8,432             | -                       | (253)                | 8,179        |
| Total investment securities  | \$ 2,632,554      | \$ 23,879               | \$ (32,067)          | \$ 2,624,366 |

- (1) AAA-rated callable auction-rate certificates collateralized by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States, the interest rates of which are reset through an auction process, most commonly at intervals of 28 days or at formula-based floating rates in the event of a failed auction.
- (2) Fixed rate corporate debt securities included \$500.0 million of mission-related investments that were transferred to Farmer Mac Guaranteed Securities - Rural Utilities in June 2008 pursuant to the expanded authorities granted in the Farm Bill.
- (3) Fixed rate mortgage-backed securities are comprised of mission-related investments that were transferred to Farmer Mac Guaranteed Securities - Rural Utilities in June 2008 pursuant to the expanded authorities granted in the Farm Bill.
- (4) Includes \$7.2 million fair value of floating rate GSE mortgage-backed securities that Farmer Mac has pledged as collateral and for which the counterparty has the right to sell or repledge.
- (5) Floating rate asset-backed securities are comprised of mission-related investments.

During third quarter 2008, Farmer Mac recorded a \$44.7 million other-than-temporary impairment (in addition to the \$5.3 million other-than-temporary impairment recorded in second quarter 2008) related to its investment in Fannie Mae floating rate preferred stock. The carrying value of this investment was written down to its fair value of \$2.5 million as of September 30, 2008 and the impairment loss was recognized as "Impairment losses on available-for-sale investment securities" in the condensed consolidated statements of operations.



During third quarter 2008, Farmer Mac recorded a \$52.4 million other-than-temporary impairment related to its investment in Lehman Brothers Holdings Inc. senior debt securities. The amortized cost of this investment was written down to its fair value of \$7.5 million as of September 30, 2008 and the impairment loss was recognized as "Impairment losses on available-for-sale investment securities" in the condensed consolidated statements of operations.

As of September 30, 2008 and December 31, 2007, unrealized losses on available-for-sale investment securities were as follows:

|  | As of September 30, 2008                            |                    |   |                    |
|--|---|--------------------|---|--------------------|
|  | Available-for-Sale Investment Securities            |                    |   |                    |
|  | Unrealized loss position<br>for less than 12 months |                    | Unrealized loss position<br>for more than 12 months |                    |
|  | Fair Value  | Unrealized<br>Loss | Fair Value  | Unrealized<br>Loss |
| (in thousands)   |   |                    |   |                    |
| Floating rate auction-rate certificates backed by Government<br>guaranteed student loans | \$ 192,010  | \$ (1,940)         | \$ -  | \$ -               |
| Floating rate asset-backed securities  | 94,437  | (908)              | -   | -                  |
| Floating rate corporate debt securities  | 58,514  | (751)              | 382,936   | (57,022)           |
| Floating rate Government/GSE guaranteed mortgage-backed<br>securities                    | 82,883  | (914)              | 8,509   | (192)              |
| Fixed rate GSE guaranteed mortgage-backed securities                                     | 6,283   | (44)               | 757   | (25)               |
| Floating rate GSE subordinated debt  | -   | -                  | 51,562  | (18,438)           |
| Total  | \$ 434,127  | \$ (4,557)         | \$ 443,764  | \$ (75,677)        |

|   | As of December 31, 2007                             |                    |   |                    |
|---|---|--------------------|---|--------------------|
|   | Available-for-Sale Investment Securities            |                    |   |                    |
|   | Unrealized loss position<br>for less than 12 months |                    | Unrealized loss position<br>for more than 12 months |                    |
|   | Fair Value  | Unrealized<br>Loss | Fair Value  | Unrealized<br>Loss |
| (in thousands)  |   |                    |   |                    |
| Floating rate corporate debt securities                               | \$ 493,458  | \$ (16,732)        | \$ 47,369   | \$ (2,613)         |
| Fixed rate corporate debt securities                                  | 1,488   | (3)                | -   | -                  |
| Floating rate Government/GSE guaranteed mortgage-backed<br>securities | 35,610  | (185)              | 499   | (7)                |
| Fixed rate GSE guaranteed mortgage-backed securities                  | -   | -                  | 7,748   | (47)               |
| Floating rate GSE subordinated debt                                   | 65,603  | (4,397)            | -   | -                  |
| Floating rate GSE preferred stock                                     | -   | -                  | 46,094  | (6,406)            |
| Fixed rate GSE preferred stock  | 89,385  | (1,424)            | -   | -                  |
| Total   | \$ 685,544  | \$ (22,741)        | \$ 101,710  | \$ (9,073)         |

The temporary unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to September 30, 2008 and December 31, 2007, as applicable. The resulting decreases in fair values reflect an increase in the perceived risk by the financial markets related to those securities, even though there has not been significant deterioration in the credit ratings of the securities. As of September 30, 2008 and December

31, 2007, all of the investment securities in an unrealized loss position were at least “A” rated, except one \$22.0 million corporate debt security that was rated “BBB” as of September 30, 2008. The unrealized losses were on 110 and 65 individual available-for-sale investment securities as of September 30, 2008 and December 31, 2007, respectively.

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As of September 30, 2008, 31 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of \$75.7 million. As of December 31, 2007, 11 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of \$9.1 million. Securities with unrealized losses aged 12 months or more have a fair value as of September 30, 2008 that is at least 65 percent of their amortized cost basis and, on average, approximately 85 percent of their amortized cost basis. Farmer Mac believes that all aged 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 its available-for-sale investment securities represent other-than-temporary impairment as of September 30, 2008. Farmer Mac has the intent and ability to hold its investment securities in loss positions until either the market value recovers or the securities mature.

As of September 30, 2008, Farmer Mac did not own any held-to-maturity investments. As of September 30, 2008, Farmer Mac owned trading investment securities that mature after five years with an amortized cost of \$188.6 million, a fair value of \$171.0 million, and a weighted average yield of 8.04 percent. The amortized cost, fair value and weighted average yield of investments by remaining contractual maturity for available-for-sale investment securities as of September 30, 2008 are set forth below. Asset- 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<br>Available-for-Sale<br>as of September 30, 2008 |                                      |                              |
|--|---|--------------------------------------|------------------------------|
|  | Amortized<br>Cost   | Fair Value<br>(dollars in thousands) | Weighted<br>Average<br>Yield |
| Due within one year                    | \$ 324,565  | \$ 311,122                           | 2.91%                        |
| Due after one year through five years  | 375,732   | 331,000                              | 2.91%                        |
| Due after five years through ten years | 94,772  | 94,479                               | 3.84%                        |
| Due after ten years                    | 577,721   | 560,654                              | 3.92%                        |
| Total                                  | \$ 1,372,790  | \$ 1,297,255                         |                              |

Note 3.

## Farmer Mac Guaranteed Securities

The following table sets forth information about on-balance sheet Farmer Mac Guaranteed Securities as of September 30, 2008 and December 31, 2007.

|  | September 30, 2008 |                    |            |              |
|--|--------------------|--------------------|------------|--------------|
|  | Held-to-Maturity   | Available-for-Sale | Trading    | Total        |
|  | (in thousands)     |                    |            |              |
| Farmer Mac I                                       | \$ -               | \$ 354,712         | \$ -       | \$ 354,712   |
| Farmer Mac II                                      | -                  | 493,997            | 476,880    | 970,877      |
| Farmer Mac Guaranteed Securities - Rural Utilities | -                  | 401,485            | 436,331    | 837,816      |
| Total  | \$ -               | \$ 1,250,194       | \$ 913,211 | \$ 2,163,405 |
| Amortized cost                                     | \$ -               | \$ 1,238,000       | \$ 898,986 | \$ 2,136,986 |
| Unrealized gains                                   | -                  | 14,089             | 14,228     | 28,317       |
| Unrealized losses                                  | -                  | (1,895)            | (3)        | (1,898)      |
| Fair value   | \$ -               | \$ 1,250,194       | \$ 913,211 | \$ 2,163,405 |

|                   | December 31, 2007 |                    |         |              |
|-------------------|-------------------|--------------------|---------|--------------|
|                   | Held-to-Maturity  | Available-for-Sale | Trading | Total        |
|                   | (in thousands)    |                    |         |              |
| Farmer Mac I      | \$ 33,961         | \$ 338,958         | \$ -    | \$ 372,919   |
| Farmer Mac II     | 925,904           | -                  | -       | 925,904      |
| Total             | \$ 959,865        | \$ 338,958         | \$ -    | \$ 1,298,823 |
| Amortized cost    | \$ 959,865        | \$ 334,592         | \$ -    | \$ 1,294,457 |
| Unrealized gains  | 628               | 5,412              | -       | 6,040        |
| Unrealized losses | (1,562)           | (1,046)            | -       | (2,608)      |
| Fair value        | \$ 958,931        | \$ 338,958         | \$ -    | \$ 1,297,889 |

Effective September 30, 2008, Farmer Mac transferred \$518.6 million of its Farmer Mac Guaranteed Securities classified as held-to-maturity to available-for-sale. This transfer resulted in the recognition of unrealized gains of \$2.3 million and unrealized losses of \$1.4 million. This change in classification and the resulting recognition of unrealized gains and losses do not affect Farmer Mac's regulatory core capital. Farmer Mac transferred these assets since the Corporation is evaluating strategies to further strengthen its capital position, including for example, additional asset sales and common and preferred equity offerings. Farmer Mac does not currently classify any Farmer Mac Guaranteed Securities or investment securities as held-to-maturity.

The temporary unrealized gains and losses presented above are principally due to changes in market interest rates from the date of acquisition to September 30, 2008 and December 31, 2007, as applicable. The available-for-sale unrealized losses for Farmer Mac I Guaranteed Securities were on 5 and 9 individual securities as of September 30, 2008 and December 31, 2007, respectively.



As of September 30, 2008, one of the available-for-sale Farmer Mac Guaranteed Securities in a loss position had been in a loss position for more than 12 months and had a total unrealized loss of less than one thousand dollars. As of December 31, 2007, four of the available-for-sale Farmer Mac Guaranteed Securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of \$1.0 million. The unrealized losses on those securities are due to overall changes in market interest rates. As of September 30, 2008 and December 31, 2007, all of the available-for-sale securities with unrealized losses aged greater than 12 months have losses that are less than one percent and two percent of the amortized security cost, respectively. Farmer Mac believes that all aged unrealized losses are recoverable within a reasonable period of time by way of changes in market interest rates. Accordingly, Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities represent other-than-temporary impairment as of September 30, 2008 or December 31, 2007. Farmer Mac has the intent and ability to hold its on-balance sheet Farmer Mac Guaranteed Securities until either the market value recovers or the securities mature.

The table below presents a sensitivity analysis for the Corporation's on-balance sheet Farmer Mac Guaranteed Securities as of September 30, 2008.

|   | September 30,<br>2008<br>(dollars in<br>thousands) |
|---|--|
| Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities | \$ 2,163,405                                       |
| Weighted-average remaining life (in years)                                      | 4.1  |
| Weighted-average prepayment speed (annual rate)                                 | 6.6%   |
| Effect on fair value of a 10% adverse change                                    | \$ (24)  |
| Effect on fair value of a 20% adverse change                                    | \$ (25)  |
| Weighted-average discount rate  | 4.7%   |
| Effect on fair value of a 10% adverse change                                    | \$ (27,946)  |
| Effect on fair value of a 20% adverse change                                    | \$ (56,338)  |

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

The table below presents the outstanding principal balances for Farmer Mac Guaranteed Securities, loans, and LTSPCs as of September 30, 2008 and December 31, 2007.

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
|   | (in thousands)        |                      |
| On-balance sheet assets:                              |                       |                      |
| Farmer Mac I:   |                       |                      |
| Loans   | \$ 689,539            | \$ 762,319           |
| Guaranteed Securities                                 | 343,370               | 367,578              |
| Farmer Mac II:  |                       |                      |
| Guaranteed Securities                                 | 964,112               | 921,802              |
| Farmer Mac Guaranteed Securities -<br>Rural Utilities | 824,941               | -                    |
| Total on-balance sheet                                | \$ 2,821,962          | \$ 2,051,699         |
| Off-balance sheet assets:                             |                       |                      |
| Farmer Mac I:   |                       |                      |
| LTSPCs  | \$ 2,264,880          | \$ 1,948,941         |
| AgVantage   | 2,945,000             | 2,500,000            |
| Guaranteed Securities                                 | 1,746,958             | 2,018,300            |
| Farmer Mac II:  |                       |                      |
| Guaranteed Securities                                 | 31,527                | 24,815               |
| Total off-balance sheet                               | \$ 6,988,365          | \$ 6,492,056         |
| Total   | \$ 9,810,327          | \$ 8,543,755         |

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as “removal-of-account” provisions). Farmer Mac records these loans at their fair values in the condensed consolidated financial statements during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Fair values are determined by current collateral valuations or management’s estimate of discounted collateral values, and represent the cash flows expected to be collected. Farmer Mac records, at acquisition, the difference between each loan’s acquisition cost and its fair value, if any, as a charge-off to the reserve for losses. Subsequent to the purchase, such defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment. No impairment was recognized during the three and nine months ended September 30, 2008 and 2007. The following table presents information related to Farmer Mac’s acquisition of defaulted loans for the three and nine months ended September 30, 2008 and 2007 and the outstanding balances and carrying amounts of all such loans as of September 30, 2008 and December 31, 2007, respectively.

|  | Three Months Ended |               | Nine Months Ended |               |
|--|--------------------|---------------|-------------------|---------------|
|  | September 30,      | September 30, | September 30,     | September 30, |
|  | 2008               | 2007          | 2008              | 2007          |
|  | (in thousands)     |               |                   |               |

|   |    |     |    |       |    |       |    |       |
|---|----|-----|----|-------|----|-------|----|-------|
| Fair value at acquisition date                  | \$ | 557 | \$ | 2,428 | \$ | 1,746 | \$ | 3,911 |
| Contractually required payments receivable      |    | 597 |    | 2,535 |    | 1,950 |    | 4,065 |
| Impairment recognized subsequent to acquisition |    | -   |    | -     |    | -     |    | -     |

|  | As of          |              |
|--|----------------|--------------|
|  | September 30,  | December 31, |
|  | 2008           | 2007         |
|  | (in thousands) |              |

|                     |    |        |    |        |
|---------------------|----|--------|----|--------|
| Outstanding balance | \$ | 31,774 | \$ | 38,621 |
| Carrying amount     |    | 27,967 |    | 34,541 |

Net credit losses for the nine months ended September 30, 2008 and 2007 and 90-day delinquencies as of September 30, 2008, December 31, 2007 and September 30, 2007 for Farmer Mac Guaranteed Securities, loans and LTSPCs are presented in the table below. Information is not presented for loans underlying Pre-1996 Act Farmer Mac I Guaranteed Securities, AgVantage securities, Farmer Mac Guaranteed Securities – Rural Utilities or Farmer Mac II Guaranteed Securities. Pre-1996 Act Farmer Mac I Guaranteed Securities are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. Through September 30, 2008, Farmer Mac had charged off \$0.4 million related to one loan underlying Pre-1996 Act Farmer Mac I Guaranteed Securities. The remaining \$1.7 million of Pre-1996 Act Farmer Mac I Guaranteed Securities represent interests in seasoned performing loans with low loan-to-value ratios. Farmer Mac does not expect to incur any further losses on the remaining Pre-1996 Act Farmer Mac I Guaranteed Securities in the future. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of September 30, 2008, there were no probable losses inherent in Farmer Mac’s AgVantage securities due to the high credit quality of the obligors, as well as the underlying collateral. As of September 30, 2008, Farmer Mac had not experienced any credit losses on any AgVantage Securities and does not expect to incur any such losses in the future. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of September 30, 2008, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future. As of September 30, 2008, there were no 90-day delinquencies, nor had Farmer Mac incurred any net credit losses, on loans underlying Farmer Mac Guaranteed Securities – Rural Utilities.

|                           | 90-Day Delinquencies (1)       |                               |                                | Net Credit Losses (2)                              |       |
|---------------------------|--------------------------------|-------------------------------|--------------------------------|--|-------|
|                           | As of<br>September 30,<br>2008 | As of<br>December 31,<br>2007 | As of<br>September 30,<br>2007 | For the Nine Months<br>Ended September 30,<br>2008 | 2007  |
|                           | (in thousands)                 |                               |                                |  |       |
| On-balance sheet assets:  |                                |                               |                                |  |       |
| Farmer Mac I:             |                                |                               |                                |  |       |
| Loans                     | \$ 9,327                       | \$ 10,024                     | \$ 16,407                      | \$ 92  | \$ 29 |
| Total on-balance sheet    | \$ 9,327                       | \$ 10,024                     | \$ 16,407                      | \$ 92  | \$ 29 |
| Off-balance sheet assets: |                                |                               |                                |  |       |
| Farmer Mac I:             |                                |                               |                                |  |       |
| LTSPCs                    | \$ 2,154                       | \$ 560                        | \$ 616                         | \$ -   | \$ -  |
| Total off-balance sheet   | \$ 2,154                       | \$ 560                        | \$ 616                         | \$ -   | \$ -  |
| Total                     | \$ 11,481                      | \$ 10,584                     | \$ 17,023                      | \$ 92  | \$ 29 |

(1) Includes loans and loans underlying post-1996 Act 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 post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs.

