FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K
March 15, 2007

As filed with the Securities and Exchange Commission on
March 15, 2007

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

FORM 10-K

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

For the fiscal year ended December 31, 2006.

or

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

For the transition period from _____ to _____.

Commission File Number 0-17440

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

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

(202) 872-7700
(Registrant's telephone number, including area code)

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

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

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

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

Yes o No x

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

Yes o No x

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

Yes x No o

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Yes o No x

The aggregate market values of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant were $19,069,430 and $258,750,714, respectively, as of June 30, 2006, based upon the closing prices for the respective classes on June 30, 2006 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 1, 2007, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,901,002 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2007 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part II and Part III of this Annual Report on Form 10-K as described herein).

Table of Contents

Table of Contents

PART I

Item 1. Business

General

The Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") was chartered by the U.S. Congress in the Agricultural Credit Act of 1987 (12 U.S.C. §§ 2279aa et seq.), which amended the Farm Credit Act of 1971 (collectively, as amended, the "Act"). Farmer Mac is a stockholder-owned instrumentality of the United States that was created to establish a secondary market for agricultural real estate and rural housing mortgage loans and to increase the availability of long-term credit at stable interest rates to American farmers, ranchers and rural homeowners. Farmer Mac conducts these activities through two programs—Farmer Mac I and Farmer Mac II. As of December 31, 2006, total volume in these two programs was $7.2 billion.

Under the Farmer Mac I program, Farmer Mac creates a secondary market for agricultural mortgage loans and accomplishes its congressional mission of providing liquidity and lending capacity to agricultural mortgage lenders by:

- purchasing newly originated and pre-existing ("seasoned") eligible mortgage loans directly from lenders;
- guaranteeing mortgage-backed securities backed by eligible mortgage loans, which are referred to as "Farmer Mac I Guaranteed Securities";
- exchanging newly issued Farmer Mac I Guaranteed Securities for eligible mortgage loans that back those securities in "swap" transactions; and
- issuing long-term standby purchase commitments ("LTSPCs") for newly originated and seasoned eligible mortgage loans.

To be eligible for the Farmer Mac I program, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation and other standards that are discussed in "Business—Farmer Mac Programs—Farmer Mac I." Farmer Mac may retain Farmer Mac I Guaranteed Securities in its portfolio or sell them to third parties. As of December 31, 2006, outstanding loans held by Farmer Mac and loans that either back Farmer Mac I Guaranteed Securities or are subject to LTSPCs in the Farmer Mac I program totaled $6.3 billion.

Under the Farmer Mac II program, Farmer Mac purchases the portions of loans guaranteed by the United States Department of Agriculture (the "USDA-guaranteed portions") pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.) and guarantees securities backed by those USDA-guaranteed portions ("Farmer Mac II Guaranteed Securities"). Farmer Mac I Guaranteed Securities and Farmer Mac II Guaranteed Securities are sometimes collectively referred to as "Farmer Mac Guaranteed Securities." As of December 31, 2006, outstanding Farmer Mac II Guaranteed Securities totaled $925.8 million.

Farmer Mac's two principal sources of revenue are:

- fees received in connection with outstanding Farmer Mac Guaranteed Securities and LTSPCs; and
- net interest income earned on its portfolio of Farmer Mac Guaranteed Securities, mortgage loans and investments.

Table of Contents

Farmer Mac funds its purchases of Farmer Mac Guaranteed Securities, mortgage loans and investments primarily by issuing debt obligations of various maturities. As of December 31, 2006, Farmer Mac had $2.4 billion of discount notes and $2.2 billion of medium-term notes outstanding. During 2006, the Corporation continued its strategy of regularly issuing debt to increase its presence in the capital markets in order to reduce the rates it pays on its debt, which allows Farmer Mac to accept lower rates on mortgages to farmers, ranchers and rural homeowners that it purchases from lenders. To the extent the proceeds of the debt issuances exceed Farmer Mac's need to fund program assets, those proceeds are invested in high quality non-program liquid assets.

For more information about Farmer Mac's program assets, its financial performance and sources of capital and liquidity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Farmer Mac is an institution of the Farm Credit System (the "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.

The Farm Credit Administration ("FCA"), acting through its Office of Secondary Market Oversight, has general regulatory and enforcement authority over Farmer Mac, including the authority to promulgate rules and regulations governing the activities of Farmer Mac and to apply FCA's general enforcement powers to Farmer Mac and its activities. For a discussion of Farmer Mac's statutory and regulatory capital requirements and its actual capital levels, and particularly FCA's role in the establishment and maintenance of those requirements and levels, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review—Capital" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements."

Farmer Mac has three classes of common stock outstanding—Class A voting, Class B voting and Class C non-voting. See "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" for information regarding Farmer Mac's common stock. Farmer Mac has one class of preferred stock outstanding. See "Business—Farmer Mac Programs—Financing—Equity Issuance" for information regarding Farmer Mac's preferred stock.

As of December 31, 2006, Farmer Mac employed 45 people, located primarily at its principal executive offices at 1133 Twenty-First Street, N.W., Washington, D.C. 20036. Farmer Mac's main telephone number is (202) 872-7700.

Farmer Mac makes available free of charge, through the "Investors" section of its internet website at www.farmermac.com, copies of materials it files with, or furnishes to, the U.S. Securities and Exchange Commission (the "SEC"), including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after electronically filing such materials with, or furnishing such materials to, the SEC. Please note that all references to www.farmermac.com in this Annual Report on Form 10-K are inactive textual references only and that the information contained on Farmer Mac's website is not incorporated by reference into this Form 10-K.

Table of Contents

FARMER MAC PROGRAMS

Farmer Mac I

Under the Farmer Mac I program, Farmer Mac assumes, for a fee, the credit risk on agricultural mortgage loans by guaranteeing the timely payment of principal and interest on securities backed by, or representing interests in, eligible mortgage loans, or by issuing Long-Term Standby Purchase Commitments (LTSPCs) to acquire designated mortgages to accomplish the same result. In a limited volume of transactions (approximately 3 percent of 2006 Farmer Mac I program volume and 10 percent of 2005 Farmer Mac I program volume), Farmer Mac assumes the credit risk on eligible mortgage loans by purchasing and retaining them.

Loan Eligibility

A loan is eligible for the Farmer Mac I program if it is:

- secured by a fee simple mortgage or a long-term leasehold mortgage, with status as a first lien on agricultural real estate or rural housing (as defined below) located within the United States;
- an obligation of a citizen or national of the United States, an alien lawfully admitted for permanent residence in the United States or a private corporation or partnership that is majority-owned by U.S. citizens, nationals or legal resident aliens;
- an obligation of a person, corporation or partnership having training or farming experience that is sufficient to ensure a reasonable likelihood that the loan will be repaid according to its terms; and
- in conformance with the Farmer Mac I underwriting, collateral valuation, documentation and other standards. See "—Underwriting and Collateral Valuation (Appraisal) Standards" and "—Sellers" for a description of these standards.

For purposes of the Farmer Mac I program, agricultural real estate is one or more parcels of land, which may be improved by permanently affixed buildings or other structures, that:

- is used for the production of one or more agricultural commodities or products; and
- either consists of a minimum of five acres or generates minimum annual receipts of $5,000.

Although the Act does not prescribe a maximum loan size for a Farmer Mac I eligible agricultural mortgage loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac limits the size of these loans to 10 percent of Farmer Mac's core capital, resulting in a current maximum loan size of approximately $24.4 million for those loans. For a description of core capital, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review—Capital" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements." For a Farmer Mac I eligible agricultural mortgage loan secured by more than 1,000 acres of agricultural real estate, the Act authorizes a maximum loan size of $7.9 million (adjusted annually for inflation).

Table of Contents

For purposes of the Farmer Mac I program, rural housing is a one- to four-family, owner-occupied, moderately priced principal residence located in a community with a population of 2,500 or less. The current maximum purchase price or current appraised value for a dwelling, excluding the land to which the dwelling is affixed, that secures a rural housing loan is $247,184. That limit is adjusted annually for inflation each November. In addition to the dwelling itself, an eligible rural housing loan can be secured by land associated with the dwelling having an appraised value of no more than 50 percent of the total appraised value of the combined property. As of December 31, 2006, rural housing loans did not represent a significant part of Farmer Mac's business.

Purchases

Loan Purchases. Farmer Mac offers credit products designed to increase the secondary market liquidity of agricultural mortgage loans and the lending capacity of financial institutions that originate agricultural mortgage loans. Farmer Mac enters into mandatory and optional delivery commitments to purchase loans and offers rates to price such commitments daily. Farmer Mac also purchases portfolios of newly originated and seasoned loans on a negotiated basis. Primarily, Farmer Mac purchases fixed- and adjustable-rate loans, but it also purchases other types of loans. Loans purchased by Farmer Mac have a variety of maturities and often include balloon payments. Loans purchased or subject to purchase commitments may include provisions that require a yield maintenance payment or some other form of prepayment penalty in the event a borrower prepays a loan (depending upon the level of interest rates at the time of prepayment). During 2006, Farmer Mac purchased $98.7 million of loans in the Farmer Mac I program, which represented 3.6 percent of 2006 Farmer Mac I program volume. Of the loans purchased during 2006, 71 percent included balloon payments and 13 percent included yield maintenance prepayment protection. By comparison, during 2005, Farmer Mac purchased $110.1 million of loans under the Farmer Mac I program, which represented 19.3 percent of 2005 Farmer Mac I program volume. Of the loans purchased during 2005, 60 percent included balloon payments and 3 percent included yield maintenance prepayment protection.

