

FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q/A
November 09, 2006

As filed with the Securities and Exchange Commission on
November 9, 2006

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

**FORM 10-Q/A
Amendment No. 1 to Form 10-Q**

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

For the quarterly period ended June 30, 2006

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)

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

Yes No

Indicate by check mark whether the registrant 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 Accelerated filer Non-accelerated filer

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

Yes No

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

As of August 1, 2006, the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 9,205,695 shares of Class C Non-Voting Common Stock outstanding.

**FEDERAL AGRICULTURAL MORTGAGE CORPORATION
FORM 10-Q/A FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006**

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the “Amendment”) to the Quarterly Report on Form 10-Q of the Federal Agricultural Mortgage Corporation (“Farmer Mac”) for the quarterly period ended June 30, 2006, initially filed with the Securities and Exchange Commission on August 9, 2006 (the “Original Filing”) is being filed to amend and restate financial and other information contained in Item 1 (Condensed Consolidated Financial Statements), Item 2 (Management’s Discussion and Analysis of Operating Results and Financial Condition), Item 3 (Quantitative and Qualitative Disclosures About Market Risk) and Item 4 (Controls and Procedures) of Part I, and Item 6 (Exhibits) of Part II of the Original Filing.

This Amendment restates the Corporation’s unaudited interim condensed consolidated financial statements as of June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and 2005. The Corporation is concurrently filing amendments to (1) its Form 10-K for the year ended December 31, 2005 to restate the Corporation’s consolidated financial statements as of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003, and other financial information as of and for the years ended December 31, 2002 and 2001 and the quarterly unaudited data for 2005 and 2004 and (2) its Form 10-Q for the quarter ended March 31, 2006 to restate the quarterly unaudited interim consolidated financial statements and other financial information contained in that report. In this regard, investors should rely on the restated financial results for the years and each of the quarters in the years 2005, 2004, 2003, 2002 and 2001 and the first and second quarters of 2006 and, as the Corporation previously reported on Form 8-K on October 6, 2006, should not rely on the Corporation’s previously issued consolidated financial statements and other financial information for these reporting periods.

The Corporation, in light of SEC staff comments, has recently concluded a reassessment of its documentation and accounting treatment of financial derivative transactions under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”), interpretations of which have evolved. Based on the reassessment, while the transactions engaged in by the Corporation were highly effective economic hedges of interest rate risk, the Corporation has determined that it was not appropriately applying hedge accounting in accordance with SFAS 133. See “Note 6 - Restatement of Condensed Consolidated Financial Statements” in Item 1 of Part I and the discussion under the caption “Restatement of Previously Issued Quarterly Financial Statements” in Item 2 of Part I for further information related to the restatement with respect to the hedge accounting that had been employed and the effects of this treatment on the restated consolidated financial statements.

This Amendment also addresses management’s re-evaluation of disclosure controls and procedures and management’s report on internal control over financial reporting resulting from management’s reassessment and identification of a material weakness in internal control over financial reporting relating to Farmer Mac’s accounting for derivatives under SFAS 133. See Item 4 (Controls and Procedures) of Part I for further discussion. New certifications of the principal executive officer and principal financial officer are included as exhibits to this Amendment.

Except as described above, no attempt has been made in this Amendment to amend or update other disclosures presented in this Form 10-Q/A. Therefore, this Amendment does not reflect events occurring after the filing of the Original Filing or amend or update those disclosures, or related exhibits, affected by subsequent events. Accordingly, this Amendment should be read in conjunction with Farmer Mac's other filings with the SEC subsequent to the filing of the Original Filing.

-3-

PART I - FINANCIAL INFORMATIONItem 1. Condensed Consolidated Financial Statements

The following restated interim unaudited condensed consolidated financial statements of the Federal Agricultural Mortgage Corporation (“Farmer Mac” or the “Corporation”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These interim unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations and cash flows of Farmer Mac for the interim periods presented. Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2005 consolidated balance sheet presented in this report has been derived from the Corporation’s audited 2005 restated consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial position, condensed consolidated results of operations and condensed consolidated cash flows as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited 2005 consolidated financial statements of Farmer Mac included in the Corporation’s Annual Report on Form 10-K/A for the year ended December 31, 2005. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

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

Condensed Consolidated Balance Sheets (as restated) as of June 30, 2006 and December 31, 2005	5
Condensed Consolidated Statements of Operations (as restated) for the three and six months ended June 30, 2006 and 2005	6
Condensed Consolidated Statements of Cash Flows (as restated) for the six months ended June 30, 2006 and 2005	7
Notes to Condensed Consolidated Financial Statements (as restated)	8

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except share data)

	June 30, 2006 (As Restated)*	December 31, 2005 (As Restated)*
Assets:		
Cash and cash equivalents	\$ 348,951	\$ 458,852
Investment securities	2,007,895	1,621,941
Farmer Mac Guaranteed Securities	1,303,921	1,330,976
Loans held for sale	54,801	41,956
Loans held for investment	732,334	762,436
Allowance for loan losses	(2,734)	(4,876)
Loans held for investment, net	729,600	757,560
Real estate owned	1,039	3,532
Financial derivatives	23,040	8,719
Interest receivable	63,652	67,509
Guarantee and commitment fees receivable	25,784	22,170
Deferred tax asset, net	2,497	3,223
Prepaid expenses and other assets	6,321	25,007
Total Assets	\$ 4,567,501	\$ 4,341,445
Liabilities and Stockholders' Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$ 3,040,620	\$ 2,587,704
Due after one year	1,186,872	1,406,527
Total notes payable	4,227,492	3,994,231
Financial derivatives	21,039	29,162
Accrued interest payable	29,034	29,250
Guarantee and commitment obligation	21,685	17,625
Accounts payable and accrued expenses	13,277	21,371
Reserve for losses	3,518	3,777
Total Liabilities	4,316,045	4,095,416
Stockholders' Equity:		
Preferred stock:		
Series A, stated at redemption/liquidation value, \$50 per share, 700,000 shares authorized, issued and outstanding	35,000	35,000
Common stock:		
Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares issued and outstanding	1,031	1,031
Class B Voting, \$1 par value, no maximum authorization, 500,301 shares issued and outstanding	500	500
Class C Non-Voting, \$1 par value, no maximum authorization, 9,361,305 and 9,559,554 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	9,361	9,560

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

Additional paid-in capital	83,740	83,058
Accumulated other comprehensive income	(176)	15,247
Retained earnings	122,000	101,633
Total Stockholders' Equity	251,456	246,029
Total Liabilities and Stockholders' Equity	\$ 4,567,501	\$ 4,341,445

See accompanying notes to condensed consolidated financial statements.

* See Note 6 to the condensed consolidated financial statements

-5-

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2006 (As Restated)*	June 30, 2005 (As Restated)*	June 30, 2006 (As Restated)*	June 30, 2005 (As Restated)*
Interest income:				
Investments and cash equivalents	\$ 30,298	\$ 14,765	\$ 56,996	\$ 27,352
Farmer Mac Guaranteed Securities	18,953	18,672	36,990	36,999
Loans	11,847	11,470	23,230	23,591
Total interest income	61,098	44,907	117,216	87,942
Interest expense	51,020	31,966	96,471	61,120
Net interest income	10,078	12,941	20,745	26,822
Recovery/(provision) for loan losses	594	203	1,606	787
Net interest income after recovery/(provision) for loan losses	10,672	13,144	22,351	27,609
Guarantee and commitment fees	5,288	4,889	10,337	9,845
Gains/(losses) on financial derivatives and trading assets	9,908	(14,562)	21,608	(4,697)
Gains/(losses) on the sale of real estate owned	304	(67)	514	(80)
Representation and warranty claims income	718	-	718	79
Other income	58	367	227	687
Total revenues	26,948	3,771	55,755	33,443
Expenses:				
Compensation and employee benefits	2,673	1,899	5,577	3,675
General and administrative	2,577	2,275	5,335	4,264
Regulatory fees	588	576	1,175	1,152
Real estate owned operating costs, net	22	59	137	37
Provision/(recovery) for losses	592	(91)	(104)	(192)
Total operating expenses	6,452	4,718	12,120	8,936
Income/(loss) before income taxes	20,496	(947)	43,635	24,507
Income tax expense/(benefit)	6,559	(944)	14,046	7,565
Net income/(loss)	13,937	(3)	29,589	16,942
Preferred stock dividends	(560)	(560)	(1,120)	(1,120)
Net income/(loss) available to common stockholders	\$ 13,377	\$ (563)	\$ 28,469	\$ 15,822
Earnings per common share:				
Basic earnings (loss) per common share	\$ 1.21	\$ (0.05)	\$ 2.57	\$ 1.37
Diluted earnings (loss) per common share	\$ 1.18	\$ (0.05)	\$ 2.50	\$ 1.36
Common stock dividends per common share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

See accompanying notes to condensed consolidated financial statements.