Note 4.

## Comprehensive (Loss)/Income

Comprehensive (loss)/income represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised primarily of net income and unrealized gains and losses on securities available-for-sale, net of related taxes. The following table sets forth Farmer Mac's comprehensive (loss)/income for the three and nine months ended September 30, 2008 and 2007:

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|------------|------------------------------------|-----------|
|   | 2008                                | 2007       | 2008                               | 2007      |
|   | (in thousands)                      |            |                                    |           |
| Net (loss)/income   | \$ (105,558)                        | \$ (8,010) | \$ (91,264)                        | \$ 15,401 |
| Available-for-sale securities, net of tax:                              |                                     |            |                                    |           |
| Net unrealized holding gains/(losses)                                   | (57,247)                            | 3,539      | (64,086)                           | (3,413)   |
| Reclassification for realized net losses/(gains)                        | 33,097                              | (57)       | 36,473                             | (70)      |
| Net change from available-for-sale securities (1)                       | (24,150)                            | 3,482      | (27,613)                           | (3,483)   |
| Financial derivatives, net of tax:                                      |                                     |            |                                    |           |
| Reclassification for amortization of SFAS 133 transition adjustment (2) | 66                                  | 88         | 222                                | 297       |
| Other comprehensive (loss)/income, net of tax                           | (24,084)                            | 3,570      | (27,391)                           | (3,186)   |
| Comprehensive (loss)/income   | \$ (129,642)                        | \$ (4,440) | \$ (118,655)                       | \$ 12,215 |

(1) Unrealized (losses)/gains on available-for-sale securities is shown net of income tax (expense)/benefit of \$13.0 million and \$(1.9) million for the three months ended September 30, 2008 and 2007, respectively, and \$14.9 million and \$1.9 million for the nine months ended September 30, 2008 and 2007, respectively.

(2) Amortization of SFAS 133 transition adjustment is shown net of income tax expense of \$36,000 and \$47,000 for the three months ended September 30, 2008 and 2007, respectively, and \$0.1 million and \$0.2 million for the nine months ended September 30, 2008 and 2007, respectively.

The following table presents Farmer Mac's accumulated other comprehensive loss as of September 30, 2008 and December 31, 2007 and changes in the components of accumulated other comprehensive loss for the nine months ended September 30, 2008 and the year ended December 31, 2007.

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
|  | (in thousands)        |                      |
| Available-for-sale securities:   |                       |                      |
| Beginning balance  | \$ (2,320)            | \$ 5,802             |
| Reclassification adjustment to retained earnings for SFAS 159 adoption, net of tax | (11,237)              | -                    |
| Adjusted beginning balance   | (13,557)              | 5,802                |
| Net unrealized losses, net of tax  | (27,613)              | (8,122)              |
| Ending balance   | \$ (41,170)           | \$ (2,320)           |



|   |    |          |            |
|---|----|----------|------------|
| Financial derivatives:  |    |          |            |
| Beginning balance   | \$ | (473)    | \$ (846)   |
| Amortization of SFAS 133 transition adjustment on financial derivatives, net of tax |    | 222      | 373        |
| Ending balance  | \$ | (251)    | \$ (473)   |
| Accumulated other comprehensive loss, net of tax                                    | \$ | (41,421) | \$ (2,793) |

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

## Overview

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

## Off-Balance Sheet Farmer Mac Guaranteed Securities

Eligible loans and other eligible assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. During third quarter 2008, Farmer Mac transferred \$77.3 million of agricultural mortgage loans held on balance sheet into a trust as part of a securitization transaction in which guaranteed agricultural mortgage-backed securities were sold to a related party. Gains of \$28 thousand were recognized as "Gains on sale of Farmer Mac Guaranteed Securities" in the condensed consolidated statements of operations in connection with that transaction. The following table summarizes cash flows received from and paid to trusts used for securitizations:

|                                     | Nine Months Ended     |                       |
|-------------------------------------|-----------------------|-----------------------|
|                                     | September 30,<br>2008 | September 30,<br>2007 |
|                                     | (in thousands)        |                       |
| Proceeds from new securitizations   | \$ 79,757             | \$ 1,324              |
| Fair value at acquisition date      | 9,433                 | 8,755                 |
| Purchases of assets from the trusts | 648                   | 1,562                 |
| Servicing advances                  | 7                     | 29                    |
| Repayment of servicing advances     | 2                     | 24                    |

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 September 30, 2008 and December 31, 2007, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans.

| Fair value at acquisition date                   | Outstanding Balance of Off-Balance Sheet<br>Farmer Mac Guaranteed Securities |                      |
|--|--|----------------------|
|  | September 30,<br>2008  | December 31,<br>2007 |
|  | (in thousands)   |                      |
| Post-1996 Act Farmer Mac I Guaranteed Securities | \$ 4,691,958   | \$ 4,518,300         |
| Farmer Mac II Guaranteed Securities              | 31,527   | 24,815               |
| Total Farmer Mac I and II                        | \$ 4,723,485   | \$ 4,543,115         |

For those securities issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated \$37.5 million as of September 30, 2008 and \$36.4 million as of December 31, 2007. As of September 30, 2008, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 14.0 years.

#### Long-Term Standby Purchase Commitments (LTSPCs)

An LTSPC is a commitment by Farmer Mac to purchase on one or more unspecified future dates, from a segregated pool of eligible loans, either: (a) loans delinquent 120 days or more at par plus accrued interest, or (b) performing loans at a mark-to-market negotiated price. 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.

As of September 30, 2008 and December 31, 2007, the maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was \$2.3 billion and \$1.9 billion, respectively.

As of September 30, 2008, the weighted-average remaining maturity of all loans underlying LTSPCs was 15.0 years. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated \$18.1 million as of September 30, 2008 and \$15.7 million as of December 31, 2007.

Note 6.

Stockholders' Equity and Mezzanine Equity

Common Stock

Farmer Mac has three classes of common stock outstanding:

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

Since fourth quarter 2004, Farmer Mac has paid a quarterly dividend of \$0.10 per share on all classes of the Corporation's common stock. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Preferred Stock

Farmer Mac has two classes of preferred stock outstanding. The first, Series A, is permanent equity and is a component of Stockholders' Equity on the condensed consolidated balance sheets. The second, newly issued on September 30, 2008, Series B, is temporary equity and is reported as Mezzanine Equity on the condensed consolidated balance sheets. This preferred stock is temporary equity because it contains redemption features that, although remote, are not solely within the control of Farmer Mac. 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. Both the Series A and Series B Preferred Stock are components of Farmer Mac's core capital for regulatory and statutory capital compliance measurements.

Series A Preferred Stock

Since May 6, 2002, the Corporation has had outstanding 700,000 shares of 6.40 percent Cumulative Preferred Stock, Series A (the "Series A Preferred Stock"), which has a redemption price and liquidation preference of \$50.00 per share, plus accrued and unpaid dividends. The Series A Preferred Stock does not have a maturity date. Beginning on June 30, 2012, Farmer Mac has the option to redeem the Series A Preferred Stock at any time, in whole or in part, at the redemption price of \$50.00 per share, plus accrued and unpaid dividends through and including the redemption date. Farmer Mac pays cumulative dividends on the Series A Preferred Stock quarterly in arrears out of legally available funds when and if declared by the board of directors. The costs of issuing the Series A Preferred Stock were charged to additional paid-in capital. The Series A Preferred Stock ranks junior to the Series B Preferred Stock with respect to dividends, distributions upon a change in control, liquidation, and dissolution or winding up of Farmer Mac.

## Series B Preferred Stock

On September 30, 2008, Farmer Mac sold 60,000 shares of its newly issued Series B-1 Senior Cumulative Perpetual Preferred Stock (“Series B-1”) and 5,000 shares of its newly issued Series B-2 Senior Cumulative Perpetual Preferred Stock (“Series B-2”), each having a par value of \$1.00 per share and an initial liquidation preference of \$1,000 per share (subject to adjustment of such fixed dollar amount for any stock splits, stock dividends, combinations, recapitalizations or similar transactions) (collectively, the “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 Series B Preferred Stock, which reduced the amount of mezzanine equity recorded as of September 30, 2008.

The Series B 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, Series A Preferred Stock and any other class of capital stock issuable in the future with respect to dividends, distributions upon a change in control, liquidation, and dissolution or winding up of Farmer Mac. Series B-1 and Series B-2 rank pari passu with one another.

Dividends on the Series B Preferred Stock will compound quarterly at an annual rate of 10 percent of the then-applicable Liquidation Preference (as defined below) per share. The annual rate will increase to 12 percent from and after the period beginning October 1, 2009, 14 percent from and after the period beginning October 1, 2010 and 16 percent from and after the period beginning October 1, 2011. Dividends on the Series B Preferred Stock will accrue and cumulate from September 30, 2008 whether or not declared by Farmer Mac’s Board of Directors (the “Board”) and will be payable quarterly in arrears out of legally available funds when and as declared by the Board on each dividend payment date, beginning December 31, 2008. Farmer Mac may pay dividends on the Series B Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to the Series B Preferred Stock.

Farmer Mac has the right, but not the obligation, to redeem all, but not less than all, of the issued and outstanding shares of Series B Preferred Stock at a price equal to the then-applicable Liquidation Preference amount beginning nine months from September 30, 2008 and on each subsequent dividend payment date. Farmer Mac must redeem all, but not less than all, of the outstanding shares of Series B Preferred Stock at a price equal to the then-applicable Liquidation Preference amount under specified circumstances, including (i) in the event that any indebtedness of Farmer Mac or its subsidiaries (“Farmer Mac Debt”) becomes or is declared due and payable prior to the stated maturity thereof or is not paid when it becomes due and payable, (ii) an event of default occurs with respect to any Farmer Mac Debt, or (iii) Farmer Mac becomes bankrupt or insolvent or a receiver or conservator is appointed for Farmer Mac. The redemption price for any shares of Series B Preferred Stock redeemed by Farmer Mac will be payable in cash equal to the original issue price of the Series B Preferred Stock (\$1,000 per share), plus all accrued but unpaid dividends (the “Liquidation Preference”) or, at the election of Farmer Mac, payable in securities and loans that are qualified under the Farmer Mac I or Farmer Mac II programs or other assets acceptable to the holders of the Series B Preferred Stock.

Upon a change in control of Farmer Mac, holders of the Series B Preferred Stock will be entitled to receive an amount in cash equal to the Liquidation Preference. Except as required by applicable law, the holders of the Series B Preferred Stock are not entitled to any voting rights.

### Statutory and Regulatory Capital Requirements

Farmer Mac is subject to, and as of September 30, 2008 was in compliance with, its three statutory and regulatory capital requirements:

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

As of September 30, 2008, Farmer Mac’s minimum and critical capital requirements were \$182.3 million and \$91.2 million, respectively, and Farmer Mac’s core capital level was \$212.3 million, \$30.0 million above the minimum capital requirement and \$121.2 million above the critical capital requirement. As of December 31, 2007, Farmer Mac’s core capital of \$226.4 million exceeded the minimum and critical capital requirements by \$40.4 million and \$133.4 million, respectively.

Based on the risk-based capital stress test, Farmer Mac’s risk-based capital requirement as of September 30, 2008 was \$52.2 million and Farmer Mac’s regulatory capital (core capital plus the allowance for losses) of \$216.8 million exceeded that requirement by approximately \$164.6 million. Farmer Mac’s risk-based capital requirement as of December 31, 2007 was \$42.8 million and Farmer Mac’s regulatory capital of \$230.3 million exceeded that amount by approximately \$187.5 million.

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

Financial information is consolidated to include the accounts of Farmer Mac and its wholly-owned subsidiary, Farmer Mac Mortgage Securities Corporation.

This discussion and analysis of financial condition and results of operations should be read together with: (1) the interim unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report; and (2) Farmer Mac’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The discussion below is not necessarily indicative of future results.

Special Note Regarding Forward-Looking Statements

Some statements made in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 pertaining to management’s current expectations as to Farmer Mac’s future financial results, business prospects and business developments. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and typically are accompanied by, and identified with, such terms as “anticipates,” “believes,” “expects,” “intends,” “should” and similar phrases. The following management’s discussion and analysis includes forward-looking statements addressing Farmer Mac’s:

- prospects for earnings;
- prospects for growth in loan purchase, guarantee, securitization and LTSPC volume;
- trends in net interest income;
- trends in portfolio credit quality and provisions for losses;
- trends in expenses;
- trends in non-program investments;
- changes in capital position; and
- other business and financial matters.

Management’s expectations for Farmer Mac’s future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events could cause Farmer Mac’s actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under “Risk Factors” in Part I, Item 1A of Farmer Mac’s Annual Report on Form 10-K for the year ended December 31, 2007 and under “Risk Factors” in Part II, Item 1A of this report, as well as, uncertainties regarding:

- the ability of Farmer Mac to increase its capital in an amount sufficient to enable it to continue to operate profitably and provide a secondary market for agricultural mortgage and rural utilities loans;
  - the availability of reasonable rates and terms of debt financing to Farmer Mac;
- fluctuations in the fair value of assets held by Farmer Mac, particularly in volatile markets;

- increases in general and administrative expenses attributable to changes in the business and regulatory environment, including the hiring of additional personnel with expertise in key functional areas;
- the rate and direction of development of the secondary market for agricultural mortgage and rural utilities loans, including lender interest in Farmer Mac credit products and the Farmer Mac secondary market;
  - the general rate of growth in agricultural mortgage and rural utilities indebtedness;
  - borrower preferences for fixed-rate agricultural mortgage indebtedness;
  - legislative or regulatory developments that could affect Farmer Mac;
  - the willingness of investors to invest in Farmer Mac Guaranteed Securities; and
- developments in the financial markets, including possible investor, analyst and rating agency reactions to events involving GSEs, including Farmer Mac.

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this report. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC.

#### Critical Accounting Policies and Estimates

The critical accounting policies that are both important to the portrayal of Farmer Mac's financial condition and results of operations and require complex, subjective judgments are the accounting policies for the allowance for losses, other-than-temporary impairment of investment securities and fair value measurements.

**Allowance for Losses.** For a discussion of Farmer Mac's accounting policy for the allowance for losses and the related use of estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related notes for the periods presented, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policy and Estimates" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 17, 2008.

**Other-than-Temporary Impairment of Investment Securities.** Other-than-temporary impairment occurs when the fair value of an available-for-sale security is below its amortized cost, and it is determined that it is not probable that all contractual principal and interest payments will be collected or that management does not have the intent and ability to hold the security until it recovers to its amortized cost or is repaid in full. Many factors considered in this determination involve significant judgment, including recent events specific to the issuer or the related industry, changes in external credit ratings, the severity and duration of the impairment, the probability that all amounts contractually due will be collected, and the intent and ability to hold the securities until recovery or repayment.