During 2006, Farmer Mac's top ten sellers generated74.6 percent of the total Farmer Mac I loan purchase volume (2.7 percent of 2006 Farmer Mac I program volume), of which Zions First National Bank, Farmer Mac's largest combined Class A and Class C stockholder, accounted for 26.6 percent of loan purchase volume (1.0 percent of 2006 Farmer Mac I program volume). The top ten sellers in 2005 generated 85.7 percent of the total Farmer Mac I loan purchase volume (16.5 percent of 2005 Farmer Mac I program volume), of which Zions First National Bank accounted for 22.3 percent (4.3 percent of 2005 Farmer Mac I program volume). For more information regarding loan volume, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume." For more information regarding Farmer Mac's business with related parties, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions" and Note 3 to the consolidated financial statements.

AgVantage Transactions. Collateralized mortgage obligation transactions in the Farmer Mac I program include Farmer Mac's guarantee and purchase of bonds that are a form of Farmer Mac I Guaranteed Securities. Those AgVantage securities, issued by institutions approved by Farmer Mac, are corporate obligations of the issuer, collateralized by eligible mortgage loans and guaranteed by Farmer Mac as to timely payment of principal and interest. Before approving an institution as a participant in AgVantage transactions, Farmer Mac assesses the institution's agricultural mortgage loan performance as well as its creditworthiness. AgVantage is a registered trademark of Farmer Mac.

Each AgVantage security held by Farmer Mac is a general obligation of the issuing institution and is secured by eligible collateral in an amount of at least 111 percent of the outstanding principal amount of the security. Eligible collateral may consist of:

Table of Contents

- loans that meet the same loan eligibility criteria applied by Farmer Mac in its Farmer Mac I loan purchases and commitments;
- limited amounts of cash;
- securities issued by the U.S. Treasury or guaranteed by an agency or instrumentality of the United States; or
- other highly-rated securities.

During 2006, Farmer Mac purchased three AgVantage securities for $5.2 million with maturities ranging from one month to ten years from three institutions. During 2005, Farmer Mac purchased ten AgVantage securities for $15.7 million with maturities ranging from one to ten years from three institutions. As of December 31, 2006 and 2005, the outstanding principal amount of AgVantage securities held by Farmer Mac was $23.5 million and $28.6 million, respectively. As of December 31, 2006, Farmer Mac had experienced no losses, nor had it been called upon to make a guarantee payment, on any of its AgVantage securities.

Off-Balance Sheet Guarantees and Commitments

Swap Transactions and LTSPCs. Farmer Mac offers two Farmer Mac I credit enhancement alternatives that allow approved agricultural and rural residential mortgage lenders both to retain the cash flow benefits of their loans and increase their liquidity and lending capacity:

- a swap transaction, in which Farmer Mac acquires eligible loans from sellers in exchange for Farmer Mac I Guaranteed Securities backed by those loans. As consideration for its assumption of the credit risk on loans underlying the Farmer Mac I Guaranteed Securities, Farmer Mac receives guarantee fees payable in arrears out of periodic loan interest payments and based on the outstanding balance of the related Farmer Mac I Guaranteed Securities; and
- an LTSPC, which is not a guarantee of loans or securities, is a Farmer Mac commitment to purchase eligible mortgage loans from a segregated pool of loans on one or more undetermined future dates. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives commitment fees payable monthly in arrears in an amount approximating what would have been the guarantee fees if the transaction were structured as a swap transaction. An LTSPC can be converted to a swap transaction at the option of the seller, with no conversion fee paid to Farmer Mac.

Both of these alternative products result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business.

A swap transaction or an LTSPC may involve loans with payment, maturity and interest rate characteristics that differ from Farmer Mac's cash purchase product offerings. Both types of transactions permit a seller to nominate from its portfolio a segregated pool of loans for participation in the Farmer Mac I program, subject to review by Farmer Mac for conformance with its underwriting, collateral valuation and documentation standards. Upon Farmer Mac's acceptance of the eligible loans, whether under a swap transaction or an LTSPC, the seller effectively transfers the credit risk on those loans to Farmer Mac, thereby reducing the seller's credit and concentration risk exposures and, consequently, its regulatory capital requirements and its loss reserve requirements. Only the LTSPC structure permits the seller to retain the segregated loan pool in its portfolio until such time, if ever, as the seller delivers some or all of the segregated loans to Farmer Mac for purchase under the LTSPC. An LTSPC commits Farmer Mac to a future purchase of loans that met Farmer Mac's underwriting standards at the time the loans first became subject to the LTSPC and Farmer Mac assumed the credit risk on loans.

Table of Contents

Farmer Mac generally purchases loans subject to an LTSPC at:

- par plus accrued interest (if the loans become delinquent for at least four months);
- a mark-to-market price or in exchange for Farmer Mac I Guaranteed Securities (if the loans are not delinquent and are standard cash purchase Farmer Mac loan products); or
- either a mark-to-market negotiated price for all (but not some) loans in the pool, based on the sale of Farmer Mac I Guaranteed Securities in the capital markets or the funding obtained by Farmer Mac through the issuance of matching debt in the capital markets, or converted to Farmer Mac I Guaranteed Securities in a swap transaction (if the loans are not four months delinquent).

In 2006, Farmer Mac entered into $1.1 billion of LTSPCs, compared to $461.4 million in 2005. LTSPCs remained the preferred credit enhancement alternative for new non-cash transactions and were a significant portion of the Farmer Mac I program. During 2006, three sellers converted $1.0 billion of LTSPCs into swap transactions. Taking account of those conversions, as of December 31, 2006, Farmer Mac's outstanding LTSPCs covered 8,232 mortgage loans with an aggregate principal balance of $2.0 billion and outstanding off-balance sheet Farmer Mac I Guaranteed Securities were backed by 5,768 mortgage loans having an aggregate principal balance of $1.6 billion. Additionally, as of December 31, 2006, Farmer Mac's outstanding off-balance sheet AgVantage securities totaled $1.5 billion. For more information regarding guarantee and LTSPC volume, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

<u>AgVantage Transactions</u>. Securities generated in AgVantage transactions may be retained in portfolio by Farmer Mac or sold into the capital markets. The latter, off-balance sheet AgVantage securities are Farmer Mac guaranteed general obligations of highly-rated issuing institutions, collateralized by eligible loans in a principal amount equal to at least 103 percent of the outstanding principal amount of the security.

In January 2006, Farmer Mac guaranteed $500.0 million principal amount of AgVantage securities supported by a five-year mortgage-backed obligation of Metropolitan Life Insurance Company ("MetLife") collateralized by eligible loans. In July 2006, Farmer Mac guaranteed an additional $1.0 billion of AgVantage securities supported by a five-year mortgage-backed obligation of MetLife collateralized by eligible loans.

Underwriting and Collateral Valuation (Appraisal) Standards

As required by the Act, Farmer Mac has established credit underwriting and collateral valuation (appraisal) standards for loans under the Farmer Mac I program that at a minimum are intended to:

- provide that no agricultural mortgage loan with a loan-to-value ratio ("LTV") in excess of 80 percent may be eligible;
- require each borrower to demonstrate sufficient cash-flow to adequately service the agricultural mortgage loan;

Table of Contents

- Ÿ protect the integrity of the appraisal process with respect to any agricultural mortgage loans; and
- Ÿ confirm that the borrower is or will be actively engaged in agricultural production for an agricultural mortgage loan.

Loans collateralizing AgVantage securities that are, or are backed by, corporate obligations of highly-rated sellers are required to meet these statutory standards in place of the underwriting standards set forth below.

Underwriting. To manage its credit risk, to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting to all participating sellers and potential sellers in its programs, Farmer Mac has adopted credit underwriting standards that vary by type of loan and program product under which the loan is brought to Farmer Mac. These standards were developed based on industry norms for similar mortgage loans and are designed to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac as the guarantor of mortgage-backed securities representing interests in, or obligations backed by, pools of such mortgage loans. Further, Farmer Mac requires sellers of agricultural mortgage loans to make representations and warranties regarding the conformity of eligible mortgage loans to these standards and any other requirements the Corporation may impose from time to time.