* See Note 6 to the condensed consolidated financial statements

-6-

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in thousands)

	Six Months Ended	
	June 30, 2006 (As Restated)*	June 30, 2005 (As Restated)*
Cash flows from operating activities:		
Net income	\$ 29,589	\$ 16,942
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (accretion)/amortization of investment premiums and discounts	(1,237)	1,267
Net amortization of debt premiums, discounts and issuance costs	58,220	26,960
Proceeds from repayment of trading investment securities	1,001	1,525
Purchases of loans held for sale	(31,316)	(27,781)
Proceeds from repayment of loans held for sale	5,344	6,643
Net change in fair value of trading securities and financial derivatives	(22,420)	(5,472)
Amortization of SFAS 133 transition adjustment on financial derivatives	298	377
(Gains)/losses on the sale of real estate owned	(514)	80
Total (recovery)/provision for losses	(1,711)	(979)
Deferred income taxes	1,527	(1,769)
Stock-based compensation expense	955	-
Decrease in interest receivable	3,857	8,323
Decrease/(increase) in guarantee and commitment fees receivable	(3,614)	759
Decrease/(increase) in other assets	28,794	1,807
Increase in accrued interest payable	(216)	(2,747)
Decrease in other liabilities	(9,086)	(3,436)
Net cash provided by operating activities	59,471	22,499
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(1,913,573)	(1,026,241)
Purchases of Farmer Mac II Guaranteed Securities and AgVantage Farmer Mac Guaranteed Securities	(108,600)	(92,834)
Purchases of loans held for investment	(25,058)	(11,141)
Purchases of defaulted loans	(4,565)	(3,804)
Proceeds from repayment of investment securities	1,524,967	899,988
Proceeds from repayment of Farmer Mac Guaranteed Securities	117,990	127,460
Proceeds from repayment of loans	68,426	69,781
Proceeds from sale of loans and Farmer Mac Guaranteed Securities	3,033	22,012
Proceeds from sale of real estate owned	2,819	572
Net cash used in investing activities	(334,561)	(14,207)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	37,272,236	22,405,440
Proceeds from issuance of medium-term notes	117,200	204,183
Payments to redeem discount notes	(37,100,394)	(22,304,773)
Payments to redeem medium-term notes	(114,000)	(339,840)
Tax benefit from tax deductions in excess of compensation cost recognized	348	-
Proceeds from common stock issuance	2,112	650

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

Purchases of common stock	(8,974)	(10,965)
Dividends paid	(3,339)	(3,416)
Net cash provided by/(used in) financing activities	165,189	(48,721)
Net decrease in cash and cash equivalents	(109,901)	(40,429)
Cash and cash equivalents at beginning of period	458,852	430,504
Cash and cash equivalents at end of period	\$ 348,951	\$ 390,075

See accompanying notes to condensed consolidated financial statements.

* See Note 6 to the condensed consolidated financial statements

-7-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(*unaudited*)

Note 1.**Accounting Policies**(a) Cash and Cash Equivalents

Farmer Mac considers highly liquid investment securities with maturities of three months or less at the time of purchase to be cash equivalents. Changes in the balance of cash and cash equivalents are reported in the condensed consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the six months ended June 30, 2006 and 2005.

	Six Months Ended	
	June 30, 2006	June 30, 2005
	<i>(in thousands)</i>	
Cash Paid For		
Interest	\$ 40,360	\$ 33,295
Income taxes	4,500	6,700
Non-cash activity:		
Real estate owned acquired through foreclosure	-	460
Loans acquired and securitized as Farmer Mac Guaranteed Securities	3,033	22,012
Loans previously under LTSPCs exchanged for Farmer Mac Guaranteed Securities	550,114	-

(b) Allowance for Losses

As of June 30, 2006, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held for investment, real estate owned, and loans underlying long-term standby purchase commitments ("LTSPCs") and Farmer Mac I Guaranteed Securities issued after the Farm Credit System Reform Act of 1996 (the "1996 Act") in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ("SFAS 5") and Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended ("SFAS 114").

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

Historically, Farmer Mac estimated probable losses using a systematic process that began with management's evaluation of the results of a proprietary loan pool simulation and guarantee fee model. That model drew upon historical information from a data set of agricultural mortgage loans screened to include only those loans with credit characteristics similar to those eligible for Farmer Mac's programs. The results generated by that model were then modified, as necessary, by the application of management's judgment.

During 2005, Farmer Mac completed the planned migration of its methodology for determining its allowance for losses away from one based on its loan pool simulation and guarantee fee model to one based on its own historical portfolio loss experience and credit trends. Farmer Mac recorded the effects of that change as a change in accounting estimate of \$4.8 million as of September 30, 2005.

Farmer Mac's current methodology for determining its allowance for losses incorporates the Corporation's proprietary automated loan classification system. That system scores loans based on criteria such as historical repayment performance, loan seasoning, loan size and loan-to-value ratio. For the purposes of the loss allowance methodology, the loans in Farmer Mac's portfolio of loans and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs have been scored and classified for each calendar quarter since first quarter 2000. The allowance methodology captures the migration of loan scores across concurrent and overlapping 3-year time horizons and calculates loss rates separately within each loan classification for (1) loans underlying LTSPCs and (2) loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities. The calculated loss rates are applied to the current classification distribution of Farmer Mac's portfolio to estimate inherent probable losses, on the assumption that the historical credit losses and trends used to calculate loss rates will continue in the future. Management evaluates this assumption by taking into consideration several factors, including:

- economic conditions;
- geographic and agricultural commodity/product concentrations in the portfolio;
- the credit profile of the portfolio;
- delinquency trends of the portfolio; and
- historical charge-off and recovery activities of the portfolio.

If, based on that evaluation, management concludes that the assumption is not valid due to other more compelling indicators, the loss allowance calculation is modified by the addition of further assumptions to capture current portfolio trends and characteristics that differ from historical experience.

As of June 30, 2006, Farmer Mac concluded that the credit profile of its portfolio was consistent with Farmer Mac's historical credit profile and trends. Management believes that its use of this methodology produces a reliable estimate of inherent probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs in accordance with SFAS 5 and SFAS 114.

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three and six months ended June 30, 2006 and 2005:

	June 30, 2006			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	<i>(in thousands)</i>			
Three Months Ended:				
Beginning balance	\$ 3,883	\$ -	\$ 2,931	\$ 6,814
Provision/(recovery) for losses	(594)	5	587	(2)
Net charge-offs	(555)	(5)	-	(560)
Ending balance	\$ 2,734	\$ -	\$ 3,518	\$ 6,252

Six Months Ended:				
Beginning balance	\$ 4,876	\$ -	\$ 3,777	\$ 8,653
Provision/(recovery) for losses	(1,606)	155	(259)	(1,710)
Net charge-offs	(536)	(155)	-	(691)
Ending balance	\$ 2,734	\$ -	\$ 3,518	\$ 6,252

	June 30, 2005			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	<i>(in thousands)</i>			
Three Months Ended:				
Beginning balance	\$ 3,846	\$ -	\$ 12,485	\$ 16,331
Provision for losses	(203)	-	(91)	(294)
Net recoveries	27	-	-	27
Ending balance	\$ 3,670	\$ -	\$ 12,394	\$ 16,064

Six Months Ended:				
Beginning balance	\$ 4,395	\$ -	\$ 12,706	\$ 17,101
Provision/(recovery) for losses	(787)	120	(312)	(979)
Net (charge-offs)/recoveries	62	(120)	-	(58)
Ending balance	\$ 3,670	\$ -	\$ 12,394	\$ 16,064

The table below summarizes the components of Farmer Mac's allowance for losses as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
	<i>(in thousands)</i>	
Allowance for loan losses	\$ 2,734	\$ 4,876
Real estate owned valuation allowance	-	-
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	1,505	2,068
Off-balance sheet Farmer Mac I Guaranteed Securities	1,324	1,078
LTSPCs	689	631
Total	\$ 6,252	\$ 8,653

No allowance for losses has been made for loans underlying Farmer Mac I Guaranteed Securities issued prior to the 1996 Act, AgVantage securities or securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"). Farmer Mac I Guaranteed Securities issued prior to the 1996 Act are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of June 30, 2006, there were no probable losses inherent in Farmer Mac's AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the United States Department of Agriculture ("USDA"). Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of June 30, 2006, Farmer Mac had not experienced any credit losses on any Farmer Mac I Guaranteed Securities issued prior to the 1996 Act, AgVantage securities or Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

As of June 30, 2006, Farmer Mac individually analyzed \$30.8 million of its \$68.8 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining \$38.0 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Of the \$30.8 million of assets analyzed individually, \$29.4 million were adequately collateralized. For the \$1.4 million of assets that were not adequately collateralized, individual collateral shortfalls totaled \$15,000. Accordingly, Farmer Mac recorded specific allowances of \$15,000 for those under-collateralized assets as of June 30, 2006. In addition to the specific allowances provided, Farmer Mac's non-specific or general allowances were \$6.2 million as of June 30, 2006.

The balance of impaired assets, both on- and off-balance sheet, and the related allowance specifically allocated to those impaired assets as of June 30, 2006 and December 31, 2005 are summarized in the following table:

	June 30, 2006			December 31, 2005		
	Balance	Specific Allowance	Net Balance	Balance	Specific Allowance	Net Balance
	<i>(in thousands)</i>					
Impaired assets:						
Specific allowance for losses	\$ 1,360	\$ (15)	\$ 1,345	\$ 2,445	\$ (161)	\$ 2,284
No specific allowance for losses	67,412	-	67,412	71,177	-	71,177
Total	\$ 68,772	\$ (15)	\$ 68,757	\$ 73,622	\$ (161)	\$ 73,461

(c)

Financial Derivatives

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets and future cash flows or debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts principally to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk. These transactions also may provide an overall lower effective cost of borrowing than would otherwise be available in the conventional debt market.