Generally, changes in the fair value of available-for-sale securities resulting from changes in interest rates are determined to be temporary if management has the positive intent and ability to hold the security until the earlier of the recovery of the unrealized loss amount or maturity. If the decision is made to sell a security or that a security may be sold in the future prior to recovery, the security is determined to be other-than-temporarily impaired in the period of the decision. For an available-for-sale security in an unrealized loss position due to factors other than changes in interest rates, such as deterioration in the credit of the issuer or the general widening of credit spreads, management considers the probability that all contractual cash flows will be collected. Generally, if management believes that it is probable that all contractual cash flows will be collected and management has the positive intent and ability to hold the security until recovery or maturity, the unrealized loss is determined to be temporary. Other-than-temporary impairment charges may subsequently be recovered if contractual principal and interest payments are collected or if the security is subsequently sold at an amount greater than its carrying value.





**Fair Value Measurement.** A significant portion of Farmer Mac's assets consists of financial instruments that are measured at fair value in the condensed consolidated balance sheets. For financial instruments that are complex in nature or for which observable inputs are not available, the measurement of fair value requires significant management judgments and assumptions. These judgments and assumptions, as well as changes in market conditions, may have a material impact on the condensed consolidated balance sheets and statements of operations. While Farmer Mac's fair value measurement methods had not changed from reporting periods prior to 2008, additional disclosures of such measurement methods are required by the adoption of SFAS 157 as described in Note 1(c) to the condensed consolidated financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. The amount of judgment involved in measuring the fair value of a financial instrument is affected by a number of factors, such as the type of investment, the liquidity of the markets for the instrument and the contractual characteristics of the instrument. Farmer Mac uses one of the following three practices for estimating fair value, the selection of which is based on the reliability and availability of relevant market data: (1) quoted market prices for identical instruments, (2) quoted prices, from multiple third parties, in markets that are not active or for which all significant inputs are observable, either directly or indirectly, or (3) analytical models that employ techniques such as discounted cash flow approach and that include market-based assumptions such as prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Price transparency tends to be limited in less liquid markets where quoted market prices or observable market data may not be available. Farmer Mac refines and enhances its valuation methodologies to correlate more closely to observable market data. When observable market prices or data are not readily available or do not exist, the estimation of fair value may require significant management judgment and assumptions. The estimates are subject to change in future reporting periods if such conditions and information change. For example, volatility in credit markets could result in wider credit spreads, which may change fair value measurements for certain financial instruments.

Farmer Mac’s assets and liabilities presented at fair value in the condensed consolidated balance sheet on a recurring basis include:

- Farmer Mac Guaranteed Securities classified as available-for-sale and trading; and
- Investment securities;
- Financial derivatives.

The changes in fair value from period to period are recorded either in the condensed consolidated balance sheet to accumulated other comprehensive income/(loss) or in the condensed consolidated statement of operations as gains/(losses) on financial derivatives or gains/(losses) on trading assets.

As of September 30, 2008, Farmer Mac’s assets and liabilities recorded at fair value included financial instruments valued at \$2.6 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 56 percent of total assets and 69 percent of financial instruments measured at fair value as of September 30, 2008. Assets underlying these financial instruments measured as Level 3 primarily include the following:

| Type of Financial Instrument                       | Underlying Assets   |
|--|---|
| Farmer Mac I Guaranteed Securities                 | Agricultural mortgage loans eligible under Farmer Mac’s credit underwriting, collateral valuation, documentation and other standards.   |
| Farmer Mac II Guaranteed Securities                | Portions of loans guaranteed by USDA pursuant to the Consolidated Farm Rural Development Act.   |
| Farmer Mac Guaranteed Securities – Rural Utilities | General obligations of the National Rural Utilities Cooperative Finance Corporation (“Nat Rural”) and/or loans made to rural electric distribution cooperatives by Nat Rural. |
| Auction-rate certificates (“ARCs”)                 | Guaranteed student loans that are backed by the full faith and credit of the United States.   |
| GSE preferred stock                                | Preferred stock investments in CoBank, ACB and AgFirst Farm Credit Bank, institutions of the Farm Credit System, a government-sponsored enterprise.                           |

Due to the lack of an active market for Farmer Mac's investments in GSE preferred stock issued by CoBank, ACB and AgFirst Farm Credit Bank with par values of \$88.5 million and \$88.0 million, respectively, during third quarter 2008 Farmer Mac transferred both of those securities from Level 2 to Level 3 and recorded them at fair values of \$84.8 million and \$81.9 million, respectively.

## Results of Operations

**Overview.** The current world-wide credit market disruptions and economic slowdown have recently caused unprecedented financial market volatility, which adversely affected Farmer Mac's financial results and capital position. Farmer Mac's net loss to common stockholders for third quarter 2008 was \$106.1 million or \$10.55 per diluted common share, compared to a net loss of \$8.6 million or \$0.82 per diluted common share for third quarter 2007. The net loss to common stockholders for the nine months ended September 30, 2008 was \$93.0 million or \$9.33 per diluted common share, compared to net income of \$13.7 million or \$1.29 per diluted common share for the nine months ended September 30, 2007.

The most significant factor affecting Farmer Mac's disappointing results for third quarter 2008 was the historic turmoil in the nation's financial markets. Among other major developments, Fannie Mae entered into conservatorship on September 7, 2008 and Lehman Brothers Holdings Inc. ("Lehman Brothers") declared bankruptcy on September 15, 2008. At the time of these events, Farmer Mac held in its investment portfolio \$50.0 million Fannie Mae floating rate preferred stock and \$60.0 million of Lehman Brothers senior debt securities. As a result of these events, Farmer Mac recognized a total of \$97.1 million other-than-temporary impairment charges on these holdings of \$44.7 million and \$52.4 million, respectively, during third quarter 2008. Farmer Mac had previously recorded a \$5.3 million impairment charge on the Fannie Mae preferred stock during second quarter 2008. If these two securities experience further price declines subsequent to September 30, 2008, additional impairment losses would be recognized. These two investments were acquired in 2005 and 2007, respectively, as part of the Corporation's liquidity investment portfolio, which is designed to provide liquidity in the event of a market disruption, facilitate Farmer Mac's regular debt issuance program, and provide net interest income to support Farmer Mac's Congressional mission. Following the recognition of these significant losses and a subsequent change in management, Farmer Mac is revising its liquidity investment portfolio guidelines and its related ongoing funding strategies with the goal of minimizing the Corporation's exposure to financial market volatility and preserving capital.

These other-than-temporary impairment charges directly reduced the Corporation's retained earnings, and therefore its core capital, by \$97.1 million in third quarter 2008. Core capital is the regulatory measure by which Farmer Mac's compliance with its statutory minimum capital requirement is determined. These significant reductions in core capital caused Farmer Mac to conclude that additional capital was necessary to maintain compliance with its statutory minimum capital requirement. On September 30, 2008, Farmer Mac issued \$65.0 million of Series B Preferred Stock, which is reported as Mezzanine Equity on the condensed consolidated balance sheet and is a component of Farmer Mac's core capital for statutory and regulatory capital compliance purposes. As a result of the issuance of the Series B Preferred Stock, as well as measures taken by Farmer Mac during the quarter to reduce the level of total assets outstanding, Farmer Mac was in compliance with all applicable capital requirements as of September 30, 2008, with core capital exceeding the statutory minimum capital requirement by \$30.0 million as of that date.

Those impairment losses were not reduced by any related tax benefits because the losses are capital losses and any tax benefits could only be realized to the extent Farmer Mac would have offsetting capital gains. Farmer Mac does not currently expect to produce sufficient capital gains to recognize any material tax benefits related to these losses. Therefore, Farmer Mac has recorded a valuation allowance against the deferred tax benefit resulting from these losses. As of September 30, 2008, that deferred tax asset valuation allowance totaled \$35.4 million.

Farmer Mac recorded losses on financial derivatives used to manage interest rate risk of \$19.0 million and \$29.7 million during the three and nine month periods ended September 30, 2008, respectively. Comparable losses for the three and nine month periods ended September 30, 2007 were \$24.9 million and \$9.0 million, respectively. Losses on trading assets totaled \$14.5 million and \$21.7 million for the three and nine month periods ended September 30, 2008, respectively. Farmer Mac incurred no gains or losses on trading assets for the three months ended September 30, 2007 and \$0.1 million of losses for the nine month period then ended.

On January 1, 2008, with the adoption of SFAS 159, 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 the three and nine months ended September 30, 2008, Farmer Mac elected to measure \$39.2 million and \$100.3 million, respectively of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. All of these assets were selected for the fair value option under SFAS 159 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 the three and nine month periods ended September 30, 2008, Farmer Mac recorded net losses on trading assets of \$11.6 million and \$18.6 million, respectively, for changes in fair values of the assets selected for the fair value option.

Beyond the impacts of other-than-temporary impairment charges on investment securities and the changes in fair values of financial derivatives and assets recorded in earnings pursuant to SFAS 133 and SFAS 159, there were positive developments in Farmer Mac's business. During third quarter 2008, Farmer Mac achieved growth in its guarantee and commitment fees associated with its core business, and Farmer Mac's net interest income increased due to continued favorable short-term borrowing costs. For the three and nine month periods ended September 30, 2008, guarantee and commitment fees were \$7.3 million and \$20.6 million, respectively, compared to \$6.4 million and \$18.6 million for the comparable periods in 2007. As a result of Farmer Mac's status as a federally-chartered instrumentality of the United States, Farmer Mac has maintained access to the capital markets at favorable rates. Throughout 2008, Farmer Mac's short-term funding spreads below the corresponding London Interbank Offered Rate, or LIBOR, were significantly more advantageous than historical levels. Consequently, Farmer Mac's net interest yield on investments and program assets was significantly higher during 2008 than its net interest yields earned on such assets in its historical experience. For the three and nine month periods ended September 30, 2008, net interest income including realized gains/losses on financial derivatives were \$11.3 million and \$43.2 million, respectively, compared to \$9.0 million and \$27.7 million for the comparable periods in 2007. Given the volatility in the debt markets, the federal government's effective guarantee of certain corporate debt and questions concerning the status of all GSEs, it is uncertain whether Farmer Mac's advantageous short-term borrowing costs will continue and, if so, for how long.

Mortgages and loans underlying Farmer Mac's guarantees and commitments continue to perform well, with delinquencies remaining at historically low levels consistent with the continued strength of the U.S. agricultural economy. As of September 30, 2008, Farmer Mac's 90 day delinquencies (Farmer Mac I loans purchased or placed under Farmer Mac I Guaranteed Securities or LTSPCs after enactment of the 1996 Act that were 90 days or more past due, in foreclosure, restructured after delinquency, or in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan) were \$11.5 million, representing 0.23 percent of the principal balance of the outstanding post-1996 Act Farmer Mac I portfolio (excluding AgVantage securities), compared to \$17.0 million (0.35 percent) as of September 30, 2007. As part of Farmer Mac's continuing evaluation of the overall credit quality of its portfolio, the state of the U.S. agricultural economy, the continued upward trends in agricultural land values, and the level of Farmer Mac's outstanding guarantees and commitments, Farmer Mac determined that the appropriate allowance for losses as of September 30, 2008 was \$4.4 million, which was 9 basis points relative to the outstanding post-1996 Act Farmer Mac I portfolio (excluding AgVantage securities). The allowance for losses was \$3.9 million and 8 basis points as of both December 31, 2007 and September 30, 2007.

To assist in the comparison of results to prior periods, the table below summarizes many of the significant items discussed above as they relate to Farmer Mac's results of operations for the three and nine month periods ended September 30, 2008 and 2007 and reconciles those items as separate components of net (loss)/income available to common stockholders, distinct from the recurring items during the periods presented.

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2008 | September 30,<br>2007 | September 30,<br>2008 | September 30,<br>2007 |
|  | (in thousands)        |                       |                       |                       |
| <b>Recurring Items:</b>  |                       |                       |                       |                       |
| Guarantee and commitment fees  | \$ 7,281              | \$ 6,421              | \$ 20,574             | \$ 18,633             |
| Net interest income including realized gains/(losses) on financial derivatives | 11,341                | 8,957                 | 43,218                | 27,667                |
| Other income   | 192                   | 712                   | 1,315                 | 1,163                 |
| Credit related (charges)/benefit   | (655)                 | (257)                 | (742)                 | 303                   |
| Operating costs  | (8,322)               | (5,991)               | (21,196)              | (18,521)              |
| Tax (expense)/benefit  | (3,097)               | (2,734)               | (13,944)              | (8,257)               |
| Preferred stock dividends  | (578)                 | (560)                 | (1,698)               | (1,680)               |
| Subtotal   | 6,162                 | 6,548                 | 27,527                | 19,308                |
| <b>Items resulting from fair value fluctuations:</b>                           |                       |                       |                       |                       |
| Fair values changes in financial derivatives                                   | (9,039)               | (23,346)              | (9,290)               | (8,629)               |
| Fair value changes in trading assets   | (14,507)              | -                     | (21,664)              | (74)                  |
| Tax (expense)/benefit  | 8,241                 | 8,171                 | 10,834                | 3,046                 |
| Subtotal   | (15,305)              | (15,175)              | (20,120)              | (5,657)               |
| <b>Non-recurring Items:</b>  |                       |                       |                       |                       |
| Impairment losses on available-for-sale investment securities                  | (97,108)              | -                     | (102,452)             | -                     |
| Gains on assets sales and debt repurchases                                     | 2,286                 | 87                    | 2,436                 | 108                   |
| Tax (expense)/benefit  | (2,171)               | (30)                  | (353)                 | (38)                  |
| Subtotal   | (96,993)              | 57                    | (100,369)             | 70                    |
| Net (loss)/income available to common stockholders                             | \$ (106,136)          | \$ (8,570)            | \$ (92,962)           | \$ 13,721             |

Beginning in fourth quarter 2008, Farmer Mac's Acting Chief Executive Officer and Acting Chief Financial Officer started working with other members of management to review and revise the Corporation's liquidity investment portfolio guidelines and related funding strategies with the goal of minimizing the Corporation's exposure to financial market volatility, preserving capital and maintaining the Corporation's access to the debt markets. Additionally, the Corporation is evaluating strategies to further strengthen its capital position, including for example, additional asset sales and common and preferred equity offerings. Strengthening the Corporation's capital position will provide greater flexibility to accomplish its Congressional mission and ensure continued compliance with its statutory and regulatory capital requirements.

Set forth below is a more detailed discussion of Farmer Mac's results of operations.

**Net Interest Income.** Net interest income was \$21.3 million for third quarter 2008, compared to \$10.5 million for third quarter 2007. Net interest income was \$63.6 million for the nine months ended September 30, 2008, compared to \$28.1 million for the nine months ended September 30, 2007. The net interest yield was 150 basis points for the nine months ended September 30, 2008, compared to 73 basis points for the nine months ended September 30, 2007.

As discussed in Note 1(d) to the condensed consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. Accordingly, the Corporation classifies the net interest income and expense realized on financial derivatives as gains and losses on financial derivatives. For the nine months ended September 30, 2008 and 2007, this classification resulted in an increase of the net interest yield of \$18.9 million (45 basis points) and a decrease of the net interest yield of \$0.4 million (1 basis point), respectively.

The net interest yields for the nine months ended September 30, 2008 and 2007 included the benefits of yield maintenance payments of \$3.2 million (7 basis points) and \$2.7 million (7 basis points), respectively. Yield maintenance payments represent the present value of expected future interest income streams and accelerate the recognition of interest income from the related loans. Because the timing and size of these payments vary greatly, variations do not necessarily indicate positive or negative trends to gauge future financial results. For the nine months ended September 30, 2008 and 2007, the after-tax effects of yield maintenance payments on net income and diluted earnings per share were \$2.1 million or \$0.21 per diluted share and \$1.7 million or \$0.16 per diluted share, respectively.