In fourth quarter 2005, Farmer Mac began accepting into its programs agricultural mortgage loans that meet the minimum underwriting requirements in the Act and are either: (1) highly-rated loans; or (2) loans collateralizing AgVantage securities issued by highly-rated financial institutions. Highly-rated loans are loans rated “5” or better under the 14-point Uniform Classification System used by FCS institutions and other financial institutions, or loans evidencing comparable credit quality that are originated or held by financial institutions, including loans that are secured by eligible collateral with LTVs not greater than 55 percent and made to borrowers with high credit scores. For the latter type of highly-rated loans, processing has been simplified and documentation of the underwriting ratios described below may not be necessary.

For all other loans, Farmer Mac I credit underwriting standards require that the LTV of any loan not exceed 70 percent, except that a loan secured by a livestock facility and supported by a contract with an approved integrator may have an LTV of up to 80 percent, a part-time farm loan supported by private mortgage insurance may have an LTV of up to 90 percent and a rural housing loan supported by private mortgage insurance may have an LTV of up to 97 percent. Farmer Mac may require that a loan have a lower LTV when it determines that such lower LTV is appropriate.

In the case of newly originated farm loans that are not highly-rated loans described above, particularly loans secured by agricultural real estate with building improvements contributing more than 60 percent of the appraised value of the property (referred to by Farmer Mac as facility loans), borrowers on the loans must, among other criteria set forth in Farmer Mac’s credit underwriting standards, meet the following standard underwriting ratios on a pro forma basis (i.e., giving effect to the new loan):

- total debt service coverage ratio, including farm and non-farm income, of not less than 1.25:1;
- debt-to-asset ratio of 50 percent or less;
- ratio of current assets to current liabilities of not less than 1:1; and
- cash flow debt service coverage ratio on the mortgaged property of not less than 1:1.

Part-time farm and rural housing loans are underwritten to traditional residential lending guidelines, with fully documented income and assets and liabilities. Borrowers' credit scores are obtained and used in the underwriting process.

Table of Contents

Farmer Mac's underwriting standards provide for acceptance of loans that do not conform to one or more of the standard underwriting ratios when those loans:

- exceed minimum requirements for one or more of the underwriting standards to a degree that compensates for noncompliance with one or more other standards, referred to as compensating strengths; and
- are made to producers of particular agricultural commodities or products in a segment of agriculture in which such compensating strengths are typical of the financial condition of sound borrowers in that segment.

Farmer Mac's use of compensating strengths is not intended to provide a basis for waiving or lessening the requirement that eligible mortgage loans under the Farmer Mac I program be of consistently high quality. In fact, loans approved on the basis of compensating strengths have not demonstrated a significantly different rate of default than loans that were approved on the basis of conformance with all of the standard underwriting ratios. As of December 31, 2006, a total of $1.5 billion (31.9 percent) of the outstanding balance of loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities issued after the enactment of the Farm Credit System Reform Act of 1996 (the "1996 Act") were approved based upon compensating strengths ($44.2 million of which had original LTVs of greater than 70 percent). The original LTV of a loan is calculated by dividing the loan's principal balance at the time of guarantee, purchase or commitment by the appraised value at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase or commitment. During 2006, $49.0 million (4.0 percent) of the loans purchased or added under LTSPCs were approved based upon compensating strengths ($5.4 million of which had original LTVs of greater than 70 percent), as compared to 2005 when $111.2 million (19.5 percent) of the loans purchased or added under LTSPCs were approved based upon compensating strengths ($2.6 million of which had original LTVs of greater than 70 percent).

In the case of a seasoned loan, other than the highly-rated loans described above, Farmer Mac considers sustained historical performance to be a reliable alternative indicator of a borrower's ability to pay the loan according to its terms. A seasoned loan generally will be deemed an eligible loan if:

- it has been outstanding for at least five years and has an LTV of 60 percent or less;
- there have been no payments more than 30 days past due during the previous three years; and
- there have been no material restructurings or modifications for credit reasons during the previous five years.

A seasoned loan that has been outstanding for more than one year but less than five years must substantially comply with the applicable underwriting standards for newly originated loans as of the date the loan was originated by the lender. The loan must also have a payment history that shows no payment more than 30 days past due during the three-year period immediately prior to the date the loan is either purchased by Farmer Mac or made subject to an LTSPC. There is no requirement that each loan's compliance with the underwriting standards be re-evaluated after Farmer Mac accepts the loan into its program.

Table of Contents

The due diligence Farmer Mac performs before purchasing, guaranteeing securities backed by, or committing to purchase seasoned loans includes:

- evaluation of loan database information to determine conformity to the criteria set forth in the preceding paragraphs;
- confirmation that loan file data conform to database information;
- validation of supporting credit information in the loan files; and
- review of loan documentation and collateral valuations.

All of the foregoing are performed utilizing methods that give due regard to the size, age, leverage and nature of the collateral for the loans.

Required documentation for all Farmer Mac I loans includes a first lien mortgage or deed of trust, a written promissory note and assurance of Farmer Mac's lien position through either a title insurance policy or title opinion from an experienced real estate attorney in geographic areas where title insurance is not the industry practice.

As Farmer Mac develops new credit products, it establishes underwriting guidelines for them. Those guidelines result in industry-specific measures equivalent to the basic underwriting standards and provide Farmer Mac the flexibility to deliver the benefits of a secondary market to farmers, ranchers and rural homeowners in diverse sectors of the agricultural economy.

Collateral Valuations (Appraisals and Evaluations). Farmer Mac's collateral valuation standards for newly originated loans purchased or placed under a Farmer Mac I Guaranteed Security or LTSPC require, among other things, that a current valuation be performed independently of the credit decision-making process and, for appraisals, conform to the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Standards Board. Farmer Mac's collateral valuation standards require the valuation function to be conducted or administered by an individual meeting specific qualification and competence criteria who:

- is not associated, except by the engagement for the collateral valuation, with the credit underwriters making the loan decision, though the appraiser or evaluator and the credit underwriter may be directly or indirectly employed by a common employer;
- receives no financial or professional benefit of any kind by virtue of the report content, valuation or credit decision made or based on the valuation report; and
- has no present or contemplated future direct or indirect interest in the property serving or to serve as collateral.

The collateral valuation standards also require uniform reporting of reliable and credible opinions of the market value and relevant market rent and property net income characteristics of the mortgaged property, along with the relative market forces.

For seasoned loans, Farmer Mac obtains collateral valuation updates as considered necessary by its assessment of collateral risk determined in the due diligence process. If a current or updated collateral valuation is required for a seasoned loan, the collateral valuation standards described above would apply.

Table of Contents

Farmer Mac utilizes experienced internal agricultural credit underwriters and external agricultural loan servicing and collateral valuation contractors (under Farmer Mac supervision and review) to perform those respective functions on loans that come into the Farmer Mac I program. Those contractors afford Farmer Mac the benefits of their servicing centers at fees based upon their marginal costs, which allows Farmer Mac to avoid the fixed costs, and some of the marginal costs, associated with such operations. Farmer Mac believes that the combined expertise of its own internal staff and those third-party service providers provides the Corporation adequate resources for performing the necessary underwriting, collateral valuation and servicing functions.

Sellers

As of December 31, 2006, Farmer Mac had 177 approved loan sellers eligible to participate in the Farmer Mac I program, ranging from single-office to multi-branch institutions, spanning community banks, FCS institutions, mortgage companies, commercial banks and insurance companies. The increase in the number of approved Farmer Mac I loan sellers from 137 as of December 31, 2005 is principally the result of two factors: (1) an increase in the number of new Farmer Mac sellers precipitated largely by the new American Bankers Association/Farmer Mac Alliance; and (2) a new, customized seller recertification process that is conducted quarterly instead of annually. In addition to participating directly in the Farmer Mac I program, some of the approved loan sellers enable other lenders to participate indirectly in the Farmer Mac I program by managing correspondent networks of lenders from which they purchase loans to sell to Farmer Mac. As of December 31, 2006, approximately 100 lenders were participating in those networks. As of December 31, 2006, more than 300 lenders were participating, directly or indirectly, in one or both of the Farmer Mac I or Farmer Mac II programs.

To be considered for approval as a Farmer Mac I seller, a financial institution must meet the criteria that Farmer Mac establishes, including:

- owning a requisite amount of Farmer Mac Class A or Class B voting common stock according to a schedule prescribed for the size and type of institution;
- having, in the judgment of Farmer Mac, the ability and experience to make or purchase and sell agricultural mortgage loans eligible for the Farmer Mac I program and service such mortgage loans in accordance with Farmer Mac requirements either through its own staff or through contractors and originators;
- maintaining a minimum adjusted net worth of $1.0 million; and
- entering into a Seller/Servicer agreement to comply with the terms of the Farmer Mac Seller/Servicer Guide, including representations and warranties regarding the eligibility of the loans and accuracy of loan data provided to Farmer Mac.