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (“SFAS 133”). As discussed in Note 6, Farmer Mac does not designate its financial derivatives as fair value hedges or cash flow hedges; therefore, the changes in the fair values of financial derivatives are reported as gains or losses on financial derivatives and trading assets in the consolidated statements of operations.

The following table summarizes information related to Farmer Mac’s financial derivatives as of June 30, 2006 and December 31, 2005:

	As of June 30, 2006		As of December 31, 2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps:				
Pay-fixed	\$ 774,669	\$ 6,337	\$ 710,678	\$ (17,228)
Receive-fixed	279,000	(12,802)	205,000	(5,752)
Basis	372,899	8,525	389,496	2,801
Treasury futures	11	(4)	-	-
Agency forwards	110,026	(55)	91,178	(264)
Total	\$ 1,536,605	\$ 2,001	\$ 1,396,352	\$ (20,443)

As of June 30, 2006, Farmer Mac had approximately \$1.1 million of net after-tax unrealized losses included in accumulated other comprehensive income related to the SFAS 133 transition adjustment. These amounts will be reclassified into earnings in the same period or periods during which the hedged forecasted transactions (either the payment of interest or the issuance of discount notes) affect earnings or immediately when it becomes probable that the original hedged forecasted transaction will not occur within two months of the originally specified date. Over the next twelve months, Farmer Mac estimates that \$0.5 million of the amount currently reported in accumulated other comprehensive income will be reclassified into earnings.

As of June 30, 2006, Farmer Mac had outstanding basis swaps with a related party with a notional amount of \$210.0 million and a fair value of \$9.1 million. See Note 3 "Related Party Transactions" in the Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2005, as filed with the SEC on November 9, 2006 for additional information on these related party transactions. As of December 31, 2005, these swaps had an outstanding notional amount of \$225.6 million and a fair value of \$3.7 million.

(d) Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share are based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options. The following schedule reconciles basic and diluted earnings per common share ("EPS") for the three and six months ended June 30, 2006 and 2005:

	June 30, 2006			June 30, 2005		
	Basic EPS	Dilutive stock options	Diluted EPS	Basic EPS	Dilutive stock options (1)	Diluted EPS
<i>(in thousands, except per share amounts)</i>						
Three Months Ended:						
Net income/(loss) available to common stockholders	\$ 13,377		\$ 13,377	\$ (563)		\$ (563)
Weighted-average shares	11,083	256	11,339	11,409	-	11,409
Earnings/(loss) per common share	\$ 1.21		\$ 1.18	\$ (0.05)		\$ (0.05)
Six Months Ended:						
Net income available to common stockholders	\$ 28,469		\$ 28,469	\$ 15,822		\$ 15,822
Weighted average shares	11,095	287	11,382	11,548	56	11,604
Earnings per common share	\$ 2.57		\$ 2.50	\$ 1.37		\$ 1.36

(1) For the three months ended June 30, 2005, approximately 42,000 stock options were not included in the loss per share computation because they would have been anti-dilutive.

During the three and six months ended June 30, 2006, Farmer Mac repurchased 282,500 shares and 321,450 shares, respectively, of its Class C Non-Voting Common Stock at an average price of \$26.55 per share and \$26.70 per share, respectively, pursuant to the Corporation's previously announced stock repurchase program. These repurchases reduced the Corporation's capital by approximately \$7.5 million and \$8.6 million, respectively.

(e)

Stock-Based Compensation

In 1997, Farmer Mac adopted a stock option plan for directors, officers and other employees to acquire shares of Class C Non-Voting Common Stock. Under the plan, stock option awards vest annually in thirds, with the first third vesting one year after the date of grant. If not exercised, any options granted under the 1997 plan expire ten years from the date of grant, except options issued to directors since June 1, 1998, if not exercised, expire five years from the date of grant. Of the 3,750,000 shares authorized to be issued under the plan, 490,923 remain available for future issuance as of June 30, 2006. For all stock options granted, the exercise price is equal to the closing price of the Class C Non-Voting Common Stock on or immediately preceding the date of grant.

Effective January 1, 2006, Farmer Mac adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payments* ("SFAS 123(R)") using the modified prospective method of transition, which requires (1) the recordation of compensation expense for the non-vested portion of previously issued awards that remain outstanding as of the initial date of adoption and (2) the recordation of compensation expense for any awards issued or modified after December 31, 2005. Accordingly, prior period amounts have not been retrospectively adjusted for this change. The adoption resulted in the recognition of \$0.4 million and \$0.9 million of compensation expense during the three-month and six-month periods ended June 30, 2006, respectively, related to the non-vested portion of previously issued stock option awards that were outstanding as of the initial date of adoption. Additionally, Farmer Mac recognized \$0.1 million of compensation expense related to stock options awarded during second quarter 2006. The effect of the recognition of compensation expense resulting from stock options on diluted EPS for the three-month and six-month periods ended June 30, 2006 was a reduction of \$0.03 and \$0.05, respectively, per diluted share. Prior to the adoption of SFAS 123(R), Farmer Mac accounted for its stock-based employee compensation plans under the intrinsic value method of accounting for employee stock options pursuant to Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and had adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, as amended ("SFAS 123"). Accordingly, no compensation expense was recognized in 2005 for employee stock option plans. Had Farmer Mac elected to use the fair value method of accounting for employee stock options, net income available to common stockholders and earnings per share for the three and six months ended June 30, 2005 would have been reduced to the pro forma amounts indicated in the following table:

-14-

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	<i>(in thousands, except per share amounts)</i>	
Net income/(loss) available to common stockholders, as reported	\$ (563)	\$ 15,822
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	(1,838)	(1,838)
Pro forma net income/(loss) available to common stockholders	\$ (2,401)	\$ 13,984
Earnings per common share:		
Basic - as reported	\$ (0.05)	\$ 1.37
Basic - pro forma	\$ (0.21)	\$ 1.21
Diluted - as reported	\$ (0.05)	\$ 1.36
Diluted - pro forma	\$ (0.21)	\$ 1.21

As of June 30, 2006, there was \$5.9 million of total unrecognized compensation cost related to stock options outstanding and unvested as of June 30, 2006. Of that amount, \$2.8 million was related to stock options outstanding and unvested as of December 31, 2005. Of that cost, \$0.9 million and \$1.4 million is expected to be recognized in the remainder of 2006 and 2007, respectively.

The following table summarizes stock option activity for the three and six months ended June 30, 2006 and 2005:

	June 30, 2006		June 30, 2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Three Months Ended:				
Outstanding, beginning of period	2,091,208	\$ 22.68	1,803,484	\$ 22.72
Granted	358,928	26.35	432,561	20.59
Exercised	(75,111)	17.26	(38,066)	14.01
Canceled	(75,091)	28.82	(56,679)	26.59
Outstanding, end of period	2,299,934	23.23	2,141,300	22.30
Options exercisable at end of period	1,431,465		1,397,755	
Six Months Ended:				
Outstanding, beginning of period	2,153,008	\$ 22.41	1,812,222	\$ 22.67
Granted	358,928	26.35	432,561	20.59
Exercised	(136,911)	15.40	(39,803)	14.11
Canceled	(75,091)	28.82	(63,680)	26.34
Outstanding, end of period	2,299,934	23.23	2,141,300	22.30
Options exercisable at end of period	1,431,465		1,397,755	

Stock options cancellations during the six months ended June 30, 2006 and June 30, 2005 were due either to unvested options terminating in accordance with the provisions of the applicable stock option plans upon directors' or employees' departures from Farmer Mac or vested options terminating unexercised on their expiration date. For the three-month and the six-month periods ended June 30, 2006, the additional paid-in capital received from stock option exercises was \$1.2 million and \$2.0 million, respectively, compared to \$0.5 million and \$0.5 million for the comparable periods in the prior year. For the three-month and the six-month periods ended June 30, 2006, the reduction of income taxes to be paid as a result of the deduction for stock option exercises was \$0.3 million and \$0.7 million, respectively, compared to \$0.1 million and \$0.1 million for the comparable periods in the prior year.

The following table summarizes information regarding options outstanding as of June 30, 2006:

Range of Exercise Prices	Options Outstanding		Options Exercisable
	Number of Shares	Weighted-Average Remaining Contractual Life	Number of Shares
\$10.00 - \$19.99	401,609	6.2 years	254,270
20.00 - 24.99	1,100,058	5.9 years	743,856
25.00 - 29.99	607,349	7.3 years	242,421
30.00 - 34.99	190,418	4.9 years	190,418
35.00 - 39.99	-	-	-
40.00 - 44.99	-	-	-
45.00 - 50.00	500	5.8 years	500
	2,299,934		1,431,465

The weighted-average grant date fair values of options granted in 2006, 2005 and 2004 were \$10.05, \$6.69 and \$7.34 per share, respectively. The fair values were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2006	2005	2004
Risk-free interest rate	5.0%	3.9%	4.3%
Expected years until exercise	6 years	7 years	5 years
Expected stock volatility	36.9%	46.3%	47.8%
Dividend yield	1.6%	1.9%	0.0%

(f) Reclassifications

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

(g) New Accounting Standards

In March 2004, the Emerging Issues Task Force (“EITF”) amended EITF 03-1, *The Meaning of Other-Than-Temporary Impairment*. This amendment, which was originally effective for financial periods beginning after June 15, 2004, introduced qualitative and quantitative guidance for determining whether securities are other-than-temporarily impaired. In November 2005, the Financial Accounting Standards Board (“FASB”) issued Staff Position No. 115-1 and No. 124-1 (“FSP”), which supersedes the guidance in paragraphs 10-18 of EITF 03-1 and references existing other-than-temporary impairment guidance. The FSP clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell the security has not been made, and also provides guidance on the subsequent accounting for impaired debt securities. The FSP is effective for reporting periods beginning after December 15, 2005. Farmer Mac’s adoption of the FSP effective January 1, 2006 did not have a material effect on Farmer Mac’s results of operations or financial position.