The following table provides information regarding interest-earning assets and funding for the nine months ended September 30, 2008 and 2007. The balance of non-accruing loans is included in the average balance of interest-earning loans and Farmer Mac Guaranteed Securities presented, though the related income is accounted for on the cash basis. Therefore, as the balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. Net interest income and the yield will also fluctuate due to the uncertainty of the timing and size of yield maintenance payments. The average rate earned on cash and investments reflects lower short-term market rates partially offset by wider investment spreads during the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 and the short-term or floating rate nature of most investments acquired or reset during 2008. The lower average rate on loans and Farmer Mac Guaranteed Securities during the nine months ended September 30, 2008 reflects the decline in market rates reflected in the rates on loans acquired or reset during that period compared to the rates on loans that have matured. The lower average rate on Farmer Mac's notes payable due within one year is consistent with general trends in average short-term rates during the periods presented. The downward trend in the average rate on notes payable due after one year reflects the retirement of older debt and the issuance of new debt at lower market rates during 2008.



|                                    | September 30, 2008 |                    | Nine Months Ended<br>September 30, 2007 |                    |                    |                 |
|------------------------------------|--------------------|--------------------|---|--------------------|--------------------|-----------------|
|                                    | Average<br>Balance | Income/<br>Expense | Average<br>Rate                         | Average<br>Balance | Income/<br>Expense | Average<br>Rate |
| (dollars in thousands)             |                    |                    |   |                    |                    |                 |
| Interest-earning assets:           |                    |                    |   |                    |                    |                 |
| Cash and investments               | \$ 3,218,258       | \$ 97,305          | 4.03%                                   | \$ 3,128,207       | \$ 127,143         | 5.42%           |
| Loans and Farmer Mac               |                    |                    |   |                    |                    |                 |
| Guaranteed Securities              | 2,430,259          | 102,199            | 5.61%                                   | 2,015,572          | 90,776             | 6.00%           |
| Total interest-earning assets      | 5,648,517          | 199,504            | 4.71%                                   | 5,143,779          | 217,919            | 5.65%           |
| Funding:                           |                    |                    |   |                    |                    |                 |
| Notes payable due within one year  | 3,824,478          | 81,287             | 2.83%                                   | 3,409,363          | 132,062            | 5.16%           |
| Notes payable due after one year   | 1,589,692          | 54,598             | 4.58%                                   | 1,535,514          | 57,779             | 5.02%           |
| Total interest-bearing liabilities | 5,414,170          | 135,885            | 3.35%                                   | 4,944,877          | 189,841            | 5.12%           |
| Net non-interest-bearing funding   |                    |                    |   |                    |                    |                 |
|                                    | 234,347            |                    |   | 198,902            |                    |                 |
| Total funding                      | \$ 5,648,517       | 135,885            | 3.21%                                   | \$ 5,143,779       | 189,841            | 4.92%           |
| Net interest income/yield          |                    | \$ 63,619          | 1.50%                                   |                    | \$ 28,078          | 0.73%           |

The following table sets forth information regarding the changes in the components of Farmer Mac's net interest income for the periods indicated. For each category, information is provided on changes attributable to changes in volume (change in volume multiplied by old rate) and changes in rate (change in rate multiplied by old volume). Combined rate/volume variances, the third element of the calculation, are allocated based on their relative size. The decreases in income due to changes in rate reflect the reset of variable-rate investments and adjustable-rate mortgages to lower rates and the acquisition of new lower-yielding investments, loans and Farmer Mac Guaranteed Securities, as described above. The decreases in expense reflect the decreased cost of funding due to the decrease in capital markets interest rates.

|  | Nine Months Ended September 30, 2008 Compared<br>to Nine Months Ended September 30, 2007 |          |             |
|--|--|----------|-------------|
|  | Rate   | Volume   | Total       |
| Increase/(Decrease) Due to<br>(in thousands) |  |          |             |
| Income from interest-earning assets:         |  |          |             |
| Cash and investments                         | \$ (33,403)  | \$ 3,565 | \$ (29,838) |
| Loans and Farmer Mac Guaranteed Securities   |  |          |             |
|  | (6,317)  | 17,740   | 11,423      |
| Total  | (39,720)   | 21,305   | (18,415)    |
| Expense from interest-bearing liabilities    | (70,631)   | 16,675   | (53,956)    |
| Change in net interest income                | \$ 30,911  | \$ 4,630 | \$ 35,541   |

Guarantee and Commitment Fees. Guarantee and commitment fees, which compensate Farmer Mac for assuming the credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs, were \$7.3 million for third quarter 2008 and \$20.6 million for the nine months ended September 30, 2008, compared to \$6.4 million and \$18.6 million, respectively, for the same periods in 2007. The increases are due to the higher level of outstanding Farmer Mac Guaranteed Securities and LTSPCs during the periods in 2008.

Expenses. General and administrative expenses were \$4.1 million for third quarter 2008, and \$8.3 million for the nine months ended September 30, 2008, compared to \$2.0 million and \$6.6 million, respectively, for the same periods in 2007. The increases in general and administrative expenses were largely attributable to advisory fees related to the issuance of Series B Preferred Stock and legal and other advisory fees related to the development of Farmer Mac programs and corporate governance matters. Farmer Mac expects general and administrative expenses to return to recent levels going forward. Compensation and employee benefits were \$3.7 million for third quarter 2008 and \$11.3 million for the nine months ended September 30, 2008, compared to \$3.5 million and \$10.3 million respectively, for the same periods in 2007. For information on stock-based compensation, see Note 1(f) to the condensed consolidated financial statements.

Regulatory fees for third quarter 2008 and the nine months ended September 30, 2008 were \$0.5 million and \$1.5 million, respectively, compared to \$0.6 million and \$1.7 million, respectively, for the same periods in 2007. FCA has advised Farmer Mac that its estimated fees for the federal fiscal year ending September 30, 2009 will be \$2.1 million, compared to \$2.1 million for the federal fiscal year ended September 30, 2008. After the end of a federal government fiscal year, FCA may revise its prior year estimated assessments to reflect actual costs incurred, and has issued both additional assessments and refunds in the past.

For the three and nine month periods ended September 30, 2008, Farmer Mac recorded provisions for losses of \$0.6 million. For the comparable periods in 2007, Farmer Mac recorded provisions for losses of \$0.4 million and recoveries of \$0.1 million, respectively. See “—Risk Management—Credit Risk” for additional information regarding Farmer Mac’s provision for losses, provision for loan losses and Farmer Mac’s methodology for determining its allowance for losses. As of September 30, 2008, Farmer Mac’s total allowance for losses was \$4.4 million, which was 9 basis points relative to the outstanding post-1996 Act Farmer Mac I portfolio (excluding AgVantage securities), compared to \$3.9 million and 8 basis points as of December 31, 2007.

Gains and Losses on Financial Derivatives and Trading Assets. As discussed in Note 1(d) to the condensed consolidated financial statements, the Farmer Mac accounts for its financial derivatives as undesignated financial derivatives under SFAS 133. The net losses on financial derivatives for the three and nine month periods ended September 30, 2008 were losses of \$19.0 million and \$29.7 million, respectively, compared to net losses of \$24.9 million and \$9.0 million, respectively, for the same periods in 2007. On January 1, 2008, with the adoption of SFAS 159, 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. During the three and nine months ended September 30, 2008, Farmer Mac elected to measure an additional \$39.2 million and \$100.3 million, respectively, of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Farmer Mac selected these assets for the fair value option under SFAS 159 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. During the three and nine month periods ended September 30, 2008, the net decrease in fair value of assets selected for the fair value option and other investment securities classified as trading assets resulted in Farmer Mac recording net losses on trading assets of \$14.5 million and \$21.7 million, respectively. There were no gains or losses recorded on trading assets for the three month period ended September 30, 2007 and losses of \$0.1 million for the nine month period then ended.

Farmer Mac records financial derivatives at fair value on its balance sheet with the related changes in fair value recognized in the condensed consolidated statement of operations. Although the Corporation's use of financial derivatives achieves its economic and risk management objectives, its classification of financial derivatives as undesignated hedges elected under SFAS 133 allows factors unrelated to the economic performance of the Corporation's business, such as changes in interest rates, to increase the volatility – or even change the direction – of the Corporation's earnings under GAAP.

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. Principally, Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and also to derive 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 swaps, as part of its overall strategy in managing interest rate risk.

**Business Volume.** Farmer Mac's outstanding program volume was \$9.8 billion as of both September 30, 2008 and June 30, 2008. New business volume for third quarter 2008 was \$831.0 million. During third quarter 2008, Farmer Mac:

- guaranteed \$475.0 million of AgVantage securities;
- added \$239.2 million of Farmer Mac I loans under LTSPCs;
- purchased \$33.2 million of newly originated and current seasoned Farmer Mac I loans; and
- purchased \$83.7 million of Farmer Mac II USDA-guaranteed portions of loans.

This new business volume was largely offset by expected principal paydowns on outstanding loans underlying Farmer Mac Guaranteed Securities and LTSPCs and the maturation and repayment during third quarter 2008 of \$500.0 million of Farmer Mac Guaranteed Securities – Rural Utilities. Like much of Farmer Mac's program volume in recent years, \$475.0 million of third quarter 2008 volume was a result of a large program transaction of high asset quality, with greater protection against adverse credit performance and commensurately lower compensation for the assumption of credit risk and administrative costs, resulting in projected risk-adjusted marginal returns on equity approximately equal to those of other Farmer Mac program transactions. These transactions tend to be larger portfolio transactions that have ranged up to \$1.0 billion. The enactment of the Farm Bill on May 22, 2008 expanded Farmer Mac's authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders. Pursuant to this expanded authority, during second quarter 2008, Farmer Mac placed its guarantee on securities previously held by the Corporation as mission-related investments under authority granted by FCA. Farmer Mac categorizes these program assets as part of its new Rural Utilities program, which is separate from the existing Farmer Mac I and Farmer Mac II programs.

Farmer Mac sees prospects for additional portfolio transactions related to rural utilities loans as well as agricultural mortgages, particularly as LTSPCs, though no assurance can be given at this time as to the certainty or timing of similar transactions in the future. Looking ahead, Farmer Mac's marketing initiatives continue to generate business opportunities for 2008 and, it believes, beyond. Farmer Mac must increase its surplus capital to be able to take advantage of business opportunities that may arise from these marketing initiatives. The Corporation is working on several initiatives to obtain that capital, including consideration of requiring participants in certain Farmer Mac programs to purchase an equity interest in the Corporation sufficient to capitalize the business they bring to Farmer Mac.

Notwithstanding these efforts and developments, Farmer Mac's business with agricultural mortgage and rural utilities lenders has been and may continue to be constrained by:

- Farmer Mac's available capital, above its statutory minimum capital requirement, which is necessary to expand its guarantee and commitment activities in a prudent manner;
- the need to obtain the consent of the holders of Series B-1 Preferred Stock before any material expansion of business (see "—Balance Sheet Review" for a description of the actions requiring such consent);
  - restrictions FCA may place on Farmer Mac's growth absent an increase in Farmer Mac's capital;
- developments in the capital markets that may adversely affect Farmer Mac or its prospective business partners;
  - changes in the capital, liquidity or funding needs of major business partners;
- alternative sources of capital, funding and credit enhancement for agricultural mortgage and rural utilities lenders;
  - political, environmental and technological developments affecting rural utilities; and
  - increased competition in the secondary market for agricultural mortgage loans.

USDA's most recent publications (as available on USDA's website as of November 1, 2008) forecast:

- 2008 net cash farm income to be \$101.3 billion, an increase of \$13.9 billion over 2007 estimates, and a 49 percent premium over the 10-year average of \$68.2 billion.
- 2008 net farm income to be \$95.7 billion, an increase of \$8.9 billion over 2007 estimates, and a sizable increase (\$34 billion) over the 10-year average of \$61.1 billion.
- Total direct U.S. government payments to be \$13.2 billion in 2008, up from \$12 billion in 2007, but still 20 percent below the 5-year average. Direct payment rates are fixed in legislation and are not affected by the level of program crop prices.
  - Countercyclical payments to decrease to \$0.96 billion in 2008 from \$1.2 billion in 2007.

- Marketing loan benefits, which include loan deficiency payments, marketing loan gains, and certificate exchange gains, to drop to \$7 million in 2008 from \$1.1 billion in 2007.
- The value of U.S. farm real estate to increase 7.3 percent in 2008 to \$2.1 trillion from the current projection of \$1.9 trillion for 2007.
- The amount of farm real estate debt to increase by 3.1 percent in 2008 to \$111.1 billion, compared to the current projection of \$107.8 billion in 2007.

The USDA forecasts referenced above relate to U.S. agriculture generally, but should collectively be favorable for Farmer Mac's financial condition relative to its exposure to outstanding guarantees and commitments, as they indicate strong borrower cash flows, and increased farm real estate values in most U.S. agricultural regions.

The following table sets forth Farmer Mac I, Farmer Mac II and Rural Utilities loan purchase and guarantee activities for newly originated and current seasoned loans during the periods indicated:

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September<br>30, 2008 | September<br>30, 2007 | September<br>30, 2008 | September<br>30, 2007 |
|  | (in thousands)        |                       |                       |                       |
| Loan purchase and guarantee and commitment activity: |                       |                       |                       |                       |
| Farmer Mac I:  |                       |                       |                       |                       |
| Loans  | \$ 33,179             | \$ 25,545             | \$ 124,485            | \$ 87,046             |
| LTSPCs   | 239,170               | 156,930               | 408,923               | 705,654               |
| AgVantage  | 475,000               | -                     | 475,000               | 1,000,000             |
| Farmer Mac II Guaranteed Securities                  | 83,672                | 49,049                | 216,486               | 161,746               |
| Farmer Mac Guaranteed Securities -Rural Utilities    | -                     | -                     | 1,330,676             | -                     |
| Total purchases, guarantees and commitments          | \$ 831,021            | \$ 231,524            | \$ 2,555,570          | \$ 1,954,446          |

As part of fulfilling its guarantee obligations for Farmer Mac I 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 purchase price for defaulted loans purchased out of Farmer Mac I Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for defaulted loans purchased under an LTSPC is the then-current outstanding principal balance of the loan, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received. The purchase price of a defaulted loan is not an indicator of the expected loss on that loan; many other factors affect expected loss, if any, on loans so purchased. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk—Loans" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 17, 2008.

The following table presents Farmer Mac's loan purchases of newly originated and current seasoned loans and defaulted loans purchased underlying Farmer Mac I Guaranteed Securities and LTSPCs:

|   | Three Months Ended |                    | Nine Months Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2008 | September 30, 2007 | September 30, 2008 | September 30, 2007 |
|   | (in thousands)     |                    |                    |                    |
| Farmer Mac I newly originated and current seasoned loan purchases                                   | \$ 33,179          | \$ 25,545          | \$ 124,485         | \$ 87,046          |
| Defaulted loans purchased underlying off-balance sheet Farmer Mac I Guaranteed Securities           | 344                | 1,315              | 648                | 1,562              |
| Defaulted loans underlying on-balance sheet Farmer Mac I Guaranteed Securities transferred to loans | 213                | 352                | 1,072              | 1,316              |
| Defaulted loans purchased underlying LTSPCs   | -                  | 761                | 26                 | 1,033              |
| <b>Total loan purchases</b>   | <b>\$ 33,736</b>   | <b>\$ 27,973</b>   | <b>\$ 126,231</b>  | <b>\$ 90,957</b>   |

The weighted-average ages of the Farmer Mac I newly originated and current seasoned loans purchased during third quarter 2008 and third quarter 2007 was less than one month. Of the Farmer Mac I newly originated and current seasoned loans purchased during third quarter 2008 and third quarter 2007, 75 percent and 58 percent, respectively, had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 15.4 years and 14.9 years, respectively. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs during third quarter 2008 and third quarter 2007 was 9.1 years and 8.0 years, respectively.

#### Balance Sheet Review

As of September 30, 2008, Farmer Mac had \$50.7 million of cash and cash equivalents compared to \$101.4 million as of December 31, 2007. Because Farmer Mac's statutory minimum capital requirement is based in part on 2.75 percent of all assets held by Farmer Mac including cash, cash equivalents and government securities, the Corporation reduced the level of its borrowings and resulting cash holdings on its balance sheet during 2008. During 2007, Farmer Mac used additional short term borrowings, in the form of discount notes, and invested the proceeds in cash and cash equivalents such that the average level of cash and cash equivalents during 2007 was approximately \$700.0 million. As of September 30, 2008, Farmer Mac had \$1.5 billion of investment securities compared to \$2.6 billion as of December 31, 2007. The decrease in investment securities during the nine months ended September 30, 2008 reflects the transfer of \$1.4 billion of rural utilities loan-related securities from investment securities to Farmer Mac Guaranteed Securities with Farmer Mac's guarantee of those securities pursuant to the expanded authorities granted in the Farm Bill and the maturation and repayment of \$500.0 million of those Farmer Mac Guaranteed Securities at maturity. Accordingly, during the nine months ended September 30, 2008, Farmer Mac Guaranteed Securities increased by a net amount of \$0.9 billion to \$2.2 billion.