Servicing

Farmer Mac generally does not directly service loans held in its portfolio, although it does act as “master servicer” for pools of loans and loans underlying Farmer Mac I Guaranteed Securities. Farmer Mac also may assume direct servicing for defaulted loans. Loans held by Farmer Mac or underlying Farmer Mac Guaranteed Securities are serviced only by Farmer Mac-approved entities designated as “central servicers” that have entered into central servicing contracts with Farmer Mac. Sellers of eligible mortgage loans sold into the Farmer Mac I program have a right to retain certain “field servicing” functions (typically direct borrower contacts) and may enter into contracts with Farmer Mac’s central servicers that specify such servicing functions. Loans underlying LTSPCs and AgVantage securities are serviced by the holders of those loans in accordance with those lenders’ servicing procedures, which are reviewed and approved by Farmer Mac before entering into those transactions.

Farmer Mac I Guaranteed Securities

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac Guaranteed Securities. Farmer Mac Guaranteed Securities backed by agricultural mortgage loans eligible for the Farmer Mac I program are referred to as "Farmer Mac I Guaranteed Securities."

Farmer Mac's statutory charter requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act of 1933, as amended ("the "Securities Act") unless an exemption for an offering is available. Farmer Mac also may offer Farmer Mac Guaranteed Securities in offerings exempt from registration under the Securities Act such as in private, unregistered offerings. U.S. Bank National Association, a national banking association based in Minneapolis, Minnesota, or Farmer Mac serves as trustee for the trusts that acquire eligible loans and issue Farmer Mac Guaranteed Securities.

Farmer Mac I Guaranteed Securities represent beneficial interests in pools of agricultural mortgage loans or in obligations issued by agricultural lenders, which obligations are backed by pools of agricultural mortgage loans, and guaranteed by Farmer Mac. These securities are customarily issued through special purpose trusts and entitle each investor in a class of securities to receive a portion of the payments of principal and interest on the related underlying pool of loans or obligation equal to the investor's proportionate interest in the pool or obligation as specified in the applicable transaction documents. Farmer Mac I Guaranteed Securities issued prior to the enactment of changes to Farmer Mac's statutory charter in 1996 are supported by first-loss subordinated interests that represented 10 percent of the balance of the loans underlying the securities at issuance and are neither guaranteed nor owned by Farmer Mac.

Farmer Mac is liable under its guarantee on the securities to make timely payments to investors of principal (including balloon payments) and interest based on the scheduled payments on the underlying loans or obligations, regardless of whether the trust has actually received such scheduled payments. Because it guarantees timely payments on Farmer Mac I Guaranteed Securities, Farmer Mac assumes the ultimate credit risk of borrower defaults on the underlying loans and issuer default on the underlying obligations which are backed by agricultural mortgage loans. All of the loans supporting Farmer Mac I Guaranteed Securities are subject to the applicable underwriting standards described above in "—Underwriting and Collateral Valuation (Appraisal) Standards." See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans."

Farmer Mac receives guarantee fees in return for its guarantee obligations on Farmer Mac I Guaranteed Securities. These fees typically are collected out of installment payments made on the underlying loans or obligations until those loans or obligations have been repaid or otherwise liquidated (generally as a result of default). The aggregate amount of guarantee fees received on Farmer Mac I Guaranteed Securities depends upon the amount of such securities outstanding and on the applicable guarantee fee rate, which Farmer Mac's statutory charter caps at 50 basis points (0.50 percent) per annum. The Farmer Mac I guarantee fee rate typically ranges from 15 to 50 basis points (0.15 to 0.50 percent) per annum, depending on the credit quality of and other criteria regarding the loans or obligations. The amount of Farmer Mac I Guaranteed Securities outstanding representing interests in loans is influenced by the repayment rates on the underlying loans and by the rate at which Farmer Mac issues new Farmer Mac I Guaranteed Securities. In general, when the level of interest rates declines significantly below the interest rates on loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to increase; conversely, when interest rates rise above the interest rates on the loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to decrease. In addition to changes in interest rates, the rate of principal payments on Farmer Mac I Guaranteed Securities also is influenced by a variety of economic, demographic and other considerations, such as yield maintenance provisions that may be associated with loans underlying Farmer Mac I Guaranteed Securities. For more information regarding yield maintenance provisions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk."

-14-

Table of Contents

For each of the years ended December 31, 2006 and 2005, Farmer Mac sold Farmer Mac I Guaranteed Securities in the amounts of $4.0 million and $53.3 million, respectively, to related parties. In 2006 and 2005, Farmer Mac recognized no gain or loss on any sale of Farmer Mac Guaranteed Securities. In addition to the Farmer Mac I Guaranteed Securities it sold in 2006, during January and July 2006 Farmer Mac guaranteed $500.0 million and $1.0 billion, respectively, principal amount of AgVantage securities supported by five-year mortgage-backed obligations of MetLife that is backed by eligible agricultural mortgage loans. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume.”

Farmer Mac I Transactions

During the year ended December 31, 2006, Farmer Mac purchased or placed under guarantee or LTSPC $2.7 billion of loans under the Farmer Mac I program. As of December 31, 2006, loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs totaled $6.3 billion. The 1996 Act revised Farmer Mac’s statutory charter to eliminate the requirement of a first-loss subordinated interest in Farmer Mac I Guaranteed Securities. As of December 31, 2006, $5.1 million of Farmer Mac I Guaranteed Securities issued prior to the 1996 Act remained outstanding.

The following table summarizes loans purchased or newly placed under guarantees or LTSPCs under the Farmer Mac I program for each of the years ended December 31, 2006, 2005 and 2004.

	For the Year Ended December 31,		
	2006	2005	2004
		(in thousands)	
Loans and Guaranteed Securities	$ 1,598,673	$ 110,056	$ 104,404
LTSPCs	1,139,699	461,441	392,559
Total	$ 2,738,372	$ 571,497	$ 496,963

Table of Contents

The following table presents the outstanding balances of Farmer Mac I loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs as of the dates indicated:

	As of December 31,		
	2006	2005	2004
	(in thousands)		
Post-1996 Act:			
Loans and Guaranteed Securities	$ 4,338,698	$ 2,094,410	$ 2,367,460
LTSPCs	1,969,734	2,329,798	2,295,103
Pre-1996 Act	5,057	13,046	18,640
Total Farmer Mac I program	$ 6,313,489	$ 4,437,254	$ 4,681,203

Funding of Guarantee and Purchase Commitment Obligations

The principal sources of funding for the payment of Farmer Mac's obligations under its guarantees and LTSPCs are the fees for its guarantees and commitments, net interest income and the proceeds of debt issuances. Farmer Mac satisfies its guarantee and purchase commitment obligations by purchasing defaulted loans out of LTSPCs and from the related trusts for Farmer Mac Guaranteed Securities. Farmer Mac typically recovers a significant portion of the value of defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties or foreclosure and sale of the property securing the loans. Ultimate losses arising from Farmer Mac's guarantees and commitments are reflected in the Corporation's charge-offs against its allowance for losses and gains and losses on the sale of real estate owned. During 2006, Farmer Mac's net charge-offs were $0.7 million, compared to $0.3 million in net recoveries during 2005.

The Act requires Farmer Mac to set aside, as an allowance for losses in a reserve account, a portion of the guarantee fees it receives from its guarantee activities. Among other things, that reserve account must be exhausted before Farmer Mac may issue obligations to the U.S. Treasury against the $1.5 billion Farmer Mac is statutorily authorized to borrow from the U.S. Treasury to fulfill its guarantee obligations. That borrowing authority is not intended to be a routine funding source and has never been used. Although total outstanding guarantees and LTSPCs exceed the amount held as an allowance for losses and the amount the Corporation may borrow from the U.S. Treasury, Farmer Mac does not expect its obligations under the guarantees and LTSPCs to exceed amounts available to satisfy those obligations. For information regarding the allowance for losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans" and Note 2(j) and Note 8 to the consolidated financial statements. For a more detailed discussion of Farmer Mac's borrowing authority from the U.S. Treasury, see "Business—Farmer Mac's Authority to Borrow from the U.S. Treasury."

Portfolio Diversification

It is Farmer Mac's policy to diversify its portfolio of loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs, both geographically and by agricultural commodity/product. Farmer Mac directs its marketing efforts toward agricultural lenders throughout the nation to achieve commodity/product and geographic diversification in its exposure to credit risk. Farmer Mac evaluates its credit exposure in particular geographic regions and commodities/products, adjusted for the credit quality of the loans in those particular geographic regions or commodity/product groups relative to the total principal amount of all outstanding loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

Table of Contents

Farmer Mac is not obligated to purchase, or commit to purchase, every loan that meets its underwriting and collateral valuation standards submitted by an eligible seller. Farmer Mac considers other factors such as its overall portfolio diversification, commodity and farming forecasts and risk management objectives in deciding whether to accept the loans into the Farmer Mac I program. For example, if industry forecasts indicate possible weakness in a geographic area or agricultural commodity or product, Farmer Mac may decide not to purchase or commit to purchase an affected loan as part of managing its overall portfolio exposure to areas of possible heightened risk exposure. Because Farmer Mac effectively assumes the credit risk on all loans under an LTSPC, Farmer Mac's commodity/product and geographic diversification disclosures reflect all loans under LTSPCs and any loans that have been purchased out of LTSPC pools. For information regarding the diversification of Farmer Mac's existing portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans" and Note 8 to the consolidated financial statements.