In May 2005, FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (“SFAS 154”), which replaced Accounting Principles Board Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 requires retrospective application to prior periods’ financial statements for changes in accounting principles, unless determination of either the period specific effects or the cumulative effect of the change is impracticable or otherwise promulgated. SFAS 154 is effective for fiscal years beginning after December 15, 2005. Farmer Mac’s adoption of SFAS 154 effective January 1, 2006 did not have a material effect on Farmer Mac’s results of operations or financial position.

In February 2006, FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements No. 133 and 140* (“SFAS 155”), which resolves issues addressed in Statement 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. SFAS 155, among other things, permits the fair value re-measurement of any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS 155 is effective for all financial instruments acquired or issued in a fiscal year beginning after September 15, 2006. SFAS 155 is not expected to have a material effect on Farmer Mac’s results of operations and financial position.

In March 2006, FASB issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets* (“SFAS 156”), which requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable and permits the entities to elect either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, for subsequent measurement. SFAS 156 is effective on January 1, 2007. The adoption of SFAS 156 is not expected to have a material effect on Farmer Mac’s results of operations or financial position.

In July 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (“FIN 48”), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires the recognition in financial statements of the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 31, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. Farmer Mac is currently evaluating the impact, if any, that FIN 48 will have on its financial statements.

Note 2. Farmer Mac Guaranteed Securities

The following table sets forth information about Farmer Mac Guaranteed Securities retained by Farmer Mac as of June 30, 2006 and December 31, 2005.

	June 30, 2006			December 31, 2005		
	Available- for-Sale	Held-to- Maturity	Total	Available- for-Sale	Held-to- Maturity	Total
	<i>(in thousands)</i>					
Farmer Mac I	\$ 433,493	\$ 40,351	\$ 473,844	\$ 492,158	\$ 41,573	\$ 533,731
Farmer Mac II	-	830,077	830,077	-	797,245	797,245
Total	\$ 433,493	\$ 870,428	\$ 1,303,921	\$ 492,158	\$ 838,818	\$ 1,330,976
Amortized cost	\$ 428,325	\$ 870,428	\$ 1,298,753	\$ 477,561	\$ 838,818	\$ 1,316,379
Unrealized gains	8,921	268	9,189	18,395	448	18,843
Unrealized losses	(3,753)	(13,594)	(17,347)	(3,798)	(8,339)	(12,137)
Fair value	\$ 433,493	\$ 857,102	\$ 1,290,595	\$ 492,158	\$ 830,927	\$ 1,323,085

The table below presents a sensitivity analysis for Farmer Mac's retained Farmer Mac Guaranteed Securities as of June 30, 2006.

June 30, 2006 <i>(dollars in thousands)</i>	
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities	\$ 1,290,595
Weighted-average remaining life (in years)	4.8
Weighted-average prepayment speed (annual rate)	10.1%
Effect on fair value of a 10% adverse change	\$ (53)
Effect on fair value of a 20% adverse change	\$ (80)
Weighted-average discount rate	5.7%
Effect on fair value of a 10% adverse change	\$ (17,912)
Effect on fair value of a 20% adverse change	\$ (35,802)

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

The table below presents the outstanding principal balances as of the periods indicated for Farmer Mac Guaranteed Securities, loans, and LTSPCs.

	June 30, 2006	December 31, 2005
	<i>(in thousands)</i>	
On-balance sheet assets		
Farmer Mac I:		
Loans	\$ 778,304	\$ 784,422
Guaranteed Securities	467,944	518,250
Farmer Mac II:		
Guaranteed Securities	828,939	796,224
Total on-balance sheet	\$ 2,075,187	\$ 2,098,896
Off-balance sheet assets		
Farmer Mac I:		
LTSPCs	\$ 2,149,677	\$ 2,329,798
Guaranteed Securities	1,778,288	804,785
Farmer Mac II:		
Guaranteed Securities	34,839	39,508
Total off-balance sheet	\$ 3,962,804	\$ 3,174,091
Total	\$ 6,037,991	\$ 5,272,987

Net credit losses and 90-day delinquencies as of and for the periods indicated for Farmer Mac Guaranteed Securities, loans and LTSPCs are presented in the table below. Information is not presented for loans underlying Farmer Mac I Guaranteed Securities issued prior to the 1996 Act or Farmer Mac II Guaranteed Securities. Farmer Mac I Guaranteed Securities issued prior to the 1996 Act are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of June 30, 2006, Farmer Mac had not experienced any credit losses on any Farmer Mac I Guaranteed Securities issued prior to the 1996 Act or on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

	90-Day Delinquencies (1)		Net Credit Losses/(Recoveries)	
	As of June 30, 2006	As of December 31, 2005	For the Six Months Ended June 30, 2006	2005
<i>(in thousands)</i>				
On-balance sheet assets:				
Farmer Mac I:				
Loans	\$ 18,599	\$ 23,308	\$ 536	\$ (62)
Guaranteed Securities	-	-	-	-
Total on-balance sheet	\$ 18,599	\$ 23,308	\$ 536	\$ (62)
Off-balance sheet assets:				
Farmer Mac I:				
LTSPCs	\$ 2,409	\$ 2,153	\$ -	\$ -
Guaranteed Securities	-	-	-	-
Total off-balance sheet	\$ 2,409	\$ 2,153	\$ -	\$ -
Total	\$ 21,008	\$ 25,461	\$ 536	\$ (62)

(1) Includes loans and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, restructured after delinquency, and in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

Note 3. Off-Balance Sheet Guarantees and Long-Term Standby Purchase Commitments

Overview

Farmer Mac offers approved agricultural and rural residential mortgage lenders two off-balance sheet alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through either the Farmer Mac I program or the Farmer Mac II program; and (2) LTSPCs, which are available only through the Farmer Mac I program. Both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business.

Off-Balance Sheet Farmer Mac Guaranteed Securities

Periodically Farmer Mac transfers agricultural mortgage loans into trusts that are used as vehicles for the securitization of the transferred assets and the beneficial interests in the trusts are sold to third party investors. The following table summarizes certain cash flows received from and paid to these trusts:

	Six Months Ended	
	June 30, 2006	June 30, 2005
	<i>(in thousands)</i>	
Proceeds from new securitizations	\$ 3,033	\$ 22,012
Guarantee fees received	761	776
Purchases of assets from the trusts	506	1,595
Servicing advances	10	5
Repayment of servicing advances	8	21

The following table presents the outstanding balance of off-balance sheet Farmer Mac Guaranteed Securities, which represents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make with respect to those securities as of June 30, 2006 and December 31, 2005, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans.

**Outstanding Balance of Off-Balance Sheet
Farmer Mac Guaranteed Securities**

	June 30,	December 31,
	2006	2005
	<i>(in thousands)</i>	
Farmer Mac I Guaranteed Securities	\$ 1,778,288	\$ 804,785
Farmer Mac II Guaranteed Securities	34,839	39,508
Total Farmer Mac I and II	\$ 1,813,127	\$ 844,293

As of June 30, 2006, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 17.1 years. For those securities issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated \$4.8 million as of June 30, 2006 and \$5.2 million as of December 31, 2005.

Long-Term Standby Purchase Commitments (LTSPCs)

An LTSPC is a commitment by Farmer Mac to purchase eligible loans from a segregated pool of loans, either for cash or in exchange for Farmer Mac I Guaranteed Securities, on one or more undetermined future dates.

As of June 30, 2006 and December 31, 2005, the maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was \$2.1 billion and \$2.3 billion, respectively.

As of June 30, 2006, the weighted-average remaining maturity of all loans underlying LTSPCs was 14.1 years. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated \$16.9 million as of June 30, 2006 and \$12.4 million as of December 31, 2005.