As noted above, Farmer Mac's third quarter 2008 results of operations were adversely affected by losses on certain investment securities. The following table (as presented in the notes to Farmer Mac's condensed consolidated financial statements) summarizes Farmer Mac's \$1.5 billion of investment securities and the unrealized gains and losses as of September 30, 2008.

|  | Amortized<br>Cost | As of September 30, 2008 |                      | Fair Value   |
|--|-------------------|--------------------------|----------------------|--------------|
|  |                   | Unrealized<br>Gains      | Unrealized<br>Losses |              |
| (in thousands)   |                   |                          |                      |              |
| Available-for-sale:  |                   |                          |                      |              |
| Fixed rate certificates of deposit   | \$ 60,000         | \$ -                     | \$ -                 | \$ 60,000    |
| Fixed rate commercial paper  | 84,571            | -                        | -                    | 84,571       |
| Floating rate auction-rate certificates backed by Government<br>guaranteed student loans (1) | 193,950           | -                        | (1,940)              | 192,010      |
| Floating rate asset-backed securities  | 95,345            | -                        | (908)                | 94,437       |
| Floating rate corporate debt securities (2)  | 506,723           | -                        | (57,773)             | 448,950      |
| Floating rate Government/GSE guaranteed mortgage-backed<br>securities (3)                    | 352,156           | 4,698                    | (1,106)              | 355,748      |
| Fixed rate GSE guaranteed mortgage-backed securities   | 7,576             | 1                        | (69)                 | 7,508        |
| Floating rate GSE subordinated debt  | 70,000            | -                        | (18,438)             | 51,562       |
| Floating rate GSE preferred stock (4)  | 2,469             | -                        | -                    | 2,469        |
| Total available-for-sale   | 1,372,790         | 4,699                    | (80,234)             | 1,297,255    |
| Trading:   |                   |                          |                      |              |
| Floating rate asset-backed securities  | 7,661             | -                        | (3,304)              | 4,357        |
| Fixed rate GSE preferred stock   | 180,900           | -                        | (14,211)             | 166,689      |
| Total trading  | 188,561           | -                        | (17,515)             | 171,046      |
| Total investment securities  | \$ 1,561,351      | \$ 4,699                 | \$ (97,749)          | \$ 1,468,301 |

- (1) AAA-rated callable auction-rate certificates collateralized by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States, the interest rates of which are reset through an auction process, most commonly at intervals of 28 days or at formula-based floating rates in the event of a failed auction.
- (2) Includes a \$52.4 million other-than-temporary impairment loss on Lehman Brothers Holdings Inc. floating rate corporate debt. The amortized cost of this investment was written down to its fair value of \$7.5 million as of September 30, 2008.
- (3) Includes \$16.6 million fair value of floating rate GSE mortgage-backed securities that Farmer Mac has pledged as collateral and for which the counterparty has the right to sell or repledge.
- (4) Includes a \$50.0 million other-than-temporary impairment loss on Fannie Mae floating rate preferred stock. The amortized cost of this investment was written down to its fair value of \$2.5 million as of September 30, 2008.

The unrealized losses on the investment securities classified as trading have been recognized in retained earnings and, as such, reduced Farmer Mac's core capital for regulatory compliance purposes as of September 30, 2008. The unrealized losses on available-for-sale investment securities are recorded as reductions to Accumulated other comprehensive income in the equity section of Farmer Mac's balance sheet. Accumulated other comprehensive income is not a component of Farmer Mac's core capital for regulatory capital compliance purposes. Therefore, such losses do not impact Farmer Mac's regulatory capital compliance measures. If such losses were realized, either through sale or determination that the unrealized losses were other-than-temporary, Farmer Mac's regulatory capital compliance measures would be affected as such items would be recorded through retained earnings, which is a component of

Farmer Mac's core capital for regulatory capital compliance purposes.

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As shown in the table above, unrealized losses on the investment securities are concentrated in three categories: floating rate corporate debt securities, floating rate GSE subordinated debt, and fixed rate GSE preferred stock. The GSE subordinated debt and the GSE preferred stock are investments in CoBank, ACB and AgFirst Farm Credit Bank, institutions of the Farm Credit System, a government-sponsored enterprise. The floating rate corporate debt securities with significant unrealized losses (which are concentrated in financial institutions) are summarized in the following table:

As of September 30, 2008

|                     | Amortized<br>Cost | Unrealized<br>Losses<br>(in thousands) | Fair Value | S & P<br>Credit<br>Rating | Maturity                        |
|---------------------|-------------------|--|------------|---------------------------|---------------------------------|
| Sallie Mae          | \$ 25,007         | \$ (3,002)                             | \$ 22,005  | BBB-                      | July 2009                       |
| CIT                 | 35,000            | (6,840)                                | 28,160     | A-                        | August 2009                     |
| Lehman Brothers (1) | 7,500             | -                                      | 7,500      | N/A                       | Various through<br>May 2010     |
| Morgan Stanley      | 59,916            | (14,731)                               | 45,185     | A+                        | Various through<br>January 2011 |
| Wachovia            | 9,930             | (3,035)                                | 6,895      | A+                        | October 2011                    |
| Merrill Lynch       | 49,985            | (7,355)                                | 42,630     | A                         | November 2011                   |
| Goldman Sachs       | 61,695            | (13,686)                               | 48,009     | AA-                       | February 2012                   |
| HSBC                | 49,884            | (6,524)                                | 43,360     | AA-                       | Various through<br>July 2012    |
| Other (2)           | 207,806           | (2,600)                                | 205,206    | A+<br>(Minimum)           | Various through<br>August 2011  |
|                     | \$ 506,723        | \$ (57,773)                            | \$ 448,950 |                           |                                 |

(1) The amortized cost of this investment was written down to its fair value resulting in no unrealized loss as of September 30, 2008.

(2) Consists of 12 corporate debt securities with unrealized losses ranging from \$20 thousand to \$0.7 million.

Farmer Mac has evaluated the inherent risks of holding each of the investment securities in an unrealized loss position. That evaluation includes the assessment of the potential losses that could be realized (including other-than-temporary impairment charges), the likelihood of recovery (including an evaluation of the time to maturity and likelihood of repayment), the impact of recent and planned interventions by several governments and their agencies to support financial institutions, as well as the adequacy of Farmer Mac's core capital to absorb a realized loss on the sale of a security. At this time, selling these securities would adversely affect the level of Farmer Mac's excess capital above the statutory minimum capital requirement. As of September 30, 2008, that excess capital was \$30.0 million. Farmer Mac currently has the intent and ability to retain all of the individually named above investments until either the market values recover or the securities mature. Management will continue to evaluate each of these investment positions in light of the inherent risks and Farmer Mac's capital position.



Consistent with the net decrease in total assets of \$318.9 million during the nine months ended September 30, 2008, total liabilities also decreased \$266.3 million during the same period. The decrease in liabilities was primarily due to the intentional reduction in total assets, as described above, which were used to reduce outstanding borrowings. For further information regarding off-balance sheet program activities, see “—Off-Balance Sheet Program Activities” below.

During the nine months ended September 30, 2008, accumulated other comprehensive loss increased \$38.6 million to \$41.4 million. The increase was primarily the result of losses on securities available-for-sale during the nine months ended September 30, 2008. Accumulated other comprehensive loss is not a component of Farmer Mac’s core capital or regulatory capital measurements, and therefore, increases or decreases in unrealized losses on investment securities classified as available-for-sale do not impact Farmer Mac’s regulatory capital compliance determinations.

On September 30, 2008, Farmer Mac sold 60,000 shares of its newly issued Series B-1 Senior Cumulative Perpetual Preferred Stock (“Series B-1”) and 5,000 shares of its newly issued Series B-2 Senior Cumulative Perpetual Preferred Stock (“Series B-2” and together with Series B-1, the “Series B Preferred Stock”), each having a par value of \$1.00 per share and an initial liquidation preference of \$1,000 per share (subject to adjustment of such fixed dollar amount for any stock splits, stock dividends, combinations, recapitalizations or similar transactions). Consent of at least two-thirds of shares of Series B-1 will be required for certain transactions involving Farmer Mac, including, without limitation, (i) proposals by Farmer Mac to amend its statutory charter or to change its bylaws in a manner that adversely affects the rights of the holders of Series B Preferred Stock, (ii) increases or decreases in authorized amounts of the Series B Preferred Stock other than through authorized redemptions, (iii) any issuance of capital stock that ranks senior to or on parity with the Series B Preferred Stock, (iv) a voluntary bankruptcy, (v) the incurrence of material indebtedness other than in the ordinary course of business consistent with past practice, (vi) the redemption or repurchase of its equity securities (other than authorized redemptions of the Series B Preferred Stock), (vii) the transfer or acquisition of material assets other than in arm’s-length transactions with affiliates in the ordinary course of business consistent with past practice, (viii) issuances of equity securities or securities convertible into equity securities, (ix) a change in control of Farmer Mac, (x) the consummation of certain transactions with affiliates of Farmer Mac other than in arm’s-length transactions in the ordinary course of business consistent with past practice, (xi) the adoption of any material new business initiative or the material expansion of existing business, or (xii) any change in the executive management of Farmer Mac or its subsidiaries. After June 30, 2009, if, upon Farmer Mac’s request, the holders of Series B-1 determine that Farmer Mac is in sound financial condition, such holders may waive the consent right contained in (xi) above. For more information about the Series B Preferred Stock, see Note 6 to the condensed consolidated financial statements and Farmer Mac’s Current Report on Form 8-K filed with the SEC on October 6, 2008.

Farmer Mac was in compliance with its statutory minimum capital requirement as of September 30, 2008. As of September 30, 2008, Farmer Mac’s core capital totaled \$212.3 million, which exceeded the statutory minimum capital requirement of \$182.3 million by \$30.0 million. As of December 31, 2007, Farmer Mac’s core capital of \$226.4 million exceeded the statutory minimum capital requirement of \$186.0 million by \$40.4 million.

Farmer Mac was also in compliance with its risk-based capital standards as of September 30, 2008. As of September 30, 2008, Farmer Mac's regulatory capital of \$216.8 million exceeded the risk-based capital requirement of \$52.2 million by approximately \$164.6 million. The risk-based capital stress test developed by FCA generated a regulatory capital requirement of \$52.2 million as of September 30, 2008, compared to \$48.8 million as of June 30, 2008. In the June 5, 2008 issue of the Federal Register, FCA published a final rule containing a revised risk-based capital stress test that became effective July 25, 2008. The revised risk-based capital stress test would have generated a regulatory capital requirement of \$56.8 million had it been in effect as of June 30, 2008.

#### Off-Balance Sheet Program Activities

Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through each of the Farmer Mac I, Farmer Mac II and Rural Utilities programs; and (2) LTSPCs, which are available only through the Farmer Mac I and Rural Utilities programs. Both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business. See Note 5 to the interim unaudited condensed consolidated financial statements for further information regarding Farmer Mac's off-balance sheet program activities.

#### Risk Management

**Credit Risk.** Historically, Farmer Mac's primary exposure to credit risk was that resulting from its purchase of agricultural and rural utility loans and the issuance of Farmer Mac Guaranteed Securities and entering into LTSPCs. However, during 2008 Farmer Mac experienced significant losses due to its exposures to corporate credit risk in its portfolio of investment securities. Consistent with FCA regulations, Farmer Mac maintains a minimum of 60 days of liquidity in a portfolio of investment securities intended to provide a source of liquidity in the event of a period of market disruption or limited access to the debt markets. The profile of the permitted investment securities is restricted by FCA regulation and Farmer Mac Board Policy. The existing eligibility requirements for investment securities include limitations on dollar amount, issuer concentration and maturity date for various investment categories, as well as credit quality limitations, such as requiring minimum credit ratings by nationally recognized statistical rating organizations ("NRSROs") for most investment categories. Nonetheless, despite regulatory compliance at the time of purchase, some of these investments posed a significant risk to Farmer Mac's capital adequacy during third quarter 2008. Farmer Mac has retained an investment advisory firm to assist in developing revisions to its investment policies. Further detail regarding credit risk inherent in the portfolio of investment securities is described above in "—Balance Sheet Review."

Farmer Mac's exposure to credit risk in its program business rises from the inability of borrowers to repay their mortgages in conjunction with a deficiency in the value of the collateral relative to the amount outstanding on the mortgage and the costs of liquidation and the inability of a corporate borrower under the AgVantage program to repay its debt in conjunction with the borrowers on the loans that are collateral for the AgVantage bonds to repay their mortgages. Farmer Mac has established underwriting, collateral valuation (appraisal) and documentation standards (including interest rate shock tests for adjustable rate mortgages with initial reset periods of five years or less) for agricultural mortgage loans to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting and appraisals to all participating sellers and potential sellers in its programs.



Farmer Mac's allowance for losses is presented in three components on its condensed consolidated balance sheets:

- an "Allowance for loan losses" on loans held;
- a valuation allowance on real estate owned, which is included in the balance sheet under "Real estate owned"; and
- an allowance for losses on loans underlying post-1996 Act Farmer Mac I Guaranteed Securities, LTSPCs and Farmer Mac Guaranteed Securities – Rural Utilities, which is included in the balance sheet under "Reserve for losses."

Farmer Mac's provision for losses is presented in two components on its condensed consolidated statements of operations:

- a "Provision for loan losses," which represents losses on Farmer Mac's loans held; and
- a "Provision for losses," which represents losses on loans underlying post-1996 Act Farmer Mac I Guaranteed Securities, LTSPCs, Farmer Mac Guaranteed Securities – Rural Utilities, and real estate owned.

Farmer Mac's methodology for determining its allowance for losses incorporates the Corporation's proprietary automated loan classification system. That system scores loans based on criteria such as historical repayment performance, 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 post-1996 Act 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 3-year time horizons and calculates loss rates separately within each loan classification for (1) loans underlying LTSPCs and (2) loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of 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 reliable estimate of probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs in accordance with SFAS 5 and SFAS 114.



Prior to third quarter 2007, no allowance for losses had been made for loans underlying Pre-1996 Act Farmer Mac I Guaranteed Securities, AgVantage securities or Farmer Mac II Guaranteed Securities. Pre-1996 Act Farmer Mac I Guaranteed Securities are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. Through September 30, 2008, Farmer Mac had charged off \$0.4 million related to one loan underlying Pre-1996 Act Farmer Mac I Guaranteed Securities. The remaining \$1.7 million of Pre-1996 Act Farmer Mac I Guaranteed Securities represent interests in seasoned performing loans with low loan-to-value ratios. Farmer Mac does not expect to incur any further losses on the remaining Pre-1996 Act Farmer Mac I Guaranteed Securities in the future. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of September 30, 2008, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the high credit quality of the obligors, as well as the underlying collateral. As of September 30, 2008, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of September 30, 2008, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

On May 22, 2008, Congress enacted into law the Food, Conservation and Energy Act of 2008 (the "Farm Bill"), which expanded Farmer Mac's authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders. During second quarter 2008, Farmer Mac placed its guarantee on \$430.7 million 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"). During third quarter 2008, \$500.0 million of the obligations collateralized by rural electric cooperative loans matured and was repaid and \$5.7 million of the securities representing interests in rural electric cooperative loans was repaid. Farmer Mac evaluated the \$824.9 million Farmer Mac Guaranteed Securities – Rural Utilities outstanding as of September 30, 2008 and determined that there were no probable losses inherent in the securities or the underlying rural utilities loans. Accordingly, no allowance for losses was recorded as of September 30, 2008 with respect to those securities.