Farmer Mac II

General

The Farmer Mac II program was initiated in 1992 and is authorized under sections 8.0(3) and 8.0(9)(B) of Farmer Mac's statutory charter (12 U.S.C. §§ 2279aa(3) and 2279aa(9)(B)), which provide that:

- USDA-guaranteed portions of loans guaranteed under the Consolidated Farm and Rural Development Act (7 U.S.C. § 1921 et seq.) are statutorily included in the definition of loans eligible for Farmer Mac's secondary market programs;
- USDA-guaranteed portions are exempted from the credit underwriting, collateral valuation and other standards that other loans must meet to be eligible for Farmer Mac programs, and are exempted from any diversification and internal credit enhancement that may be required of pools of other loans eligible for Farmer Mac programs; and
- Farmer Mac is authorized to pool and issue Farmer Mac Guaranteed Securities backed by USDA-guaranteed portions.

United States Department of Agriculture Guaranteed Loan Programs

The United States Department of Agriculture ("USDA"), acting through its various agencies, currently administers the federal rural credit programs first developed in the mid-1930s. The USDA makes direct loans and guarantees portions of loans made and serviced by USDA-qualified lenders for various purposes. The USDA's guarantee is supported by the full faith and credit of the United States. USDA-guaranteed portions represent up to 95 percent of the principal amount of guaranteed loans.

Through its Farmer Mac II program, Farmer Mac is one of several competing purchasers of USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities and other loans that are fully guaranteed as to principal and interest by the USDA (collectively, the "guaranteed loans").

Table of Contents

USDA Guarantees. Each USDA guarantee is a full faith and credit obligation of the United States and becomes enforceable if a lender fails to repurchase the USDA-guaranteed portion from its owner within 30 days after written demand from the owner when:

- the borrower under the guaranteed loan is in default not less than 60 days in the payment of any principal or interest due on the USDA-guaranteed portion; or
- the lender has failed to remit to the owner the payment made by the borrower on the USDA-guaranteed portion or any related loan subsidy within 30 days after the lender's receipt of the payment.

If the lender does not repurchase the USDA-guaranteed portion as provided above, the USDA is required to purchase the unpaid principal balance of the USDA-guaranteed portion together with accrued interest (including any loan subsidy) to the date of purchase, less the servicing fee, within 30 days after written demand upon the USDA by the owner. While the USDA guarantee will not cover the note interest to the owner on USDA-guaranteed portions accruing after 90 days from the date of the original demand letter of the owner to the lender requesting repurchase, Farmer Mac has established procedures to require prompt tendering of USDA-guaranteed portions.

If, in the opinion of the lender (with the concurrence of the USDA) or in the opinion of the USDA, repurchase of the USDA-guaranteed portion is necessary to service the related guaranteed loan adequately, the owner will sell the USDA-guaranteed portion to the lender or USDA for an amount equal to the unpaid principal balance and accrued interest (including any loan subsidy) on such USDA-guaranteed portion less the lender's servicing fee. Federal regulations prohibit the lender from repurchasing USDA-guaranteed portions for arbitrage purposes.

Lenders. Any lender authorized by the USDA to obtain a USDA guarantee on a loan may be a seller in the Farmer Mac II program. As of December 31, 2006, there were 181 active sellers in the Farmer Mac II program, consisting mostly of community and regional banks, compared to 120 sellers as of December 31, 2005, for an increase of 61 active sellers. In the aggregate, more than 300 sellers were participating either directly or indirectly in one or both of the Farmer Mac I or Farmer Mac II programs during 2006.

Loan Servicing. The lender on each guaranteed loan is required by regulation to retain the unguaranteed portion of the guaranteed loan, to service the entire underlying guaranteed loan, including the USDA-guaranteed portion, and to remain mortgagee and/or secured party of record. The USDA-guaranteed portion and the unguaranteed portion of the underlying guaranteed loan are to be secured by the same security with equal lien priority. The USDA-guaranteed portion cannot be paid later than, or in any way be subordinated to, the related unguaranteed portion.

Farmer Mac II Guaranteed Securities

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac II Guaranteed Securities backed by USDA-guaranteed portions. Farmer Mac does not guarantee the repayment of the USDA-guaranteed portions, only the Farmer Mac II Guaranteed Securities that are backed by USDA-guaranteed portions. In addition to purchasing USDA-guaranteed portions for retention in its portfolio, Farmer Mac offers Farmer Mac II Guaranteed Securities to lenders in swap transactions or to other investors for cash.

Table of Contents

Farmer Mac II Transactions

During the years ended December 31, 2006 and 2005, Farmer Mac issued $234.7 million and $200.2 million of Farmer Mac II Guaranteed Securities, respectively. As of December 31, 2006 and 2005, $925.8 million and $835.7 million of Farmer Mac II Guaranteed Securities were outstanding, respectively. See Note 5 and Note 12 to the consolidated financial statements. The following table presents Farmer Mac II Guaranteed Securities issued for each of the years indicated:

	For the Year Ended December 31,		
	2006	2005	2004
		(in thousands)	
Purchased and retained	$ 234,666	$ 199,843	$ 162,286
Swaps (issued to third parties)	-	325	11,788
Total	$ 234,666	$ 200,168	$ 174,074

The following table presents the outstanding balance of Farmer Mac II Guaranteed Securities as of the dates indicated:

	Outstanding Balance of Farmer Mac II Guaranteed Securites as of December 31,		
	2006	2005	2004
		(in thousands)	
On-balance sheet	$ 892,667	$ 796,224	$ 712,653
Off-balance sheet	33,132	39,508	55,889
Total	$ 925,799	$ 835,732	$ 768,542

As of December 31, 2006, Farmer Mac had experienced no credit losses on any of its Farmer Mac II transactions. As of December 31, 2006, Farmer Mac had outstanding $0.1 million of principal and interest advances on Farmer Mac II Guaranteed Securities, compared to $0.4 million as of December 31, 2005.

Financing

Debt Issuance

Farmer Mac funds its purchases of program, mission-related 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. 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 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 a nationally recognized statistical rating organization ("NRSRO").

Table of Contents

Farmer Mac's board of directors has authorized the issuance of up to $7.0 billion outstanding of discount notes and medium-term notes, 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, mission-related assets and non-program investment assets in accordance with policies established by its board of directors. In compliance with regulations issued by FCA in 2005, including dollar amount, issuer concentration and credit quality limitations, Farmer Mac's current policies authorize non-program investments in:

- obligations of the United States;
- obligations of government-sponsored enterprises ("GSEs");
- municipal securities;
- international and multilateral development bank obligations;
- money market instruments;
- diversified investment funds;
- asset-backed securities;
- corporate debt securities; and
- mortgage securities.

For more information about Farmer Mac's outstanding investments and indebtedness, see Note 4 and Note 7 to the consolidated financial statements.

Equity Issuance

The Act authorizes Farmer Mac to issue voting common stock, non-voting common stock and non-voting preferred stock. Only banks, other financial entities, insurance companies and institutions of the FCS eligible to participate in one or more of the Farmer Mac programs may hold voting common stock. No holder of Class A voting common stock may directly or indirectly be a beneficial owner of more than 33 percent of the outstanding shares of Class A voting common stock. No ownership restrictions apply to Class C non-voting common stock or preferred stock, and they are freely transferable.

Upon liquidation, dissolution or winding up of the business of Farmer Mac, after payment and provision for payment of outstanding debt of the Corporation, the holders of shares of preferred stock would be paid in full at par value, plus all accrued dividends, before the holders of shares of common stock received any payment. The dividend rights of all three classes of the Corporation's common stock are the same, and dividends may be paid on common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to the payment of dividends on outstanding preferred stock.

As of December 31, 2006, 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock, 9,075,862 shares of Class C non-voting common stock and 700,000 shares of 6.40 percent non-voting cumulative preferred stock, Series A were outstanding. Farmer Mac may obtain additional capital from future issuances of voting and non-voting common stock and non-voting preferred stock. Farmer Mac has no present intention to issue any additional shares of common stock, except pursuant to programs in which members of the board of directors may purchase Class C non-voting common stock, or employees, members of management or the board of directors may exercise options to purchase Class C non-voting common stock as part of their compensation arrangements.

Table of Contents

The following table presents the dividends declared on the common stock during and subsequent to 2006:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 2, 2006	$ 0.10	January 1, 2006	March 31, 2006	March 31, 2006
April 6, 2006	0.10	April 1, 2006	June 30, 2006	June 30, 2006
August 2, 2006	0.10	July 1, 2006	September 30, 2006	September 29, 2006
October 4, 2006	0.10	October 1, 2006	December 31, 2006	December 29, 2006
February 5, 2007	0.10	January 1, 2007	March 31, 2007	*

* The dividend declared on February 5, 2007 is scheduled to be paid on March 30, 2007.