Note 4. Comprehensive Income

Comprehensive income represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised primarily of net income available to common stockholders and unrealized gains and losses on securities available-for-sale net of related taxes. The following table sets forth Farmer Mac's comprehensive income for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	<i>(in thousands)</i>			
Net income available to common stockholders	\$ 13,377	\$ (563)	\$ 28,469	\$ 15,822
Unrealized gains/(losses) on securities	(10,275)	14,700	(24,186)	(1,657)
Amortization of FAS 133 transition adjustment on financial derivatives	257	320	458	580
Other comprehensive income, before tax	(10,018)	15,020	(23,728)	(1,077)
Income tax related to items of other comprehensive income	(3,506)	5,257	(8,305)	(376)
Other comprehensive income/(loss), net of tax	(6,512)	9,763	(15,423)	(701)
Comprehensive income available to common stockholders	\$ 6,865	\$ 9,200	\$ 13,046	\$ 15,121

Note 5. Investments

As of the dates indicated below, Farmer Mac's investment portfolio was comprised of the following investment securities:

	June 30, 2006	December 31, 2005
	<i>(in thousands)</i>	
Held-to-maturity	\$ 10,602	\$ 10,602
Available-for-sale	1,991,398	1,604,419
Trading	5,895	6,920
	\$ 2,007,895	\$ 1,621,941

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

The amortized cost and estimated fair values of investments as of June 30, 2006 and December 31, 2005 were as follows:

	As of June 30, 2006				As of December 31, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	<i>(in thousands)</i>							
Held-to-maturity:								
Cash investment in fixed rate guaranteed investment contract	\$ 10,602	\$ 262	\$ -	\$ 10,864	\$ 10,602	\$ 18	\$ -	\$ 10,620
Total held-to-maturity	\$ 10,602	\$ 262	\$ -	\$ 10,864	\$ 10,602	\$ 18	\$ -	\$ 10,620
Available-for-sale:								
Floating rate asset-backed securities	\$ 448,098	\$ 720	\$ -	\$ 448,818	\$ 336,647	\$ 941	\$ -	\$ 337,588
Floating rate corporate debt securities	407,496	507	(91)	407,912	230,787	515	(10)	231,673
Fixed rate corporate debt securities	544,484	-	(9,254)	535,230	520,381	-	(1,950)	518,050
Fixed rate preferred stock	237,918	4,947	(446)	242,419	239,033	11,687	(304)	250,416
Fixed rate commercial paper	184,153	-	-	184,153	90,848	-	-	90,848
Floating rate mortgage-backed securities	162,710	576	(11)	163,275	175,441	481	(78)	175,844
Fixed rate mortgage-backed securities	10,014	-	(423)	9,591	-	-	-	-
Total available-for-sale	\$ 1,994,873	\$ 6,750	\$ (10,225)	\$ 1,991,398	\$ 1,593,137	\$ 13,624	\$ (2,342)	\$ 1,604,419
Trading:								
Adjustable rate mortgage-backed securities	\$ 5,866	\$ 29	\$ -	\$ 5,895	\$ 6,867	\$ 53	\$ -	\$ 6,920
Total trading	\$ 5,866	\$ 29	\$ -	\$ 5,895	\$ 6,867	\$ 53	\$ -	\$ 6,920

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of acquisition to June 30, 2006 and December 31, 2005, as applicable. Farmer Mac has the intent and ability to hold its investment securities until either the market value recovers or the securities mature.

As of June 30, 2006, Farmer Mac owned one held-to-maturity investment that matures in 2006 with an amortized cost of \$10.6 million, a fair value of \$10.9 million, and a yield of 6.5 percent. As of June 30, 2006, Farmer Mac owned trading investment securities that mature after 10 years with an amortized cost of \$5.9 million, a fair value of \$5.9 million, and a weighted average yield of 5.38 percent. The amortized cost, fair value and yield of investments by remaining contractual maturity for available-for-sale investment securities as of June 30, 2006 are set forth below.

Asset- and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets or mortgages.

-24-

	Investment Securities Available-for-Sale as of June 30, 2006		
	Amortized Cost	Fair Value	Yield
	<i>(dollars in thousands)</i>		
Due within one year	\$ 253,008	\$ 252,955	4.95%
Due after one year through five years	946,390	937,159	5.14%
Due after five years through ten years	112,886	116,576	7.41%
Due after ten years	682,589	684,708	5.81%
Total	\$ 1,994,873	\$ 1,991,398	5.47%

Note 6. Restatement of Condensed Consolidated Financial Statements

Subsequent to the issuance of its June 30, 2006 unaudited condensed consolidated financial statements, the Corporation determined that it needed to restate prior financial results to correct its accounting for financial derivatives. The Corporation determined that it had inappropriately recorded changes in the fair value of cash flow hedges in other comprehensive income, net of income taxes, and recorded changes in the fair value of fair value hedges as basis adjustments on the hedged item rather than account for the financial derivatives as undesignated financial derivatives with all changes in the fair value of the financial derivatives recognized in the consolidated statements of operations.

The Corporation, in light of SEC staff comments, has recently concluded a reassessment of its documentation and accounting treatment of financial derivative transactions under SFAS 133 and related interpretations. Based on the reassessment, while the transactions engaged in by the Corporation were highly effective economic hedges of interest rate risk, the Corporation has determined that it was not appropriately applying hedge accounting in accordance with SFAS 133.

As a result, the condensed consolidated financial statements have been restated from the amounts previously reported to correct the accounting for financial derivatives. The corrections related to the Corporation's accounting for fair value hedges and cash flow hedges as described in more detail below.

The Corporation reduced its stockholders' equity by \$0.9 million as of January 1, 2003 as the cumulative effect of the correction of its accounting for financial derivatives for all periods preceding January 1, 2003, and restated its consolidated statements of operations and cash flows for the years ended December 31, 2005, 2004 and 2003 and its consolidated balance sheet as of December 31, 2005 and 2004. The restatement resulted in an increase to previously reported net income available to common stockholders of \$5.8 million (\$0.51 per diluted common share) and \$15.8 million (\$1.39 per diluted common share) for the three and six months ended June 30, 2006, and a decrease of \$8.8 million (\$0.77 per diluted common share) and an increase of \$2.7 million (\$0.23 per diluted common share) for the three and six months ended June 30, 2005, respectively. There was no effect on net cash flows or the amount of dividends declared for any periods presented.

Fair Value Hedges:

The Corporation has determined that it did not meet the specific documentation requirements required by SFAS 133 to assume no ineffectiveness in its fair value hedge relationships or to apply hedge accounting to its fair value hedges. As a result, the Corporation's designation of its financial derivatives as fair value hedges for the period from January 1, 2001 to June 30, 2006 did not meet the requirements of SFAS 133.

The impact of the restatement on the consolidated statements of operations related to fair value hedges was to reverse previously applied hedge accounting for all hedging relationships. For financial derivatives previously accounted for as fair value hedges, the net accruals for the derivatives were previously recorded to net interest income, and net changes in fair values of the financial derivatives were previously recorded as basis adjustments to the hedged items, such as notes payable, loans held for sale, or investment securities. As a result of the restatement, the previous accounting treatment was reversed (i.e., the net accruals recorded to net interest income were reclassified to gains and losses on financial derivatives and basis adjustments for the hedged items was reversed), and the total changes in the fair values of the derivative instruments, including interest accrual settlements, were recorded directly to gains/(losses) on financial derivatives and trading assets.

Cash Flow Hedges:

The Corporation determined also that it did not meet specific documentation and other requirements of SFAS 133 to apply hedge accounting to its cash flow hedges. In this regard, the Corporation has determined that its forecasted transactions were not documented with sufficient specificity at the inception of the hedge relationship to allow those transactions to be identified as the intended "hedged transactions" when they occurred; some of its forecasted transactions related to the acquisitions of assets, or incurrences of liabilities, involved subsequent remeasurements with changes in fair value attributable to the hedged risk reported currently in earnings; and the benchmark index identified for its basis swaps did not meet the definition of a "benchmark interest rate" as that term is defined in SFAS 133. As a result, the Corporation's designation of its financial derivatives as cash flow hedges for the period from January 1, 2001 to June 30, 2006 did not meet the requirements of SFAS 133.

The impact of the restatement on the consolidated statements of operations related to fair value hedges was to reverse previously applied hedge accounting for all hedging relationships. For financial derivatives previously accounted for as cash flow hedges, the Corporation recorded accruals from the financial derivatives to net interest income and recorded net changes in the fair values of the derivatives, net-of-tax, to accumulated other comprehensive income ("OCI"). As a result of the restatement, the previous accounting treatment for cash flow hedges was reversed from accumulated OCI and net interest income, and recorded to gains/(losses) on financial derivatives and trading assets.

The following tables set forth the previously reported and restated amounts of selected items within the condensed consolidated balance sheets as of June 30, 2006 and December 31, 2005 and within the consolidated statements of operations and consolidated statements of cash flows for the three and six months ended June 30, 2006 and 2005.

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

Selected Balance Sheet Date:	June 30, 2006		December 31, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	<i>(in thousands)</i>			
Assets:				
Deferred tax asset, net	\$ 950	\$ 2,497	\$ 2,397	\$ 3,223
Total Assets	4,565,954	4,567,501	4,340,619	4,341,445
Liabilities and Stockholders' Equity:				
Notes payable: Due after one year	1,181,875	1,186,872	1,403,598	1,406,527
Total notes payable	4,222,495	4,227,492	3,991,302	3,994,231
Total Liabilities	4,311,048	4,316,045	4,092,487	4,095,416
Accumulated other comprehensive income	5,075	(176)	3,339	15,247
Retained earnings	120,199	122,000	115,644	101,633
Total Stockholders' Equity	254,906	251,456	248,132	246,029
Total Liabilities and Stockholders' Equity	4,565,954	4,567,501	4,340,619	4,341,445

-27-

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

Selected Statements of Operations Data:	For the three months ended, June 30, 2006		For the three months ended, June 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	<i>(in thousands, except per share data)</i>			
Interest income:				
Farmer Mac Guaranteed Securities	\$ 19,417	\$ 18,953	\$ 17,773	\$ 18,672
Total interest income	61,562	61,098	44,008	44,907
Interest expense	52,461	51,020	35,886	31,966
Net interest income	9,101	10,078	8,122	12,941
Net interest income after recovery/(provision) for loan losses	9,695	10,672	8,325	13,144
Gains/(losses) on financial derivatives and trading assets	2,026	9,908	3,755	(14,562)
Total revenues	18,089	26,948	17,269	3,771
Income before income taxes	11,637	20,496	12,551	(947)
Income tax expense/(benefit)	3,458	6,559	3,780	(944)
Net income/(loss)	8,179	13,937	8,771	(3)
Net income/(loss) available to common stockholders	7,619	13,377	8,211	(563)
Earnings per common share:				
Basic earnings (loss) per common share	0.69	1.21	0.72	(0.05)
Diluted earnings (loss) per common share	0.67	1.18	0.72	(0.05)