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The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three months and nine months ended September 30, 2008 and 2007:

|                                 | Allowance<br>for Loan<br>Losses | September 30, 2008            |                       | Total<br>Allowance<br>for Losses |
|---------------------------------|---------------------------------|-------------------------------|-----------------------|----------------------------------|
|                                 |                                 | REO<br>Valuation<br>Allowance | Reserve for<br>Losses |                                  |
| (in thousands)                  |                                 |                               |                       |                                  |
| <b>Three Months Ended:</b>      |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,592                        | \$ -                          | \$ 2,197              | \$ 3,789                         |
| Provision/(recovery) for losses | 731                             | -                             | (91)                  | 640                              |
| Charge-offs                     | -                               | -                             | -                     | -                                |
| Recoveries                      | 6                               | -                             | -                     | 6                                |
| Ending balance                  | \$ 2,329                        | \$ -                          | \$ 2,106              | \$ 4,435                         |
| <b>Nine Months Ended:</b>       |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,690                        | \$ -                          | \$ 2,197              | \$ 3,887                         |
| Provision/(recovery) for losses | 731                             | -                             | (91)                  | 640                              |
| Charge-offs                     | (108)                           | -                             | -                     | (108)                            |
| Recoveries                      | 16                              | -                             | -                     | 16                               |
| Ending balance                  | \$ 2,329                        | \$ -                          | \$ 2,106              | \$ 4,435                         |
|                                 | Allowance<br>for Loan<br>Losses | September 30, 2007            |                       | Total<br>Allowance<br>for Losses |
|                                 |                                 | REO<br>Valuation<br>Allowance | Reserve for<br>Losses |                                  |
| (in thousands)                  |                                 |                               |                       |                                  |
| <b>Three Months Ended:</b>      |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,681                        | \$ -                          | \$ 2,197              | \$ 3,878                         |
| Provision/(recovery) for losses | -                               | -                             | 386                   | 386                              |
| Charge-offs                     | -                               | -                             | (386)                 | (386)                            |
| Recoveries                      | 20                              | -                             | -                     | 20                               |
| Ending balance                  | \$ 1,701                        | \$ -                          | \$ 2,197              | \$ 3,898                         |
| <b>Nine Months Ended:</b>       |                                 |                               |                       |                                  |
| Beginning balance               | \$ 1,945                        | \$ -                          | \$ 2,610              | \$ 4,555                         |
| Provision/(recovery) for losses | (215)                           | 100                           | (27)                  | (142)                            |
| Charge-offs                     | (49)                            | (100)                         | (386)                 | (535)                            |
| Recoveries                      | 20                              | -                             | -                     | 20                               |
| Ending balance                  | \$ 1,701                        | \$ -                          | \$ 2,197              | \$ 3,898                         |

During third quarter 2008, Farmer Mac made provisions for its allowance for losses of \$0.6 million, compared to a provision of \$0.4 million in third quarter 2007. During third quarter 2008, Farmer Mac did not record any charge-offs against the allowance for losses and recorded negligible recoveries. During third quarter 2007, Farmer Mac charged-off \$0.4 million and recovered \$20,000 in losses against the allowance for losses. There was no previously accrued or advanced interest on loans or Farmer Mac I Guaranteed Securities charged off in third quarter 2008 or third quarter 2007. As of September 30, 2008, Farmer Mac's allowance for losses totaled \$4.4 million, or 9 basis points of the outstanding principal balance of loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs, compared to \$3.9 million (8 basis points) as of December 31, 2007.

As of September 30, 2008, Farmer Mac's 90-day delinquencies totaled \$11.5 million and represented 0.23 percent of the principal balance of all loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs, compared to \$17.0 million (0.35 percent) as of September 30, 2007. As of September 30, 2008, Farmer Mac's non-performing assets (which include 90-day delinquencies, loans performing in bankruptcy, and real estate owned) totaled \$32.9 million and represented 0.66 percent of the principal balance of all loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs, compared to \$37.4 million (0.76 percent) as of September 30, 2007. Loans that have been restructured after delinquency were insignificant and are included within the reported 90-day delinquency and non-performing asset disclosures. From quarter to quarter, Farmer Mac anticipates that 90-day delinquencies and non-performing assets will fluctuate, both in dollars and as a percentage of the outstanding portfolio, with higher levels likely at the end of the first and third quarters of each year corresponding to the semi-annual (January 1st and July 1st) payment characteristics of most Farmer Mac I loans. Although Farmer Mac expects the amount of non performing assets during fourth quarter 2008 to increase, the increase will be primarily due to the chapter 11 bankruptcy filing by VeraSun Energy Corporation and its subsidiaries in October 2008. These subsidiaries include four ethanol plants with \$39.9 million of outstanding loans in Farmer Mac's portfolio. Farmer Mac expects these loans to be classified as loans performing in bankruptcy beginning in fourth quarter 2008, but does not expect these events to have a material effect on the Corporation's provisions for losses during fourth quarter 2008.

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The following table presents historical information regarding Farmer Mac's non-performing assets and 90-day delinquencies:

| As of:                | Outstanding<br>Post-1996 Act<br>Farmer Mac I<br>Loans,<br>Guarantees<br>(1), LTSPCs,<br>and REO | Non-<br>performing<br>Assets | Percentage<br>(dollars in thousands) | Less: REO<br>and<br>Performing<br>Bankruptcies | 90-Day<br>Delinquencies | Percentage |
|-----------------------|---|------------------------------|--------------------------------------|--|-------------------------|------------|
| September 30,<br>2008 | \$ 4,989,755  | \$ 32,883                    | 0.66%                                | \$ 21,402                                      | \$ 11,481               | 0.23%      |
| June 30, 2008         | 4,937,870   | 28,230                       | 0.57%                                | 23,060   | 5,170                   | 0.11%      |
| March 31, 2008        | 4,933,720   | 31,640                       | 0.64%                                | 20,666   | 10,974                  | 0.22%      |
| December 31,<br>2007  | 5,063,164   | 31,924                       | 0.63%                                | 21,340   | 10,584                  | 0.21%      |
| September 30,<br>2007 | 4,891,525   | 37,364                       | 0.76%                                | 20,341   | 17,023                  | 0.35%      |
| June 30, 2007         | 4,904,592   | 37,225                       | 0.76%                                | 22,462   | 14,763                  | 0.30%      |
| March 31, 2007        | 4,905,244   | 50,026                       | 1.02%                                | 21,685   | 28,341                  | 0.58%      |
| December 31,<br>2006  | 4,784,983   | 39,232                       | 0.82%                                | 19,577   | 19,655                  | 0.41%      |
| September 30,<br>2006 | 4,621,083   | 44,862                       | 0.97%                                | 16,425   | 28,437                  | 0.62%      |

(1) Excludes loans underlying AgVantage securities.

As of September 30, 2008, approximately \$1.3 billion (26.8 percent) of Farmer Mac's outstanding loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs were in their peak delinquency and default years (approximately years three through five after origination), compared to \$1.4 billion (27.7 percent) as of September 30, 2007.

As of September 30, 2008, Farmer Mac individually analyzed \$3.7 million of its \$47.8 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining \$44.1 million of impaired assets, for which updated valuations were not available, in the aggregate in consideration of their similar risk characteristics and historical statistics. All of the \$3.7 million of assets analyzed individually were adequately collateralized. Accordingly, Farmer Mac did not record any specific allowances for any of its impaired assets as of September 30, 2008. Farmer Mac's non-specific or general allowances were \$4.4 million as of September 30, 2008.

As of September 30, 2008, the weighted-average original loan-to-value (“LTV”) ratio for all loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs was 50.3 percent, and the weighted-average original LTV ratio for all post-1996 Act non-performing assets was 56.9 percent. The following table summarizes the post-1996 Act non-performing assets by original LTV ratio:

Distribution of Post-1996 Act Non-performing Assets by Original  
LTV Ratio as of September 30, 2008  
(dollars in thousands)

| Original<br>LTV Ratio | Post-1996 Act<br>Non-performing<br>Assets | Percentage |
|-----------------------|---|------------|
| 0.00% to<br>40.00%    | \$ 2,034                                  | 6%         |
| 40.01% to<br>50.00%   | 7,394                                     | 22%        |
| 50.01% to<br>60.00%   | 13,161                                    | 41%        |
| 60.01% to<br>70.00%   | 9,087                                     | 28%        |
| 70.01% to<br>80.00%   | 820                                       | 2%         |
| 80.01% +              | 387                                       | 1%         |
| Total                 | \$ 32,883                                 | 100%       |

The following table presents outstanding loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs and post-1996 Act non-performing assets as of September 30, 2008 by year of origination, geographic region and commodity/collateral type:

| Farmer Mac I Post-1996 Act Non-performing Assets         |  |  |   |                           |
|--|--|--|---|---------------------------|
| Distribution of  |  |  |   |                           |
|  | Outstanding Loans, Guarantees and LTSPCs | Outstanding Loans, Guarantees and LTSPCs (1) | Post-1996 Act Non-performing Assets (2) | Non-performing Asset Rate |
|  |  | (dollars in thousands)                       |   |                           |
| By year of origination:                                  |  |  |   |                           |
| Before 1997  | 10%                                      | \$ 474,722                                   | \$ 5,730                                | 1.21%                     |
| 1997   | 4%                                       | 191,294                                      | 4,799                                   | 2.51%                     |
| 1998   | 6%                                       | 311,666                                      | 6,537                                   | 2.10%                     |
| 1999   | 7%                                       | 357,029                                      | 4,543                                   | 1.27%                     |
| 2000   | 4%                                       | 184,031                                      | 2,989                                   | 1.62%                     |
| 2001   | 7%                                       | 343,793                                      | 4,255                                   | 1.24%                     |
| 2002   | 9%                                       | 449,288                                      | 2,171                                   | 0.48%                     |
| 2003   | 9%                                       | 463,572                                      | 1,109                                   | 0.24%                     |
| 2004   | 7%                                       | 339,957                                      | 293                                     | 0.09%                     |
| 2005   | 10%                                      | 507,819                                      | 17                                      | 0.00%                     |
| 2006   | 12%                                      | 592,855                                      | 326                                     | 0.05%                     |
| 2007   | 9%                                       | 472,205                                      | 114                                     | 0.02%                     |
| 2008   | 6%                                       | 301,524                                      | -                                       | 0.00%                     |
| Total  | 100%                                     | \$ 4,989,755                                 | \$ 32,883                               | 0.66%                     |
| By geographic region (3):                                |  |  |   |                           |
| Northwest  | 16%                                      | \$ 804,953                                   | \$ 19,451                               | 2.42%                     |
| Southwest  | 38%                                      | 1,880,219                                    | 3,386                                   | 0.18%                     |
| Mid-North  | 22%                                      | 1,079,500                                    | 3,990                                   | 0.37%                     |
| Mid-South  | 12%                                      | 621,781                                      | 2,036                                   | 0.33%                     |
| Northeast  | 8%                                       | 387,743                                      | 1,177                                   | 0.30%                     |
| Southeast  | 4%                                       | 215,559                                      | 2,843                                   | 1.32%                     |
| Total  | 100%                                     | \$ 4,989,755                                 | \$ 32,883                               | 0.66%                     |
| By commodity/collateral type:                            |  |  |   |                           |
| Crops  | 41%                                      | \$ 2,024,173                                 | \$ 16,837                               | 0.83%                     |
| Permanent plantings                                      | 19%                                      | 955,532                                      | 9,576                                   | 1.00%                     |
| Livestock  | 26%                                      | 1,326,429                                    | 4,501                                   | 0.34%                     |
| Part-time farm/rural housing                             | 7%                                       | 349,607                                      | 1,824                                   | 0.52%                     |
| Ag storage and processing (including ethanol facilities) | 6%                                       | 296,393                                      | -                                       | 0.00%                     |
| Other  | 1%                                       | 37,621                                       | 145                                     | 0.39%                     |
| Total  | 100%                                     | \$ 4,989,755                                 | \$ 32,883                               | 0.66%                     |

(1)

Excludes loans underlying AgVantage securities.

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- (2) Includes loans 90 days or more past due, in foreclosure, restructured after delinquency, in bankruptcy (including loans performing under either their original loan terms or a court-approved bankruptcy plan), and real estate owned.
- (3) 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); and Southeast (AL, AR, FL, GA, LA, MS, SC).



The following table presents Farmer Mac's cumulative net credit losses relative to the cumulative original balance for all loans purchased and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs as of September 30, 2008, by year of origination, geographic region and commodity/collateral type.

Farmer Mac I Post-1996 Act Credit Losses Relative to all  
Cumulative Original Loans, Guarantees and LTSPCs

|  | Cumulative<br>Original<br>Loans,<br>Guarantees<br>and LTSPCs<br>(1) | Cumulative<br>Net Credit<br>Losses | Cumulative<br>Loss Rate |
|--|---|------------------------------------|-------------------------|
| (dollars in thousands)                                   |   |                                    |                         |
| By year of origination:                                  |   |                                    |                         |
| Before 1997  | \$ 3,436,439  | \$ 1,593                           | 0.05%                   |
| 1997   | 758,156   | 2,493                              | 0.33%                   |
| 1998   | 1,134,775   | 3,885                              | 0.34%                   |
| 1999   | 1,151,421   | 1,291                              | 0.11%                   |
| 2000   | 742,427   | 2,285                              | 0.31%                   |
| 2001   | 1,088,078   | 695                                | 0.06%                   |
| 2002   | 1,103,598   | -                                  | 0.00%                   |
| 2003   | 899,818   | -                                  | 0.00%                   |
| 2004   | 623,260   | -                                  | 0.00%                   |
| 2005   | 741,000   | 115                                | 0.02%                   |
| 2006   | 746,192   | -                                  | 0.00%                   |
| 2007   | 558,026   | -                                  | 0.00%                   |
| 2008   | 326,542   | -                                  | 0.00%                   |
| Total  | \$ 13,309,732   | \$ 12,357                          | 0.09%                   |
| By geographic region (2):                                |   |                                    |                         |
| Northwest  | \$ 2,454,288  | \$ 6,891                           | 0.28%                   |
| Southwest  | 5,284,702   | 4,778                              | 0.09%                   |
| Mid-North  | 2,231,217   | 57                                 | 0.00%                   |
| Mid-South  | 1,230,910   | 336                                | 0.03%                   |
| Northeast  | 1,150,356   | 66                                 | 0.01%                   |
| Southeast  | 958,259   | 229                                | 0.02%                   |
| Total  | \$ 13,309,732   | \$ 12,357                          | 0.09%                   |
| By commodity/collateral type:                            |   |                                    |                         |
| Crops  | \$ 5,385,928  | \$ 9                               | 0.00%                   |
| Permanent plantings                                      | 2,980,749   | 9,349                              | 0.31%                   |
| Livestock  | 3,450,213   | 2,677                              | 0.08%                   |
| Part-time farm/rural housing                             | 936,445   | 322                                | 0.03%                   |
| Ag storage and processing (including ethanol facilities) | 415,840(3)  | -                                  | 0.00%                   |
| Other  | 140,557   | -                                  | 0.00%                   |
| Total  | \$ 13,309,732   | \$ 12,357                          | 0.09%                   |

(1)

Excludes loans underlying AgVantage securities.

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- (2) 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); and Southeast (AL, AR, FL, GA, LA, MS, SC).
- (3) Several of the loans underlying agricultural storage and processing LTSPCs are for facilities under construction, and as of September 30, 2008, approximately \$43.8 million of the loans were not yet disbursed by the lender.

Interest Rate Risk. Farmer Mac is subject to interest rate risk on all assets held for investment because of possible timing differences in the cash flows of the assets and related liabilities. This risk is primarily related to loans held and on-balance sheet Farmer Mac Guaranteed Securities due to the ability of borrowers to prepay their mortgages before the scheduled maturities, thereby increasing the risk of asset and liability cash flow mismatches. Cash flow mismatches in a changing interest rate environment can reduce the earnings of the Corporation if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments when Farmer Mac's funding costs cannot be correspondingly reduced, or if assets repay more slowly than expected and the associated debt must be replaced by higher-cost debt.

Yield maintenance provisions and other prepayment penalties contained in many agricultural mortgage loans reduce, but do not eliminate, prepayment risk, particularly in the case of a defaulted loan where yield maintenance may not be collected. Those provisions require borrowers to make an additional payment when they prepay their loans so that, when reinvested with the prepaid principal, yield maintenance payments generate substantially the same cash flows that would have been generated had the loan not prepaid. Those provisions create a disincentive to prepayment and compensate the Corporation for some of its interest rate risks. As of September 30, 2008, 47 percent of the outstanding balance of all loans held and loans underlying on-balance sheet Farmer Mac I Guaranteed Securities (including 71 percent of all loans with fixed interest rates) were covered by yield maintenance provisions and other prepayment penalties. Of the Farmer Mac I fixed rate loans purchased in third quarter 2008, 11 percent had yield maintenance or another form of prepayment protection. As of September 30, 2008, none of the USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities had yield maintenance provisions; however, 18.5 percent contained prepayment penalties. Of the USDA-guaranteed portions purchased in third quarter 2008, 33.4 percent contained various forms of prepayment penalties.