Farmer Mac's ability to declare and pay common stock dividends could be restricted if it were to fail to comply with its regulatory capital requirements. See Note 9 to the consolidated financial statements and "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement levels."

The cumulative preferred stock, Series A has a redemption price and liquidation preference of $50.00 per share, plus accrued and unpaid dividends. The preferred stock does not have a maturity date. Beginning on June 30, 2012, Farmer Mac has the option to redeem the 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. The costs of issuing the preferred stock were charged to additional paid-in capital. Farmer Mac pays cumulative dividends on the preferred stock quarterly in arrears, when and if declared by the board of directors. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements. The following table presents the dividends declared on the preferred stock during and subsequent to 2006:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 2, 2006	$ 0.80	January 1, 2006	March 31, 2006	March 31, 2006
April 6, 2006	0.80	April 1, 2006	June 30, 2006	June 30, 2006
August 2, 2006	0.80	July 1, 2006	September 30, 2006	October 2, 2006
October 4, 2006	0.80	October 1, 2006	December 31, 2006	January 2, 2007
February 5, 2007	0.80	January 1, 2007	March 31, 2007	*

* The dividend declared on February 5, 2007 is scheduled to be paid on April 2, 2007.

During third quarter 2004, Farmer Mac established a program to repurchase up to 10 percent, or 1,055,500 shares, of the Corporation's outstanding Class C non-voting common stock. During third quarter 2005, the aggregate number of shares repurchased by Farmer Mac under that program, at an average purchase price of $20.73 per share, reached the maximum number of authorized shares, thereby terminating the program according to its terms. During fourth quarter 2005, Farmer Mac established a program to repurchase up to an additional 10 percent, or 958,632 shares, of the Corporation’s outstanding Class C non-voting common stock. During 2006 and 2005, Farmer Mac repurchased 796,450 shares and 43,950 shares, respectively, of its Class C non-voting common stock under the second repurchase program at an average price of $26.82 and $27.97 per share, respectively. During first quarter 2007, the aggregate number of shares repurchased by Farmer Mac under that program reached the maximum number of authorized shares, thereby terminating the program according to its terms. At that time, Farmer Mac announced the establishment of a third program to repurchase up to 1 million additional shares of the Corporation’s outstanding Class C non-voting common stock. The authority for this new stock repurchase program expires in November 2008. Repurchases under that program commenced in accordance with its terms, upon termination of the previous program.

Table of Contents

All of the shares repurchased under Farmer Mac's stock repurchase programs were purchased in open market transactions and were retired to become authorized but unissued shares available for future issuance.

FARMER MAC'S AUTHORITY TO BORROW FROM THE U.S. TREASURY

Farmer Mac may, in extreme circumstances, issue obligations to the U.S. Treasury in a cumulative amount not to exceed $1.5 billion. The proceeds of such obligations may be used solely for the purpose of fulfilling Farmer Mac's guarantee obligations under the Farmer Mac I and Farmer Mac II programs. The Act provides that the U.S. Treasury is required to purchase such obligations of Farmer Mac if Farmer Mac certifies that:

- a portion of the guarantee fees assessed by Farmer Mac has been set aside as a reserve against losses arising out of Farmer Mac's guarantee activities in an amount determined by Farmer Mac's board of directors to be necessary and such reserve has been exhausted; and
- the proceeds of such obligations are needed to fulfill Farmer Mac's guarantee obligations.

Such obligations would bear interest at a rate determined by the U.S. Treasury, taking into consideration the average rate on outstanding marketable obligations of the United States as of the last day of the last calendar month ending before the date of the purchase of the obligations from Farmer Mac, and would be required to be repurchased from the U.S. Treasury by Farmer Mac within a "reasonable time."

The United States government does not guarantee payments due on Farmer Mac Guaranteed Securities, funds invested in the equity or debt securities of Farmer Mac, any dividend payments on shares of Farmer Mac stock or the profitability of Farmer Mac.

GOVERNMENT REGULATION OF FARMER MAC

General

Farmer Mac's statutory charter requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act unless an exemption for an offering is available. Farmer Mac also is required to file reports with the SEC pursuant to the SEC's periodic reporting requirements.

Table of Contents

Regulation

Office of Secondary Market Oversight

As an institution of the FCS, Farmer Mac is subject to the regulatory authority of FCA. FCA, acting through its Office of Secondary Market Oversight, has general regulatory and enforcement authority over Farmer Mac, including the authority to promulgate rules and regulations governing the activities of Farmer Mac and to apply its general enforcement powers to Farmer Mac and its activities. The Director of the Office of Secondary Market Oversight, who is selected by and reports to the FCA board, is responsible for the examination of Farmer Mac and the general supervision of the safe and sound performance by Farmer Mac of the powers and duties vested in it by the Act. The Act requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of its regulatory activities, including the cost of any examination. Farmer Mac is required to file quarterly reports of condition with FCA.

Capital Standards

General. The Act, as amended by the 1996 Act, establishes three capital standards for Farmer Mac:

- Minimum capital - Farmer Mac's minimum capital level is an amount of core capital 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 Farmer Mac's aggregate off-balance sheet obligations, specifically including:

  - the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
  - instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
  - other off-balance sheet obligations of Farmer Mac.

- Critical capital - Farmer Mac's critical capital level is an amount of core capital equal to 50 percent of the total minimum capital requirement at that time.
- Risk-based capital - The Act directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters. While the Act does not specify the required level of risk-based capital, that level is permitted to exceed the statutory minimum capital requirement applicable to Farmer Mac, if so indicated by the risk-based capital stress test.

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

Table of Contents

The risk-based capital stress test promulgated by FCA is intended to determine the amount of regulatory capital (core capital plus the allowance for losses, but excluding the valuation allowance for real estate owned) that Farmer Mac would need to maintain positive capital during a ten-year period in which:

- annual losses occur at a rate of default and severity "reasonably related" to the rates of the highest sequential two years in a limited U.S. geographic area; and
- interest rates increase to a level equal to the lesser of 600 basis points or 50 percent of the ten-year U.S. Treasury rate, and interest rates remain at such level for the remainder of the period.

The risk-based capital stress test then adds an additional 30 percent to the resulting capital requirement for management and operational risk. On December 16, 2006, FCA published a final rule that revises certain FCA regulations governing the risk-based capital stress test applicable to Farmer Mac. For a discussion of that regulation, which will become effective March 31, 2007, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters."

As of December 31, 2006, Farmer Mac's minimum and critical capital requirements were $174.5 million and $87.3 million, respectively, and its actual core capital level was $243.5 million, $69.0 million above the minimum capital requirement and $156.2 million above the critical capital requirement. Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2006 was $42.9 million and Farmer Mac's regulatory capital of $248.1 million exceeded that amount by approximately $205.2 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" for a presentation of Farmer Mac's current regulatory capital position.

Enforcement levels. The Act directs FCA to classify Farmer Mac within one of four enforcement levels for purposes of determining compliance with capital standards. As of December 31, 2006, Farmer Mac was classified as within level I—the highest compliance level.

Failure to comply with the applicable required capital level in the Act would result in Farmer Mac being classified as within level II (below the applicable risk-based capital level, but above the minimum capital level), level III (below the minimum capital level, but above the critical capital level) or level IV (below the critical capital level). In the event that Farmer Mac were classified as within level II, III or IV, the Act requires the Director of the Office of Secondary Market Oversight to take a number of mandatory supervisory measures and provides the Director with discretionary authority to take various optional supervisory measures depending on the level in which Farmer Mac is classified. The mandatory measures applicable to level II include:

- requiring Farmer Mac to submit and comply with a capital restoration plan;
- prohibiting the payment of dividends if such payment would result in Farmer Mac being reclassified as within level III or IV, and requiring the pre-approval of any dividend payment even if such payment would not result in reclassification as within level IV; and
- reclassifying Farmer Mac as within level III if it does not submit a capital restoration plan that is approved by the Director, or the Director determines that Farmer Mac has failed to make, in good faith, reasonable efforts to comply with such a plan and fulfill the schedule for the plan approved by the Director.

Table of Contents

The mandatory measures applicable to level III include:

- requiring Farmer Mac to submit and comply with a capital restoration plan;
- prohibiting the payment of dividends if such payment would result in Farmer Mac being reclassified as within level IV and requiring the pre-approval of any dividend payment even if such payment would not result in reclassification as within level IV; and
- reclassifying Farmer Mac as within a lower level if it does not submit a capital restoration plan that is approved by the Director or the Director determines that Farmer Mac has failed to make, in good faith, reasonable efforts to comply with such a plan and fulfill the schedule for the plan approved by the Director.

If Farmer Mac were classified as within level III, then, in addition to the foregoing mandatory supervisory measures, the Director of the Office of Secondary Market Oversight could take any of the following discretionary supervisory measures:

- imposing limits on any increase in, or ordering the reduction of, any obligations of Farmer Mac, including off-balance sheet obligations;
- limiting or prohibiting asset growth or requiring the reduction of assets;
- requiring the acquisition of new capital in an amount sufficient to provide for reclassification as within a higher level;
- terminating, reducing or modifying any activity the Director determines creates excessive risk to Farmer Mac; or
- appointing a conservator or a receiver for Farmer Mac.