Selected Statements of Operations Data:	For the six months ended, June 30, 2006		For the six months ended, June 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	<i>(in thousands, except per share data)</i>			
Interest income:				
Farmer Mac Guaranteed Securities	\$ 37,512	\$ 36,990	\$ 34,854	\$ 36,999
Total interest income	117,738	117,216	85,797	87,942
Interest expense	99,737	96,471	69,869	61,120
Net interest income	18,001	20,745	15,928	26,822
Net interest income after recovery/(provision) for loan losses	19,607	22,351	16,715	27,609
Gains/(losses) on financial derivatives and trading assets	25	21,608	2,045	(4,697)
Total revenues	31,428	55,755	29,291	33,443
Income before income taxes	19,308	43,635	20,355	24,507
Income tax expense	5,532	14,046	6,112	7,565
Net income	13,776	29,589	14,243	16,942
Net income available to common stockholders	12,656	28,469	13,123	15,822
Earnings per common share:				
Basic earnings per common share	1.14	2.57	1.14	1.37
Diluted earnings per common share	1.11	2.50	1.13	1.36

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

Selected Statements of Cash Flows Data: (in thousands)	For the six months ended, June 30, 2006		For the six months ended, June 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Cash flows from operating activities:				
Net income	\$ 13,776	\$ 29,589	\$ 14,243	\$ 16,942
Adjustments to reconcile net income to net cash provided by operating activities:				
Net change in fair value of trading securities and financial derivatives	2,150	(22,420)	(1,454)	(5,472)
Amortization of SFAS 133 transition adjustment on financial derivatives	138	298	932	377
Deferred income taxes	501	1,527	316	(1,769)
Decrease/(increase) in other assets	21,210	28,794	(2,016)	1,807
Net cash provided by operating activities	59,458	59,471	22,635	22,499
Cash flows from financing activities:				
Settlement of financial derivatives	13	-	(136)	-
Net cash provided by/(used in) financing activities	165,202	165,189	(48,857)	(48,721)

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

The following management's discussion and analysis of financial condition and results of operations set forth in this Item 2 reflects revisions in financial reporting resulting from the Corporation's restatement to correct for errors relating to its accounting for financial derivative transactions under SFAS 133 that were contained in the Corporation's unaudited condensed consolidated financial statements and other financial information as of June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and 2005 as discussed below and in Note 6 of the restated unaudited condensed consolidated financial statements. Financial information is consolidated to include the accounts of Farmer Mac and its wholly-owned subsidiary, Farmer Mac Mortgage Securities Corporation.

This discussion and analysis of financial condition and results of operations should be read together with: (1) the interim unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report; and (2) Farmer Mac's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005.

The discussion below is not necessarily indicative of future results.

Special Note Regarding Forward-Looking Statements

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

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

Management's expectations for Farmer Mac's future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under "Risk Factors" in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K/A for the year ended December 31, 2005, as filed with the SEC concurrently with this report, and uncertainties regarding:

- the possible establishment of additional statutory or regulatory restrictions or constraints on Farmer Mac that could hamper its growth or diminish its profitability;
 - the general rate of growth in agricultural mortgage indebtedness;
- the rate and direction of development of the secondary market for agricultural mortgage loans, particularly lender interest in the Farmer Mac secondary market and Farmer Mac credit products;
 - borrower preferences for fixed-rate agricultural mortgage indebtedness;
 - the willingness of investors to invest in Farmer Mac Guaranteed Securities; and
- possible reaction in the financial markets to events involving government-sponsored enterprises other than Farmer Mac.

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

Restatement of Previously Issued Quarterly Financial Statements

The Corporation is restating its unaudited interim condensed consolidated financial statements as of June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and 2005. The Corporation is concurrently filing amendments to (1) its Form 10-K for the year ended December 31, 2005 to restate the Corporation's consolidated financial statements as of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003, and other financial information as of and for the years ended December 31, 2002 and 2001 and the quarterly unaudited data for 2005 and 2004 and (2) its Form 10-Q for the quarter ended March 31, 2006 to restate the quarterly unaudited interim consolidated financial statements and other financial information contained in that report. These restatements and resulting revisions relate to the accounting treatment for derivative transactions under SFAS 133. In this regard, and as the Corporation previously reported on Form 8-K on October 6, 2006, investors should not rely on the Corporation's previously issued consolidated financial statements and other financial information for the years and each of the quarters in the years 2005, 2004, 2003, 2002 and 2001 and the first and second quarters of 2006.

The Corporation, in light of SEC staff comments, has recently concluded a reassessment of its documentation and accounting treatment of financial derivative transactions under SFAS 133, interpretations of which have evolved. Based on the reassessment, while the transactions engaged in by the Corporation were highly effective economic hedges of interest rate risk, the Corporation has determined that it was not appropriately applying hedge accounting in accordance with SFAS 133.

As a result, the condensed consolidated financial statements included in Item 1 have been restated from the amounts previously reported to correct the accounting for financial derivatives. The corrections related to the Corporation's accounting for fair value hedges and cash flow hedges as described in more detail below.

The Corporation reduced its stockholders' equity by \$0.9 million as of January 1, 2003 as the cumulative effect of the correction of its accounting for financial derivatives for all periods preceding January 1, 2003, and restated its consolidated statements of operations and cash flows for the years ended December 31, 2005, 2004 and 2003 and its consolidated balance sheet as of December 31, 2005 and 2004. The restatement resulted in an increase to previously reported net income available to common stockholders of \$5.8 million (\$0.51 per diluted common share) and \$15.8 million (\$1.39 per diluted common share) for the three and six months ended June 30, 2006, and a decrease of \$8.8 million (\$0.77 per diluted common share) and an increase of \$2.7 million (\$0.23 per diluted common share) for the three and six months ended June 30, 2005, respectively. In addition to the changes in net income available to common stockholders described above, the net impact related to the correction of these errors for fair value and cash flow hedges was to increase net interest income by \$1.0 million and \$2.7 million for the three and six months ended June 30, 2006 and \$4.8 million and \$10.9 million for the three and six months ended June 30, 2005, respectively. Gains/(losses) on financial derivatives increased \$7.9 million and \$21.6 million for the three and six months ended June 30, 2006 and decreased \$18.3 million and \$6.7 million for the three months and six months ended June 30, 2005, respectively. There was no effect on net cash flows, core earnings, or the amount of dividends declared for any years presented.

Fair Value Hedges:

The Corporation has determined that it did not meet the specific documentation requirements required by SFAS 133 to assume no ineffectiveness in its fair value hedge relationships or to apply hedge accounting to its fair value hedges. As a result, the Corporation's designation of its financial derivatives as fair value hedges for the period from January 1, 2001 to June 30, 2006 did not meet the requirements of SFAS 133.

The impact of the restatement on the consolidated statements of operations related to fair value hedges was to reverse previously applied hedge accounting for all hedging relationships. For financial derivatives previously accounted for as fair value hedges, the net accruals for the derivatives were previously recorded to net interest income, and net changes in fair values of the financial derivatives were previously recorded as basis adjustments to the hedged items, such as notes payable, loans held for sale, or investment securities. As a result of the restatement, the previous accounting treatment was reversed (i.e., the net accruals recorded to net interest income were reclassified to gains and losses on financial derivatives and basis adjustments for the hedged items was reversed), and the total changes in the fair values of the derivative instruments, including interest accrual settlements, were recorded directly to gains/(losses) on financial derivatives and trading assets.

Cash Flow Hedges:

The Corporation determined also that it did not meet specific documentation and other requirements of SFAS 133 to apply hedge accounting to its cash flow hedges. In this regard, the Corporation has determined that its forecasted transactions were not documented with sufficient specificity at the inception of the hedge relationship to allow those transactions to be identified as the intended "hedged transactions" when they occurred; some of its forecasted transactions related to the acquisitions of assets, or incurrences of liabilities, involved subsequent remeasurements with changes in fair value attributable to the hedged risk reported currently in earnings; and the benchmark index identified for its basis swaps did not meet the definition of a "benchmark interest rate" as that term is defined in SFAS 133. As a result, the Corporation's designation of its financial derivatives as cash flow hedges for the period from January 1, 2001 to June 30, 2006 did not meet the requirements of SFAS 133.

The impact of the restatement on the consolidated statements of operations related to cash flow hedges was to reverse previously applied hedge accounting for all hedging relationships. For financial derivatives previously accounted for as cash flow hedges, the Corporation recorded accruals from the financial derivatives to net interest income and recorded net changes in the fair values of the derivatives, net-of-tax, to accumulated other comprehensive income (“OCI”). As a result of the restatement, the previous accounting treatment for cash flow hedges was reversed from accumulated OCI and net interest income, and recorded to gains/(losses) on financial derivatives and trading assets.

Critical Accounting Policy and Estimates

The critical accounting policy that is both important to the portrayal of Farmer Mac’s financial condition and results of operations and requires complex, subjective judgments is the accounting policy for the allowance for losses. For a discussion of Farmer Mac’s critical accounting policy, changes implemented in its methodology for determining its allowance for losses as of September 30, 2005, as well as Farmer Mac’s use of estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related notes for the periods presented, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policy and Estimates” in the Corporation’s Annual Report on Form 10-K/A for the year ended December 31, 2005, as filed with the SEC on November 9, 2006.