Taking into consideration the prepayment provisions and the default probabilities associated with its mortgage assets, Farmer Mac uses prepayment models to project and value cash flows associated with these assets. Because borrowers' behavior in various interest rate environments may change over time, Farmer Mac periodically evaluates the effectiveness of these models compared to actual prepayment experience and adjusts and refines the models as necessary to improve the precision of subsequent prepayment forecasts.

Cash equivalents and investment securities pose only limited interest rate risk to Farmer Mac, due to their closely matched funding. Farmer Mac's cash equivalents mature within three months and are match-funded with discount notes having similar maturities. As of September 30, 2008, \$1.3 billion of the \$1.5 billion of investment securities (88 percent) were floating rate securities with rates that adjust within one year or fixed rate securities with original maturities between three months and one year. Such securities are funded with floating rate medium term notes or discount notes that closely match the rate adjustment dates of the associated investments.

The goal of interest rate risk management at Farmer Mac is to create and maintain a portfolio that generates stable earnings and value across a variety of interest rate environments. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar durations and cash flows so that they will perform similarly as interest rates change. To achieve this match, Farmer Mac issues discount notes and both callable and non-callable medium-term notes across a spectrum of maturities. Farmer Mac issues callable debt to offset the prepayment risk associated with some mortgage assets. By using a blend of liabilities that includes callable debt, the interest rate sensitivities of the liabilities tend to increase or decrease as interest rates change in a manner similar to changes in the interest rate sensitivities of the assets. Farmer Mac also uses financial derivatives to alter the duration of its assets and liabilities to better match their durations, thereby reducing overall interest rate sensitivity.

An important “stress test” of Farmer Mac’s exposure to long-term interest rate risk is the measurement of the sensitivity of its market value of equity (“MVE”) to yield curve shocks. MVE represents the present value of all future cash flows from on- and off-balance sheet assets, liabilities and financial derivatives, discounted at current interest rates and spreads. The following schedule summarizes the results of Farmer Mac’s MVE sensitivity analysis as of September 30, 2008 and December 31, 2007 to an immediate and instantaneous uniform or “parallel” shift in the yield curve. During third quarter 2008, Farmer Mac maintained a low level of interest rate sensitivity through ongoing asset and liability management activities.

| Interest Rate Scenario | Percentage Change in MVE from Base Case |                   |
|------------------------|---|-------------------|
|                        | September 30, 2008                      | December 31, 2007 |
| + 300 bp               | -14.9%                                  | -10.6%            |
| + 200 bp               | -8.8%                                   | -6.3%             |
| + 100 bp               | -3.2%                                   | -2.5%             |
| - 100 bp               | N/A*                                    | -0.1%             |
| - 200 bp               | N/A*                                    | -1.4%             |
| - 300 bp               | N/A*                                    | -3.4%             |

\* As of September 30, 2008, a parallel shift of -100, -200 and -300 basis points of the U.S. Treasury yield curve produced negative interest rates for maturities of 3 months and shorter.

As of September 30, 2008, a parallel increase of 100 basis points would have decreased Farmer Mac’s net interest income (“NII”), a shorter-term measure of interest rate risk, by 6.8 percent, while a parallel decrease of 50 basis points would have increased NII by 5.0 percent. Farmer Mac also measures the sensitivity of both MVE and NII to a variety of non-parallel interest rate shocks, including flattening and steepening yield curve scenarios. As of September 30, 2008, both MVE and NII showed similar or lesser sensitivity to non-parallel shocks than to the parallel shocks. As of September 30, 2008, Farmer Mac’s effective duration gap, another standard measure of interest rate risk that measures the difference between the sensitivities of assets compared to that of liabilities, was plus 0.6 months, compared to plus 0.7 months as of December 31, 2007. Duration matching helps to maintain the correlation of cash flows and stable portfolio earnings even when interest rates are not stable. Farmer Mac believes the relative insensitivity of its MVE and NII to both parallel and non-parallel interest rate shocks, and its duration gap, indicate that Farmer Mac’s approach to managing its interest rate risk exposures is effective.

As of September 30, 2008, Farmer Mac had \$3.7 billion combined notional amount of interest rate swaps with terms ranging from 1 to 15 years. Of those interest rate swaps, \$1.6 billion were floating-to-fixed rate interest rate swaps, \$2.0 billion were fixed-to-floating interest rate swaps and \$0.1 billion were basis swaps.

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. As discussed in Note 1(d) to the condensed consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. All of Farmer Mac's financial derivative transactions are conducted under standard collateralized agreements that limit Farmer Mac's potential credit exposure to any counterparty. As of September 30, 2008, Farmer Mac had uncollateralized net exposure to two counterparties totaling \$0.4 million.

#### Liquidity and Capital Resources

Farmer Mac depends on regular access to the capital markets for liquidity, and Farmer Mac maintained access to the capital markets at favorable rates throughout third quarter 2008. Assuming continuation of current market conditions, Farmer Mac believes it has sufficient liquidity and capital resources to support its operations for the next 12 months and for the foreseeable future. Farmer Mac also has a liquidity contingency plan to manage unanticipated disruptions in its access to the capital markets. That plan involves borrowing through repurchase agreement arrangements and the sale of liquid assets. Consistent with FCA regulations, Farmer Mac maintains a minimum of 60 days of liquidity and a target of 90 days of liquidity. In accordance with the methodology prescribed by those regulations, Farmer Mac maintained an average of 77 days of liquidity during third quarter 2008 and had 69 days of liquidity as of September 30, 2008.

Debt Issuance. Section 8.6(e) of Farmer Mac's statutory charter (12 U.S.C. § 2279aa-6(e)) authorizes Farmer Mac to issue debt obligations to purchase eligible mortgage loans and Farmer Mac Guaranteed Securities and to maintain reasonable available cash and cash equivalents for business operations, including adequate liquidity. Farmer Mac funds its purchases of program (loans and Farmer Mac Guaranteed Securities) and non-program assets primarily by issuing debt obligations of various maturities in the public capital markets. Debt obligations issued by Farmer Mac include discount notes and fixed and floating rate medium-term notes, including callable notes. Farmer Mac also issues discount notes and medium-term notes to obtain funds to finance its investments, transaction costs, guarantee payments and LTSPC purchase obligations.

The interest and principal on Farmer Mac's debt are not guaranteed by and do not constitute debts or obligations of FCA or the United States or any agency or instrumentality of the United States other than Farmer Mac. Farmer Mac is an institution of the Farm Credit System ("FCS"), but is not liable for any debt or obligation of any other institution of the FCS. Likewise, neither the FCS nor any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac. Income to the purchaser of a Farmer Mac discount note or medium-term note is not exempt under federal law from federal, state or local taxation. The Corporation's discount notes and medium-term notes are not currently rated by an NRSRO.

Farmer Mac's board of directors has authorized the issuance of up to \$7.0 billion of discount notes and medium-term notes (of which \$4.3 billion was outstanding as of September 30, 2008), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing requirements. Farmer Mac invests the proceeds of such issuances in loans, Farmer Mac Guaranteed Securities, and non-program investment assets in accordance with policies established by its board of directors and subject to regulations established by FCA.

Liquidity. The funding and liquidity needs of Farmer Mac's business programs are driven by the purchase and retention of eligible loans and Farmer Mac Guaranteed Securities; the maturities of Farmer Mac's discount notes and medium-term notes; and payment of principal and interest on Farmer Mac Guaranteed Securities. Farmer Mac's primary sources of funds to meet these needs are:

- principal and interest payments and ongoing guarantee and commitment fees received on loans, Farmer Mac Guaranteed Securities, and LTSPCs;
  - principal and interest payments received from investment securities; and
  - the issuance of new discount notes and medium-term notes.

As a result of Farmer Mac's status as a federally-chartered instrumentality of the United States, Farmer Mac has had access to the capital markets for short term borrowings at favorable rates. Farmer Mac's short term borrowing costs have remained at historically low levels despite recent market volatility. Historically, Farmer Mac has used pay-fixed interest rate swaps, combined with a planned series of discount note issuances, as an alternative source of effectively fixed-rate funding. While the swap market may provide favorable fixed rates, swap transactions expose Farmer Mac to the risk of future widening of its own issuance spreads versus corresponding LIBOR rates. If the spreads on the Farmer Mac discount notes were to increase relative to LIBOR, Farmer Mac would be exposed to a commensurate reduction on its net interest yield on the notional amount of its pay-fixed interest rate swaps and other LIBOR-based floating rate assets.

Farmer Mac maintains cash and liquidity investments in cash equivalents (including commercial paper and other short-term money market instruments) and liquid investment securities that can be drawn upon for liquidity needs. As of September 30, 2008, Farmer Mac's non-program investments consisted of: \$50.7 million of cash and cash equivalents; \$584.0 million of securities issued or guaranteed by GSEs or the U.S. Government and its agencies; \$84.6 million of commercial paper; \$60.0 million of commercial bank certificates of deposit; \$286.4 million of asset-backed securities (principally backed by Government guaranteed student loans); and \$449.0 million of corporate debt securities, including financial institutions. Farmer Mac did not hold any investments in securities backed by sub-prime or Alt-A residential or commercial mortgages or home-equity loans.

As described above in "—Balance Sheet Review," due to the current market turmoil and general widening of corporate debt spreads, many of the corporate debt securities owned by Farmer Mac are in unrealized loss positions. If Farmer Mac needed to access those securities as a source of liquidity, Farmer Mac would realize losses in earnings and reductions to its core capital equal to amounts currently accounted for as unrealized losses in accumulated other comprehensive income, which is not a component of Farmer Mac's core capital for statutory and regulatory compliance purposes. Currently, Farmer Mac does not foresee the need to sell those securities as a source of liquidity.

Farmer Mac's asset-backed investment securities include callable, AAA-rated auction-rate certificates ("ARCs"), the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates in the event of a failed auction. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac held \$192.0 million of ARCs as of September 30, 2008 compared to \$131.5 million as of December 31, 2007. Beginning in mid-February, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. Farmer Mac continues to believe that the credit quality of these securities is high, based on that guarantee and the securities' continued AAA ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so. Farmer Mac does not believe that the auction failures will affect the Corporation's liquidity or its ability to fund its operations or make dividend payments. All ARCs held by Farmer Mac are callable by the issuers at par at any time and Farmer Mac believes it is likely they will be called or repurchased during the next two years. Due to the absence of an active auction market or other market trading in ARCs, during first quarter 2008 Farmer Mac transferred all of its ARCs from Level 2 to Level 3 and recorded the ARCs as of March 31, 2008 at fair values of approximately 99 percent of par and par. The discounted values reflect uncertainty regarding the ability to obtain par in the absence of any active market trading. On April 22, 2008, Farmer Mac received a par tender offer for \$20.0 million of its ARC holdings. Farmer Mac tendered those bonds and received par upon settlement on May 21, 2008. In August 2008, Farmer Mac sold \$17.5 million of ARCs at par in the secondary market. On October 31, 2008, Farmer Mac accepted an offer of Auction Rate Securities Rights, Series B-2 from UBS AG related to \$119.9 million of the ARCs in Farmer Mac's investment portfolio. Under the terms of the rights, UBS has the discretion to purchase or sell the \$119.9 million of ARCs at any time without prior notice so long as Farmer Mac receives par value, while Farmer Mac has the right to require UBS to purchase the securities at par value at any time between January 2, 2009 and January 4, 2011. Farmer Mac intends to exercise its rights and sell the ARCs to UBS on January 2, 2009. As of September 30, 2008, Farmer Mac's remaining ARC holdings were recorded at fair values of approximately 99 percent of par.

As of September 30, 2008, Farmer Mac had an investment of \$81.7 million in The Reserve Primary Fund (the "Fund"), a money market fund that has suspended redemptions and is being liquidated. On September 15, 2008, Farmer Mac delivered a timely redemption request to redeem its entire investment in the Fund, but its confirmed redemption request was not honored. The Fund announced on September 16, 2008 that the net asset value of the Fund decreased below \$1.00 per share as a result of the valuing at zero the Fund's holdings of debt securities issued by Lehman Brothers, but that all redemption requests received before 3:00 p.m. that day would be redeemed at \$1.00 per share. On September 22, 2008, the Fund announced that redemptions of shares in the Fund were being suspended for the protection of the Fund's investors pursuant to an SEC order until the financial markets allow an orderly liquidation to be effected. Farmer Mac expects further cash distributions to occur as the Fund's assets mature or are sold, which the Corporation believes will be within the next twelve months, although no commitments on the timing and ability of future redemptions have been made by the Fund. Investments in money market funds are generally recorded in "Cash and cash equivalents" on the Corporation's balance sheet; however, based on the foregoing information, the Corporation has presented \$39.2 million of its investment in the Fund as "Cash and cash equivalents" and \$42.5 million of its unsettled trades with the Fund separately on the balance sheet as "Prepaid expenses and other assets," both at net asset values of \$1.00 per share. On October 31, 2008, Farmer Mac collected from the Fund all amounts classified as "Cash and cash equivalents" as of September 30, 2008. Although Farmer Mac expects to receive \$1.00 net asset value per share on its unsettled trade with the Fund, there can be no assurance that the Corporation will ultimately receive this amount.

Capital. On September 30, 2008, Farmer Mac issued \$65.0 million of Series B Preferred Stock. For more information about the Series B Preferred Stock, see Note 6 to the condensed consolidated financial statements and Farmer Mac's Current Report on Form 8-K filed with the SEC on October 6, 2008.

#### Other Matters

Dividends. Beginning in fourth quarter 2004 and continuing through third quarter 2008, Farmer Mac has paid quarterly dividends of \$0.10 per share on each of the Corporation's three classes of common stock – Class A Voting Common Stock, Class B Voting Common Stock, and Class C Non-Voting Common Stock. Each dividend was paid on the last business day of each quarter to holders of record as of a fixed day at least two weeks prior to the dividend payment date. As a general practice, Farmer Mac has declared the dividend payable in the fourth quarter of a year at the Board of Directors meeting held in October of that year. At its October 2008 meeting, the Board deferred its consideration of the declaration of dividends on its preferred and common stock until its December 2008 meeting. At that meeting, a determination will be made about the declaration of any dividends for fourth quarter 2008 based on the Board's evaluation of Farmer Mac's then-existing financial condition, outlook and indicated capital needs. Farmer Mac's ability to declare and pay dividends on its preferred and common stock could be restricted if it were to fail to comply with the applicable regulatory capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement levels" in Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. Farmer Mac's ability to pay dividends on its common stock is also subject to the payment of dividends on its outstanding preferred stock.

The descriptions of the changes in Farmer Mac's Chairman, President and Chief Executive Officer and Executive Vice President - Chief Financial Officer and Treasurer are reported in Item 5.02 of each of the following Farmer Mac SEC filings: Current Report on Form 8 K filed on September 19, 2008; Current Report on Form 8 K filed on October 6, 2008; and Current Report on Form 8 K filed on October 24, 2008. Those sections of the referenced reports are hereby incorporated by reference in this report. In addition to the Board Executive Committee referred to in the 8-K filed October 6, 2008, the Board also has established a separate committee to conduct a search for a permanent Chief Executive Officer.