The Act does not specify any supervisory measures, either mandatory or discretionary, to be taken by the Director in the event Farmer Mac were classified as within level IV.

The Director of the Office of Secondary Market Oversight has the discretionary authority to reclassify Farmer Mac to a level that is one level below its then current level (for example, from level I to level II) if the Director determines that Farmer Mac is engaging in any action not approved by the Director that could result in a rapid depletion of core capital or if the value of property subject to mortgages backing Farmer Mac Guaranteed Securities has decreased significantly.

Item 1A. Risk Factors

Farmer Mac's business activities, financial performance and results of operations are, by their nature, subject to a number of risks and uncertainties. Consequently, the Corporation's net interest income, total revenues and net income have been, and are likely to continue to be, subject to fluctuations that reflect the effect of many factors, including the risk factors described below. These risks are not exhaustive. Other sections of this Annual Report on Form 10-K may include additional factors that could adversely affect Farmer Mac's business and its financial performance and results of operations. Furthermore, because new risk factors likely will emerge from time to time, management can neither predict all such risk factors nor assess the effects of such factors on Farmer Mac's business, operating results and financial condition or the extent to which any factor, or combination of factors, may affect the Corporation's actual results and financial condition. If any of the following risks materialize, Farmer Mac's business, financial condition or results of operations could be materially adversely affected.

Table of Contents

Farmer Mac's business, operating results and financial condition **may be materially and adversely affected by external factors that may be beyond its control.**

Farmer Mac's business, operating results and financial condition may be materially and adversely affected by external factors that may be beyond its control, including, but not limited to:

- legislative or regulatory developments or interpretations of Farmer Mac's statutory charter that could adversely affect Farmer Mac, its ability to offer new products, the ability or motivation of certain lenders to participate in its programs or the terms of any such participation, or increase the cost of regulation and related corporate activities, including, but not limited to:
  - the possible establishment of additional statutory or regulatory restrictions or constraints on Farmer Mac that could hamper its growth or diminish its profitability; and
  - the possible effect of Farmer Mac's risk-based capital requirement, which could, under certain circumstances, exceed its statutory minimum capital requirement;
- Farmer Mac's access to the debt markets at favorable rates and terms;
- competitive pressures in the purchase of agricultural mortgage loans and the sale of Farmer Mac Guaranteed Securities and debt securities;
- substantial changes in interest rates, agricultural land values, commodity prices, export demand for U.S. agricultural products, the general economy, and other factors that may affect delinquency levels and credit losses on agricultural mortgage loans;
- protracted adverse weather, animal and plant disease outbreaks, market or other conditions affecting particular geographic regions or particular agricultural commodities or products related to agricultural mortgage loans backing Farmer Mac I Guaranteed Securities or under LTSPCs; and
- the effects of any changes in federal assistance for agriculture on the agricultural economy or the value of agricultural real estate.

Farmer Mac's **business development and profitability depend on the continued growth of the secondary market for agricultural mortgage loans, the future of which remains uncertain.**

Continued growth in Farmer Mac's business may be constrained by conditions that limit the need for agricultural lenders to obtain the benefits of Farmer Mac's programs, including, but not limited to:

- high levels of available capital and liquidity of agricultural lenders;
- the availability of alternative sources of funding and credit enhancement for agricultural lenders;
- downturns in the agricultural economy that could reduce growth rates and the need for capital in the agricultural mortgage market;
- increased competition in the secondary market for purchases of quality agricultural mortgage loans;
- reduced growth rates in the agricultural mortgage market, due largely to the strong liquidity of many farmers and ranchers;
- reduced capital requirements for the FCS, which lessen the demand for LTSPCs;

Table of Contents

- the historical preference of many agricultural lending institutions to retain loans in their portfolios rather than to sell them into the secondary market, notwithstanding the corporate finance and capital planning benefits they might otherwise realize through participation in Farmer Mac's programs;
- a small number of business partners currently provide a significant proportion of Farmer Mac's business volume, as distinguished from program revenue (which is obtained from diverse sources), as a result of the Corporation's successful marketing focus on large program transactions that emphasize 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;
- the ability of some lending institutions to subsidize, in effect, their agricultural mortgage loan rates through low-return use of equity or acceptance of greater asset and liability mismatch; and
- legislative and regulatory developments in this area, as further discussed below.

As a result of these factors, Farmer Mac may not be able to meet its business development and profitability goals. To the extent that Farmer Mac fails to meet these goals, its total revenues, net income and financial condition could be materially adversely affected.

Farmer Mac is a government-sponsored enterprise whose continued growth may be adversely affected by legislative and regulatory developments.

Farmer Mac is a government-sponsored enterprise that is governed by a statutory charter controlled by the U.S. Congress and regulated by governmental agencies. Consequently, Farmer Mac is subject to risks related to legislative, regulatory or political developments. Such developments could affect the ability of lenders to participate in Farmer Mac's programs or the terms on which they may participate. Further, from time to time, legislative or regulatory initiatives are commenced that, if successful, could result in the enactment of legislation or the promulgation of regulations that could affect negatively the growth or operation of the secondary market for agricultural mortgages. Any of these political or regulatory developments could have a material and adverse effect on Farmer Mac's business. See "Government Regulation of Farmer Mac" in Item 1 of this Annual Report on Form 10-K for additional discussion on the rules and regulations governing Farmer Mac's activities.

Farmer Mac Guaranteed Securities and LTSPCs expose Farmer Mac to significant contingent liabilities and its ability to fulfill its obligations under its guarantees and LTSPCs may be limited.

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac Guaranteed Securities, which are backed by qualified agricultural real estate mortgage loans. As a result of its guarantee, Farmer Mac assumes the ultimate credit risk of borrower defaults on the underlying loans. Farmer Mac also issues LTSPCs for pools of qualified loans that commit Farmer Mac to purchase certain loans under enumerated circumstances on undetermined future dates.

Table of Contents

Repayment of the qualified loans underlying Farmer Mac Guaranteed Securities or subject to LTSPCs typically depends on the success of the related farming operation, which, in turn, depends on many variables and factors over which farmers may have little or no control, such as weather conditions, animal and plant disease outbreaks, economic conditions (both domestic and international) and political conditions. If the cash flow from a farming operation decreases (for example, as a result of adverse weather conditions that destroy a crop or that prevent the planting or harvesting of a crop), the farmer's ability to repay the loan may be impaired. Protracted adverse weather, animal and plant disease outbreaks, market or other conditions affecting a particular geographic region and particular commodities related to the agricultural mortgage loans backing Farmer Mac Guaranteed Securities or subject to LTSPCs, or significant loan payment defaults by farmers for other reasons, could require Farmer Mac to pay under its guarantees and LTSPCs and could have a material adverse effect on the Corporation's financial condition and results of operations.

Farmer Mac Guaranteed Securities and LTSPCs are obligations of Farmer Mac only, and are not backed by the full faith and credit of the United States, FCA or any other agency or instrumentality of the United States other than Farmer Mac. Farmer Mac's principal source of funds for the payment of claims under its guarantees and purchase commitments are the fees received in connection with outstanding Farmer Mac Guaranteed Securities and LTSPCs. These amounts are, and will continue to be, substantially less than the amount of Farmer Mac's aggregate contingent liabilities under its guarantees and LTSPCs. Farmer Mac is required to set aside a portion of the fees it receives as a reserve against losses from its guarantee and commitment activities. Farmer Mac expects that its future contingent liabilities for its guarantee and commitment activities will continue to grow and will exceed Farmer Mac's resources, including amounts in the Corporation's allowance for losses and its limited ability to borrow from the U.S. Treasury.

***Farmer Mac is* exposed to credit risk and interest rate risk that could materially and adversely affect its financial condition and future earnings.**

The primary types of risk in the conduct of Farmer Mac's business are:

- credit risk associated with the agricultural mortgage loans that Farmer Mac purchases or commits to purchase or that back Farmer Mac Guaranteed Securities;
- interest rate risk on all program and non-program assets held on balance sheet, that results principally from:
  - potential changes in the relationship between the interest rates paid by the Corporation on its liabilities and the yields it receives on investments of like maturity or reset term; or
  - potential timing differences between the maturities or interest rate resets of the assets and the liabilities used to fund the acquisition and carry of the assets;
- credit risk associated with Farmer Mac's business relationships with other institutions, such as counterparties to swap and other hedging arrangements; and
- risks as to the creditworthiness of the issuers of AgVantage securities and the Corporation's non-program investments.