Results of Operations

Overview. Net income available to common stockholders for second quarter 2006 was \$13.4 million or \$1.18 per diluted common share, compared to \$(0.6) million or \$(0.05) per diluted common share for second quarter 2005. The increase was due principally to the after-tax effects of gains and losses on financial derivatives. Net income available to common stockholders for the six months ended June 30, 2006 was \$28.5 million or \$2.50 per diluted common share, compared to \$15.8 million or \$1.36 per diluted common share for the six months ended June 30, 2005.

As part of Farmer Mac’s continuing evaluation of the overall credit quality of its portfolio, the state of the U.S. agricultural economy, the recent upward trends in agricultural land values, and the level of Farmer Mac’s outstanding guarantees and commitments, Farmer Mac determined that the appropriate allowance for losses as of June 30, 2006 was \$6.3 million. This resulted in the release of \$2,000 from the allowance for losses in second quarter 2006. As of June 30, 2006, the allowance for losses was \$6.3 million and 13 basis points relative to the outstanding post-1996 Act Farmer Mac I portfolio, compared to \$8.7 million and 20 basis points as of December 31, 2005.

As of June 30, 2006, Farmer Mac's 90-day delinquencies (Farmer Mac I loans purchased or placed under Farmer Mac I Guaranteed Securities or long-term standby purchase commitments ("LTSPCs") after changes to Farmer Mac's statutory charter in 1996 that were 90 days or more past due, in foreclosure, restructured after delinquency, or in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan) were \$21.0 million, representing 0.46 percent of the principal balance of all loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, down from \$36.8 million (0.85 percent) as of June 30, 2005.

During second quarter 2006, Farmer Mac:

- added \$570.6 million of Farmer Mac I loans under LTSPCs;
- purchased \$26.1 million of newly originated and current seasoned Farmer Mac I loans;
- purchased \$61.2 million of Farmer Mac II USDA-guaranteed portions of loans; and
- converted \$550.1 million of pre-existing LTSPCs into Farmer Mac I Guaranteed Securities.

As of June 30, 2006, Farmer Mac's outstanding program volume was \$6.0 billion, which represented approximately 12.5 percent of management's estimate of a \$48.0 billion market of eligible agricultural mortgage loans. In addition, Farmer Mac guaranteed \$1.0 billion of AgVantage securities on July 20, 2006, bringing Farmer Mac's outstanding program volume to approximately \$7.0 billion at that time.

Farmer Mac's ongoing guarantee and commitment fee income is earned on the cumulative outstanding principal balance of Farmer Mac Guaranteed Securities and loans underlying LTSPCs. Accordingly, guarantee and commitment fees increase or decrease through changes in periodic business volume in proportion to the change in that cumulative outstanding principal balance, not in proportion to the change in periodic volume.

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

Net Interest Income. Net interest income was \$10.1 million for second quarter 2006, compared to \$12.9 million for second quarter 2005. The net interest yield was 95 basis points for the six months ended June 30, 2006, compared to 146 basis points for the six months ended June 30, 2005. Net interest income includes guarantee fees for loans purchased after April 1, 2001 (the effective date of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140")), but not for loans purchased prior to that date. The effect of SFAS 140 was the classification of approximately \$1.7 million (8 basis points) of guarantee fee income as interest income for the six months ended June 30, 2006, compared to \$1.9 million (10 basis points) for the six months ended June 30, 2005.

As discussed in Note 6 to the condensed consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. Accordingly, the Corporation classifies the net interest income and expense realized on financial derivatives as gains and losses on financial derivatives and trading assets. For the six months ended June 30, 2006 and 2005, this classification resulted in a decrease of the net interest yield of 12 basis points and 56 basis points, respectively.

The net interest yields for the six months ended June 30, 2006 and 2005 included the benefits of yield maintenance payments of 11 basis points and 17 basis points, respectively. Yield maintenance payments represent the present value of expected future interest income streams and accelerate the recognition of interest income from the related loans. Because the timing and size of these payments vary greatly, variations do not necessarily indicate positive or negative trends to gauge future financial results. For the six months ended June 30, 2006 and 2005, the after-tax effects of yield maintenance payments on net income and diluted earnings per share were \$1.5 million or \$0.13 per diluted share and \$2.0 million or \$0.17 per diluted share, respectively.

The following table provides information regarding interest-earning assets and funding for the six months ended June 30, 2006 and 2005. The balance of non-accruing loans is included in the average balance of interest-earning loans presented, though no related income is included in the income figures presented. Therefore, as the balance of non-accruing loans increases or decreases, the net interest yield will decrease or increase accordingly. Net interest income and the yield will also fluctuate due to the uncertainty of the timing and size of yield maintenance payments. The average rate earned on cash and cash equivalents reflects the increase in short-term market rates during the latter part of 2005 and the first six months of 2006. The increase in the average rate for investments reflects the general increase in short-term rates and the short-term or floating rate nature of most investments acquired or reset during 2005 and the first six months of 2006 and outstanding during 2006. The higher average rate on loans and Farmer Mac Guaranteed Securities during the first six months of 2006 reflects the increase in market rates during the latter part of 2005 and first part of 2006, which affected the rates on loans acquired or reset during that period and outstanding during the first six months of 2006. The higher average rate on Farmer Mac's notes payable due within one year is consistent with general trends in average short-term rates during the periods presented. The upward trend in the average rate on notes payable due after one year reflects the retirement of older debt and the issuance of new debt at higher market rates during the latter part of 2005 and first six months of 2006 and outstanding during 2006.

	June 30, 2006		Six Months Ended		June 30, 2005	
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
<i>(dollars in thousands)</i>						
Interest-earning assets:						
Cash and cash equivalents	\$ 614,978	\$ 14,414	4.69%	\$ 467,504	\$ 6,330	2.71%
Investments	1,681,448	42,582	5.06%	1,062,979	21,022	3.96%
Loans and Farmer Mac						
Guaranteed Securities	2,056,083	60,220	5.86%	2,138,225	60,590	5.67%
Total interest-earning assets	4,352,509	117,216	5.39%	3,668,708	87,942	4.79%
Funding:						
Notes payable due within one year	2,471,175	56,392	4.56%	1,860,505	25,324	2.72%
Notes payable due after one year	1,669,947	40,079	4.80%	1,608,066	35,796	4.45%
Total interest-bearing liabilities	4,141,122	96,471	4.66%	3,468,571	61,120	3.52%
Net non-interest-bearing funding	211,387			200,137		
Total funding	\$ 4,352,509	96,471	4.43%	\$ 3,668,708	61,120	3.33%
Net interest income/yield		\$ 20,745	0.95%		\$ 26,822	1.46%

The following table sets forth information regarding the changes in the components of Farmer Mac's net interest income for the periods indicated. For each category, information is provided on changes attributable to changes in volume (change in volume multiplied by old rate) and changes in rate (change in rate multiplied by old volume). Combined rate/volume variances, the third element of the calculation, are allocated based on their relative size. The increases in income due to changes in rate reflect the short-term or adjustable-rate nature of the assets or liabilities and the general increases in short-term market rates.

	Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005		
	Rate	Volume	Total
<i>(in thousands)</i>			
Income from interest-earning assets:			
Cash and cash equivalents	\$ 5,647	\$ 2,437	\$ 8,084
Investments	7,014	14,545	21,559
Loans and Farmer Mac Guaranteed Securities	4,172	(4,541)	(369)
Total	16,833	12,441	29,274
Expense from interest-bearing liabilities	22,066	13,285	35,351
Change in net interest income	\$ (5,233)	\$ (844)	\$ (6,077)

Guarantee and Commitment Fees. Guarantee and commitment fees, which compensate Farmer Mac for assuming the credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs, were \$5.3 million for second quarter 2006 and \$10.3 million for the six months ended June 30, 2006, compared to \$4.9 million and \$9.8 million, respectively, for the same periods in 2005. The effect of SFAS 140 was the classification as interest income of guarantee fees of \$0.9 million for second quarter 2006 and \$1.7 million for the six months ended June 30, 2006, compared to \$0.9 million and \$1.9 million, respectively, for the same periods in 2005, although management considers the amounts to have been earned in consideration for the assumption of credit risk. That portion of the difference or “spread” between the cost of Farmer Mac’s debt funding for loans and the yield on post-1996 Act Farmer Mac I Guaranteed Securities held on its books compensates for credit risk. When a post-1996 Act Farmer Mac I Guaranteed Security is sold to a third party, Farmer Mac continues to receive the guarantee fee component of that spread, which continues to compensate Farmer Mac for its assumption of credit risk. The portion of the spread that compensates for interest rate risk would not typically continue to be received by Farmer Mac if the asset were sold, except to the extent attributable to any retained interest-only strip.

Expenses. General and administrative expenses were \$2.6 million for second quarter 2006 and \$5.3 million for the six months ended June 30, 2006, compared to \$2.3 million and \$4.3 million, respectively, for the same periods in 2005. The increase was largely attributable to increased legal fees related to mortgage securitizations and compliance matters. Compensation and employee benefits were \$2.7 million for second quarter 2006 and \$5.6 million for the six months ended June 30, 2006, compared to \$1.9 million and \$3.7 million, respectively, for the same periods in 2005. For second quarter 2006 and the six months ended June 30, 2006, compensation costs were higher due to expense related to stock options of \$0.4 million and \$1.0 million, respectively. The comparable periods in the prior year did not include expense related to stock options. For more information on stock option expense and the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payments* (“SFAS 123(R)”) on January 1, 2006, see Note 1(e). The remainder of the increase was due to a general increase in staffing during 2005.