## Supplemental Information

The following tables present quarterly and annual information regarding loan purchases, guarantees and LTSPCs and outstanding guarantees and LTSPCs.

| Farmer Mac Purchases, Guarantees and LTSPCs |                                       |            |                                    |  |            |
|---|---------------------------------------|------------|------------------------------------|--|------------|
| Farmer Mac I                                |                                       |            |                                    |  |            |
|   | Loans and<br>Guaranteed<br>Securities | LTSPCs (1) | Farmer<br>Mac II<br>(in thousands) | Farmer Mac<br>Guaranteed<br>Securities -<br>Rural<br>Utilities | Total      |
| For the quarter ended:                      |                                       |            |                                    |  |            |
| September 30, 2008                          | \$ 508,179                            | \$ 239,170 | \$ 83,672                          | \$ -   | \$ 831,021 |
| June 30, 2008                               | 53,838                                | 116,472    | 79,700                             | 1,330,676 (2)  | 1,580,686  |
| March 31, 2008                              | 37,468                                | 53,281     | 53,114                             | -  | 143,863    |
| December 31, 2007                           | 40,664                                | 265,135    | 48,294                             | -  | 354,093    |
| September 30, 2007                          | 25,545                                | 156,930    | 49,049                             | -  | 231,524    |
| June 30, 2007                               | 1,039,856                             | 152,402    | 59,149                             | -  | 1,251,407  |
| March 31, 2007                              | 21,644                                | 396,322    | 53,548                             | -  | 471,514    |
| December 31, 2006                           | 24,046                                | 318,064    | 54,136                             | -  | 396,246    |
| September 30, 2006                          | 1,018,253                             | 177,885    | 74,217                             | -  | 1,270,355  |
| For the year ended:                         |                                       |            |                                    |  |            |
| December 31, 2007                           | 1,127,709                             | 970,789    | 210,040                            | -  | 2,308,538  |
| December 31, 2006                           | 1,598,673                             | 1,139,699  | 234,684                            | -  | 2,973,056  |

(1) During 2005, Farmer Mac began issuing LTSPCs for the construction of agricultural storage and processing facilities. As of September 30, 2008, approximately \$43.8 million of the loans underlying those \$377.8 million of LTSPCs were not yet disbursed by the lender.

(2) The enactment of the Farm Bill on May 22, 2008 expanded Farmer Mac's authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders. Pursuant to this expanded authority, during second quarter 2008, Farmer Mac placed its guarantee on \$1.3 billion of securities it previously held as mission-related investments under authority granted by FCA.

Outstanding Balance of Farmer Mac Loans,  
Guarantees and LTSPCs  
Farmer Mac I  
Post-1996 Act

|                    | Loans and<br>Guaranteed<br>Securities | LTSPCs       | Pre-1996<br>Act<br>(in thousands) | Farmer<br>Mac II | Farmer Mac<br>Guaranteed<br>Securities -<br>Rural<br>Utilities | Total        |
|--------------------|---------------------------------------|--------------|-----------------------------------|------------------|--|--------------|
| As of:             |                                       |              |                                   |                  |  |              |
| September 30, 2008 | \$ 5,723,175                          | \$ 2,264,880 | \$ 1,692                          | \$ 995,639       | \$ 824,941   | \$ 9,810,327 |
| June 30, 2008      | 5,471,897                             | 1,997,172    | 2,406                             | 960,278          | 1,330,676  | 9,762,429    |
| March 31, 2008     | 5,519,539                             | 1,943,181    | 2,406                             | 959,444          | -  | 8,424,570    |
| December 31, 2007  | 5,645,023                             | 1,948,941    | 3,174                             | 946,617          | -  | 8,543,755    |
| September 30, 2007 | 5,691,797                             | 1,724,328    | 3,174                             | 943,183          | -  | 8,362,482    |
| June 30, 2007      | 5,783,879                             | 1,644,413    | 3,611                             | 942,443          | -  | 8,374,346    |
| March 31, 2007     | 4,508,595                             | 1,920,848    | 3,748                             | 932,056          | -  | 7,365,247    |
| December 31, 2006  | 4,338,698                             | 1,969,734    | 5,057                             | 925,799          | -  | 7,239,288    |
| September 30, 2006 | 4,267,309                             | 1,884,223    | 5,802                             | 900,835          | -  | 7,058,169    |

The Loans and Guaranteed Securities and LTSPCs amounts in the table above reflect the following conversions of existing LTSPCs to Farmer Mac I Guaranteed Securities at the request of program participants. In addition to these conversions, during third quarter 2008, one program participant converted a \$114.2 million Farmer Mac I Guaranteed Security into an LTSPC.

Conversions of LTSPCs to  
Farmer Mac I Guaranteed Securities  
(in thousands)

|                           |         |
|---------------------------|---------|
| During the quarter ended: |         |
| September 30, 2008        | \$ -    |
| June 30, 2008             | -       |
| March 31, 2008            | -       |
| December 31, 2007         | -       |
| September 30, 2007        | 17,189  |
| June 30, 2007             | 360,777 |
| March 31, 2007            | 303,766 |
| December 31, 2006         | 143,582 |
| September 30, 2006        | 341,164 |

Outstanding Balance of Loans Held and Loans Underlying  
On-Balance Sheet Farmer Mac Guaranteed Securities

|                    | Fixed Rate   | 5-to-10-Year<br>ARMs &<br>Resets<br>(in thousands) | 1-Month-to-<br>3 Year<br>ARMs | Total Held<br>in Portfolio |
|--------------------|--------------|--|-------------------------------|----------------------------|
| As of:             |              |  |                               |                            |
| September 30, 2008 | \$ 1,412,136 | \$ 699,611   | \$ 743,146                    | \$ 2,854,893               |
| June 30, 2008      | 1,974,048    | 772,859  | 739,642                       | 3,486,549                  |
| March 31, 2008     | 963,336      | 748,584  | 342,496                       | 2,054,416                  |
| December 31, 2007  | 962,320      | 750,472  | 352,250                       | 2,065,042                  |
| September 30, 2007 | 932,134      | 735,704  | 366,573                       | 2,034,411                  |
| June 30, 2007      | 914,890      | 752,991  | 399,147                       | 2,067,028                  |
| March 31, 2007     | 899,628      | 743,891  | 417,722                       | 2,061,241                  |
| December 31, 2006  | 891,429      | 761,754  | 452,656                       | 2,105,839                  |
| September 30, 2006 | 863,000      | 744,903  | 459,604                       | 2,067,507                  |

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Farmer Mac is exposed to market risk attributable to changes in interest rates. Farmer Mac manages this market risk by entering into various financial transactions, including financial derivatives, and by monitoring its exposure to changes in interest rates. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk” for more information about Farmer Mac’s exposure to interest rate risk and strategies to manage such risk. For information regarding Farmer Mac’s use of and accounting policies for financial derivatives, see Note 1(d) to the interim unaudited condensed consolidated financial statements contained in this report. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” for further information regarding Farmer Mac’s debt issuance and liquidity risks.

Item 4. 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 Securities Exchange Act of 1934 (the “Exchange Act”), including this report, 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 Acting Chief Executive Officer (the “CEO”) and Acting Chief Financial Officer (the “CFO”), has 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 September 30, 2008.

The Corporation carried out the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-5, under the supervision and with the participation of management, including the CEO and CFO, of the effectiveness of Farmer Mac’s disclosure controls and procedures. Based upon this evaluation, the CEO and CFO concluded that the Corporation’s disclosure controls and procedures were effective as of September 30, 2008.

(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 September 30, 2008 that has materially affected, or is reasonably likely to materially affect, Farmer Mac’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Farmer Mac is not a party to any material pending legal proceedings.

Item 1A. Risk Factors

The "Risk Factors" section in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2007 identifies the most significant risk factors that could materially adversely affect Farmer Mac's business, financial condition or results of operations. The risk factors set forth below in this report provide more specificity to some of those previously identified risk factors and reflect recent developments.

Farmer Mac's ability to meet its regulatory capital requirements has been, and may continue to be, adversely affected by market conditions and other factors.

Farmer Mac's ability to meet its regulatory capital requirements has been, and may continue to be, adversely affected by various factors, including market volatility and investor interest in Farmer Mac securities. Factors that could adversely affect the adequacy of Farmer Mac's capital levels in the future include:

- the potential for additional other-than-temporary impairment charges;
- potential losses on any asset sales determined to be necessary to reduce the Corporation's need for capital;
- the potential need to increase the level of the allowance for losses on program assets in the future; and
- legislative or regulatory actions that increase Farmer Mac's applicable capital requirements.

Any actions taken to maintain compliance with capital requirements or to increase capital levels could adversely affect stockholders.

Farmer Mac may take a variety of actions to increase its capital levels, or to reduce its need for capital, to meet applicable regulatory capital requirements, including:

- issuing additional common or preferred stock;
- reducing, eliminating or delaying dividends on common and preferred stock;
- constraining growth in the portfolio of program assets by forgoing new business opportunities; or
- reducing the size of its program and non-program portfolios through asset sales.

Farmer Mac's ability to execute any of these actions or their effectiveness may be limited, especially in today's volatile and illiquid markets, and could adversely affect the Corporation's business, operating results, financial condition and earnings. For example, Farmer Mac's ability to issue additional preferred or common stock would depend, in part, on market conditions, and Farmer Mac may not be able to raise additional capital in the amounts and at the time needed, on favorable terms or at all. Issuances of new common or preferred stock are likely to be dilutive to existing stockholders and may carry other terms and conditions that could adversely affect the value of the common or preferred stock held by existing stockholders. Farmer Mac may also incur significant costs and expenses related to any issuances of new common or preferred stock.

Farmer Mac has recorded material writedowns in the value of its investment securities and could experience further writedowns of its investments in future periods, which could adversely affect the Corporation's business, operating results, financial condition and capital levels.

Farmer Mac has recorded material other-than-temporary impairment charges on its investment portfolio, and that portfolio continues to have significant exposure to securities issued by financial institutions. Continued deterioration in financial and credit market conditions could further reduce the fair value of these and other investment securities, particularly those securities that are less liquid and more subject to volatility.

Market conditions have also increased the amount of judgment required to be exercised by management to value certain securities. Furthermore, Farmer Mac relies on internal models to determine the fair value of certain investment securities, and those models could fail to produce reliable results. Subsequent valuations of investment securities, in light of factors then prevailing, may result in significant changes in the value of the Corporation's investment securities in the future. If Farmer Mac decides to sell any of the securities in its investment portfolio, the price ultimately realized will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Overview" and "—Balance Sheet Review" in this report for more information about the writedowns on and fair values of the securities in Farmer Mac's non-program investment portfolio.

An inability to access the debt capital markets could have a material adverse effect on Farmer Mac's business, operating results, financial condition and capital levels.

Liquidity is essential to Farmer Mac's business, and the Corporation relies on external sources to finance a significant portion of its operations. Farmer Mac's ability to operate its business, meet its obligations and generate net interest income depends to a large degree on the Corporation's ability to issue substantial amounts of debt frequently and at favorable rates. The issuance of short-term and long-term debt securities in the U.S. financial markets is the primary source of funding for Farmer Mac's purchases of program and non-program assets and for repaying or refinancing existing debt. Moreover, one of the primary sources of the Corporation's revenue is the net interest income earned from the difference, or "spread," between the return received on assets held and the related borrowing costs. Farmer Mac's ability to obtain funds through the issuance of debt, and the cost at which these funds may be obtained, depends on many factors, including:

- Farmer Mac's corporate and regulatory structure, including its status as a GSE and perceptions about the viability of stockholder-owned GSEs in general;
- legislative or regulatory actions relating to Farmer Mac's business, including any actions that would affect the Corporation's GSE status or add additional requirements that would restrict or reduce its ability to issue debt;
- compliance with regulatory capital requirements and any measures imposed by Farmer Mac's regulator if the Corporation were to fail to remain in compliance with those requirements;
  - Farmer Mac's financial results and changes in its financial condition;
  - the public's perception of the risks to and financial prospects of Farmer Mac's business;
    - prevailing conditions in the capital markets; and
    - competition from other issuers of GSE debt.

If Farmer Mac were unable to issue debt securities at favorable rates in amounts sufficient to operate its business and meet its obligations, it could have a material adverse effect on the Corporation's business, operating results, financial condition and capital levels.

Farmer Mac has been, and may continue to be, adversely affected by current economic and market conditions.

The recent significant disruptions in world financial markets have already adversely affected Farmer Mac by requiring material writedowns of assets and may continue to have an adverse effect on the value and performance of Farmer Mac's assets, as well as its liquidity position, ability to issue debt securities, or access to capital. The possible duration and severity of the adverse economic cycle is unknown, as the efficacy of recent efforts and programs to stabilize the economy and the banking system are uncertain. There can be no assurance that market conditions will improve in the near future or that results will not continue to be adversely affected.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Farmer Mac is a federally chartered instrumentality of the United States and its debt and equity securities are exempt from registration pursuant to Section 3(a)(2) of the Securities Act of 1933.

On July 7, 2008, 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 annual cash retainers, Farmer Mac issued an aggregate of 616 shares of its Class C Non-Voting Common Stock, at an issue price of \$24.78 per share, to the six directors who elected to receive such stock in lieu of their cash retainers.



On September 30, 2008, Farmer Mac sold 60,000 shares of its newly issued Series B-1 Preferred Stock and 5,000 shares of its newly issued Series B-2 Preferred Stock for an aggregate purchase price of \$65.0 million, or \$1,000 per share. For more information about the Series B Preferred Stock, see Note 6 to the condensed consolidated financial statements and Farmer Mac's Current Report on Form 8-K filed with the SEC on October 6, 2008.

(b) Not applicable.

(c) None.

Item 3. Defaults Upon Senior Securities

(a) None.

(b) None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

(a) None.

(b) None.

Item 6.

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 17, 2008).
- \* 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 - Certificate of Designation of Terms and Conditions of Farmer Mac 6.40 percent Cumulative Preferred Stock, Series A (Form 10-Q filed May 15, 2003).
- \* 4.5.1 - Master Terms Agreement for Farmer Mac's Universal Debt Facility dated as of July 28, 2005 (Previously filed as Exhibit 4.3 to Form 8-A filed August 4, 2005).
- \* 4.5.2 - Supplemental Agreement for 4.25 percent Fixed Rate Global Notes Due July 29, 2008 (Previously filed as Exhibit 4.4 to Form 8-A filed August 4, 2005).
- \*\* 4.6 - Amended and Restated Certificate of Designation of Terms and Conditions of Farmer Mac Senior Cumulative Perpetual Preferred Stock, Series B-1.
- \*\* 4.7 - Amended and Restated Certificate of Designation of Terms and Conditions of Farmer Mac Senior Cumulative Perpetual Preferred Stock, Series B-2.
- †\* 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).
- †\* 10.1.2 - 2008 Omnibus Incentive Plan (Form 10-Q filed August 12, 2008).

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\* 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.

- †\* 10.1.3 - Form of SAR Agreement under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10 to Form 8-K filed June 11, 2008).
- †\* 10.2 - Compiled Amended and Restated Employment Agreement dated June 5, 2008 between Henry D. Edelman and the Registrant (Form 8-K filed August 1, 2008).
- †\* 10.3 - Compiled Amended and Restated Employment Agreement dated June 5, 2008 between Nancy E. Corsiglia and the Registrant (Form 10-Q filed August 12, 2008).
- †\* 10.4 - 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).
- †\* 10.5 - Compiled Amended and Restated Employment Contract dated June 5, 2008 between Timothy L. Buzby and the Registrant (Form 10-Q filed August 12, 2008).
- †\* 10.6 - Compiled Amended and Restated Employment Contract dated June 5, 2008 between Mary K. Waters and the Registrant (Form 10-Q filed August 12, 2008).
- \* 10.7 - Farmer Mac I Seller/Service 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).
- \* 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).

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\* 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.

- \*# 10.12 - 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).
- \*# 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 - Description of compensation agreement between the Registrant and its directors (Form 10-Q filed August 9, 2007).

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\* 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.

- †\*\* 10.20 - Work for Hire Agreement dated October 20, 2008 between William T. Sandalls, Jr. and the Registrant.
- †\*\* 10.21 - Secondment Agreement effective as of October 1, 2008 between Farm Credit of Western New York and the Registrant.
- 21 - Farmer Mac Mortgage Securities Corporation, a Delaware corporation.
- \*\* 31.1 - Certification of Chief Executive Officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*\* 31.2 - Certification of Chief Financial Officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*\* 32 - Certification of Chief Executive Officer and Chief Financial Officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* 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

November 10, 2008

By: /s/ Michael A. Gerber  
Michael A. Gerber  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ William T. Sandalls, Jr.  
William T. Sandalls, Jr.  
Chief Financial Officer  
(Principal Financial Officer)