Any of these risks could materially and adversely affect Farmer Mac's financial condition and future earnings. For additional discussion about the Corporation's risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Risk Management" in Item 7 of this Annual Report on Form 10-K.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

Farmer Mac currently occupies its principal offices, which are located at 1133 Twenty-First Street, N.W., Washington, D.C. 20036, under the terms of a lease that expires on November 30, 2011 and covers approximately 13,500 square feet of office space. Farmer Mac also maintains an office located at 415 Clark Avenue, Ames, Iowa 50010, under the terms of a lease that expires on June 15, 2008 (Farmer Mac has the option to renew the lease for an additional three-year term) and covers approximately 1,750 square feet of office space. Farmer Mac's offices are suitable and adequate for its current and currently anticipated needs.

Item 3. Legal Proceedings

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

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

There were no matters submitted to a vote of Farmer Mac's security holders during fourth quarter 2006.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Farmer Mac has three classes of common stock outstanding. Ownership of Class A voting common stock is restricted to banks, insurance companies and other financial institutions or similar entities that are not institutions of the FCS. Ownership of Class B voting common stock is restricted to institutions of the FCS. There are no ownership restrictions on the Class C non-voting common stock. Under the terms of the original public offering of the Class A and Class B voting common stock, the Corporation reserved the right to redeem at book value any shares of either class held by an ineligible holder.

Farmer Mac's Class A voting common stock and Class C non-voting common stock trade on the New York Stock Exchange under the symbols AGM.A and AGM, respectively. The Class B voting common stock, which has a limited market and trades infrequently, is not listed or quoted on any exchange or other medium, and Farmer Mac is unaware of any publicly available quotations or prices for that class.

The information below represents the high and low closing sales prices for the Class A and Class C common stocks for the periods indicated as reported by the New York Stock Exchange.

	Sales Prices			
	Class A Stock		Class C Stock	
	High	Low	High	Low
	(per share)			
2007				
First quarter (through March 1, 2007)	$ 19.30	$ 18.12	$ 28.25	$ 25.18
2006				
Fourth quarter	19.50	17.20	28.41	24.90
Third quarter	19.30	17.55	28.19	25.68
Second quarter	19.90	16.95	29.65	25.05
First quarter	21.95	18.60	31.06	27.53
2005				
Fourth quarter	23.15	17.51	32.21	22.75
Third quarter	20.35	16.56	26.65	22.60
Second quarter	16.40	12.89	22.05	15.67
First quarter	17.20	14.00	23.36	16.80

Performance Graph. The following graph compares the performance of Farmer Mac's Class A voting common stock and Class C non-voting common stock with the performance of the New York Stock Exchange Composite Index (the "NYSE Comp") and the Standard & Poor's 500 Diversified Financials Index (the "S&P Div Fin") over the period from December 31, 2001 to December 31, 2006. The graph assumes that $100 was invested on December 31, 2001 in each of: Farmer Mac's Class A voting common stock; Farmer Mac's Class C non-voting common Stock; the NYSE Comp; and the S&P Div Fin. The graph also assumes that all dividends were reinvested into the same securities throughout the past five years.

Table of Contents

This performance graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC, and such performance graph shall not be incorporated by reference into any of Farmer Mac's filings under the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing (except to the extent Farmer Mac specifically incorporates this section by reference into such filing).

As of March 1, 2007, Farmer Mac estimates that there were 1,269 registered owners of the Class A voting common stock, 98 registered owners of the Class B voting common stock and 1,183 registered owners of the Class C non-voting common stock.

The dividend rights of all three classes of the Corporation's common stock are the same, and dividends may be paid on common stock only when, as and if declared by Farmer Mac's board of directors in its sole discretion. 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 pursuant to a policy adopted by the Corporation's board of directors. On February 5, 2007, Farmer Mac's board of directors declared a quarterly dividend of $0.10 per share on the Corporation's common stock payable on March 30, 2007. Farmer Mac expects to continue to pay comparable quarterly cash dividends for the foreseeable future, subject to the outlook and indicated capital needs of the Corporation and the determination of the board of directors. Farmer Mac's ability to pay dividends on its common stock is subject to the payment of dividends on its outstanding preferred stock. Farmer Mac's ability to declare and pay dividends could also be restricted if it were to fail to comply with regulatory capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement levels."

Table of Contents

Information about securities authorized for issuance under Farmer Mac's equity compensation plans appears under "Equity Compensation Plans" in the Corporation's definitive proxy statement to be filed on or about April 27, 2007. That portion of the definitive proxy statement is incorporated by reference into this Annual Report on Form 10-K.

Farmer Mac is a federally chartered instrumentality of the United States and its common stock is exempt from registration pursuant to Section 3(a)(2) of the Securities Act. On October 4, 2006, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 562 shares of its Class C non-voting common stock, at an issue price of $26.47 per share, to the seven directors who elected to receive such stock in lieu of their cash retainers. On October 3, 2006, Farmer Mac granted options under its 1997 Incentive Plan to purchase an aggregate of 33,000 shares of Class C non-voting common stock, at an exercise price of $24.98 per share, to 11 non-officer employees as incentive compensation. On December 6, 2006, Farmer Mac granted options under its 1997 Incentive Plan to purchase 750 shares of Class C non-voting common stock, at an exercise price of $26.65 per share, to a non-officer employee in connection with the employee's commencement of employment.

(b) Not applicable.

(c) As shown in the table below, Farmer Mac repurchased 90,100 shares of its Class C non-voting common stock during fourth quarter 2006 at an average price of $26.57 per share. All of the repurchased shares were purchased in open market transactions and were retired to become authorized but unissued shares available for future issuance.

Issuer Purchases of Equity Securities

Period	**Total Number of Class C Shares Purchased**	**Average Price Paid per Class C Share**	**Total Number of Class C Shares Purchased as Part of Publicly Announced Program***	**Maximum Number of Class C Shares that May Yet Be Purchased Under the Program**
October 1, 2006 - October 31, 2006	22,050	$ 25.55	22,050	186,282
November 1, 2006 - November 30, 2006	14,500	26.28	14,500	171,782
December 1, 2006 - December 31, 2006	53,550	27.06	53,550	118,232
Total	90,100	26.57	90,100	118,232

* On November 17, 2005, Farmer Mac publicly announced the establishment of a program to repurchase up to 10 percent of the Corporation's outstanding Class C non-voting common stock (958,632 shares). During first quarter 2007, the aggregate number of shares repurchased by Farmer Mac under that program reached the maximum number of authorized shares, thereby terminating the program according to its terms. On February 5, 2007, Farmer Mac announced the establishment of a new program to repurchase up to 1 million additional shares of the Corporation's outstanding Class C non-voting common stock. The authority for this new stock repurchase program expires in November 2008. Repurchases under that program commenced in accordance with its terms, upon termination of the previous program.

-32-

Table of Contents

Item 6. Selected Financial Data

	As of December 31,				
Summary of Financial Condition:	2006	2005	2004	2003	2002
	(dollars in thousands)				
Cash and cash equivalents	$ 877,714	$ 458,852	$ 430,504	$ 623,674	$ 723,800
Investment securities	1,830,904	1,621,941	1,056,143	1,064,782	830,409
Farmer Mac Guaranteed Securities	1,330,418	1,330,976	1,376,847	1,508,134	1,608,507
Loans, net	775,421	799,516	882,874	982,446	962,355
Total assets	4,953,673	4,341,445	3,847,410	4,299,670	4,222,003
Notes payable:					
Due within one year	3,298,097	2,587,704	2,620,172	2,799,384	2,895,746
Due after one year	1,296,691	1,406,527	864,412	1,138,892	985,318
Total liabilities	4,705,184	4,095,416	3,612,176	4,089,178	4,039,344
Stockholders' equity	248,489	246,029	235,234	210,492	182,659
Selected Financial Ratios:					
Return on average assets	0.64%	1.15%	0.96%	0.92%	-0.60%
Return on average common equity	14.03%	22.87%	20.76%	24.16%	-16.65%
Average equity to assets	5.32%	5.88%	5.47%	4.61%	4.08%

	For the Year Ended December 31,				
Summary of Operations:	2006	2005	2004	2003	2002
	(in thousands, except per share amounts)				
Interest Income:					
Net interest income after recovery/ (provision) for loan losses	$ 40,686	$ 50,689	$ 65,763	$ 72,278	$ 71,993
Non-interest income/(loss):					
Guarantee and commitment fees	21,815	19,554	20,977	20,685	19,277
Gains/(losses) on financial derivatives and trading assets	1,617	11,537	(14,687)	(17,653)	(110,860)
Gains on sale of available-for-sale investment securities	1,150	-	200	-	-
Gain on sale of Farmer Mac Guaranteed Securities	-	-	367	-	-
Gains on the repurchase of debt	-	116	-	-	1,368
Gains on the sale of real estate owned	809	34	523	178	24
Representation and warranty claims income	718	79	2,816	-	-
Other income	1,001	1,872	1,295	812	1,332
Non-interest income/(loss)	27,110	33,192	11,491	4,022	(88,859)

Non-interest expense	23,094	11,518	16,263	15,182	18,767
Income/(loss) before income taxes and cumulative					
effect of change in accounting principles	44,702	72,363	60,991	61,118	(35,633