Regulatory fee expense for each of the six-month periods ended June 30, 2006 and 2005 was \$1.2 million. The Farm Credit Administration (“FCA”) has advised the Corporation that its estimated fees for the federal fiscal year ended September 30, 2006 will be \$2.4 million. After the end of a federal government fiscal year, FCA may revise its prior year estimated assessments to reflect actual costs incurred, and has issued both additional assessments and refunds in the past. Farmer Mac expects all of the above-mentioned expenses and regulatory fees to continue at approximately the same levels through 2006.

During second quarter 2006, Farmer Mac released \$2,000 from the allowance for losses, compared to a release of \$0.3 million for second quarter 2005. During the six months ended June 30, 2006, Farmer Mac released \$1.7 million from the allowance for losses, compared to a release of \$1.0 million for the six months ended June 30, 2005. See “—Quantitative and Qualitative Disclosures About Market Risk Management—Credit Risk” for additional information regarding Farmer Mac’s provision for losses, provision for loan losses and Farmer Mac’s methodology for determining its allowance for losses. As of June 30, 2006, Farmer Mac’s total allowance for losses was \$6.3 million, or 13 basis points of outstanding loans held or loans underlying post-1996 Act Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs, compared to \$8.7 million and 20 basis points as of December 31, 2005.

Gains and Losses on Financial Derivatives and Trading Assets. SFAS 133 requires the change in the fair values of financial derivatives to be reflected in a company's net income or accumulated other comprehensive income. As discussed in Note 6 of the condensed consolidated financial statements, the Corporation accounts for its financial derivatives as undesignated financial derivatives. The net effect of gains and losses on financial derivatives and trading assets recorded in Farmer Mac's consolidated statements of operations was a net gain of \$9.9 million for second quarter 2006 and \$21.6 million for the six months ended June 30, 2006, compared to losses of \$14.6 million and \$4.7 million, respectively, for the same periods in 2005.

Effects of SFAS 133. Farmer Mac records financial derivatives at fair value on its balance sheet with the related changes in fair value recognized in the consolidated statement of operations. Although the Corporation's use of financial derivatives achieves its economic and risk management objectives, its classification of financial derivatives as undesignated hedges under SFAS 133 allows factors unrelated to the economic performance of the Corporation's business, such as changes in interest rates, to increase the volatility – even the direction – of the Corporation's earnings under accounting principles generally accepted in the United States of America ("GAAP").

Farmer Mac enters into financial derivative transactions to protect against risk from the effects of market price or interest rate movements on the value of assets, future cash flows and debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and also to derive an overall lower effective fixed-rate cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Specifically, interest rate swaps convert economically the variable cash flows related to the forecasted issuance of short-term debt to effectively fixed-rate medium-term and long-term notes that match the anticipated duration, repricing and interest rate characteristics of the corresponding assets. Since this strategy provides Farmer Mac with approximately the same cash flows as those that are inherent in the issuance of medium-term notes, Farmer Mac uses either the bond market or the swap market based upon their relative pricing efficiencies.

Farmer Mac uses callable interest rate swaps (in conjunction with the issuance of short-term debt) as an alternative to callable medium-term notes with equivalently structured maturities and call options. The call options on the swaps are designed to match the implicit prepayment options on those mortgage assets without prepayment protection. The blended durations of the swaps are also designed to match the duration of the related mortgages over their estimated lives. If the mortgages prepay, the swaps can be called and the short-term debt repaid; if the mortgages do not prepay, the swaps remain outstanding and the short-term debt is rolled over, effectively providing fixed-rate callable funding over the lives of the related mortgages. Thus, the economics of the assets are closely matched to the economics of the interest rate swap and funding combination.

Non-GAAP Performance Measures. Farmer Mac reports its financial results in accordance with GAAP. In addition to GAAP measures, Farmer Mac presents certain non-GAAP performance measures. Farmer Mac uses these non-GAAP performance measures to develop financial plans, to measure corporate economic performance, and to set incentive compensation because, in management's view, the non-GAAP measures more accurately represent Farmer Mac's economic performance, transaction economics and business trends. Investors and the investment analyst community have previously relied upon similar measures to evaluate Farmer Mac's historical and future performance. Farmer Mac's disclosure of non-GAAP measures is not intended to replace GAAP information but, rather, it is intended to supplement it.

Farmer Mac developed non-GAAP core earnings to present net income less the after-tax effects of SFAS 133. Core earnings for the three and six months ended June 30, 2006 were \$6.3 million and \$12.5 million, respectively, compared to \$6.0 million and \$12.2 million for the three and six months ended June 30, 2005. The reconciliation of GAAP net income available to common stockholders to core earnings is presented in the following table:

Reconciliation of GAAP Net Income Available to Common Stockholders to Core Earnings

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	<i>(in thousands)</i>			
GAAP net income (loss) available to common stockholders	\$ 13,377	\$ (563)	\$ 28,469	\$ 15,822
Less the effects of SFAS 133:				
Unrealized gains/(losses) on financial derivatives and trading assets, net of tax	6,400	(6,397)	14,573	3,557
Net effects of settlements on agency forward contracts, net of tax	648	(126)	1,397	40
Core earnings	\$ 6,329	\$ 5,960	\$ 12,499	\$ 12,225

Business Volume. New business volume for second quarter 2006 was \$657.9 million, up from \$648.5 million in first quarter 2006. That new business volume included an LTSPC issued to a Farm Credit System (“FCS”) institution on \$486.7 million of agricultural real estate mortgage loans. During second quarter 2006, the loans underlying that LTSPC were converted into a Farmer Mac Guaranteed Security. In addition to the new business volume in first and second quarters of 2006, in July 2006, Farmer Mac guaranteed \$1.0 billion of AgVantage securities supported by a five-year mortgage-backed obligation of Metropolitan Life Insurance Company (“MetLife”) backed by agricultural real estate mortgage loans. This transaction was in addition to the similar first quarter transaction in which Farmer Mac guaranteed \$500.0 million of AgVantage securities supported by a MetLife agricultural mortgage-backed obligation.

All of the above-referenced transactions were products of Farmer Mac’s ongoing efforts to diversify its marketing focus to include 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. While Farmer Mac’s new business volume has improved as a result of those efforts, its future business with agricultural mortgage lenders may still be constrained by:

- high levels of available capital and liquidity of agricultural lenders;
- alternative sources of funding and credit enhancement for agricultural lenders;
- increased competition in the secondary market for agricultural mortgage loans; and
- reduced growth rates in the agricultural mortgage market.

Management believes that legislative or regulatory developments or interpretations of Farmer Mac's statutory charter 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. See "Risk Factors" in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K/A for the year ended December 31, 2005, as filed with the SEC on November 9, 2006.

For a more detailed discussion of the above factors and the related effects on Farmer Mac's business volume, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook for 2006" in the Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2005, as filed with the SEC on November 9, 2006.

Looking ahead, Farmer Mac is developing innovative ways to serve the financing needs of rural America, and remains confident of opportunities for increased business volume and income growth as a result of the Corporation's product development and customer service efforts. Farmer Mac's marketing initiatives are generating business opportunities for 2006 and, it believes, beyond. Current initiatives include:

- an alliance with the American Bankers Association ("ABA"), entered into in October 2005, under which Farmer Mac agreed to facilitate access and improve pricing to ABA member institutions and the ABA agreed to promote member participation in the Farmer Mac I program;
- new and expanded business relationships that will serve a cross-section of agricultural lenders in many areas of the nation;
- expanded use of AgVantage transactions, targeting highly-rated financial institutions with large agricultural mortgage portfolios;
- product enhancements, such as open prepayment loan structures;
- agribusiness and rural development loans associated with agriculture, in fulfillment of Farmer Mac's Congressional mission;
- federal and state agricultural finance programs;
- new loan securitization structures; and
- increased efforts to adjust the pricing of products to reflect with greater precision the risks assumed by Farmer Mac and the creditworthiness of the obligors on obligations guaranteed by Farmer Mac.

Some of the agribusiness and rural development initiatives will require Farmer Mac to consider credit risks that expand upon or differ from those the Corporation has accepted previously. Farmer Mac will use underwriting standards appropriate to those credit risks, and likely will draw upon outside expertise to analyze and evaluate the credit and funding aspects of loans submitted pursuant to those initiatives. While Farmer Mac is seeking to expand its mix of loan types within the scope of its Congressional charter, it is too early to assess the probability of success of these efforts. Farmer Mac believes that prospects for large portfolio transactions similar to those that have accounted for a significant portion of Farmer Mac's previous growth, including the previously mentioned January and July 2006 AgVantage transactions and the April 2006 LTSPC transaction, continue to exist. No assurance can be given at this time as to the certainty or timing of similar transactions in the future.

Edgar Filing: FEDERAL AGRICULTURAL MORTGAGE CORP - Form 10-Q/A

The following tables set forth the amount of all Farmer Mac I and Farmer Mac II loan purchase and guarantee activities for newly originated and current seasoned loans during the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	<i>(in thousands)</i>			
Loan purchase and guarantee and commitment activity:				
Farmer Mac I:				
Loans	\$ 26,114	\$ 20,382	\$ 56,374	\$ 38,922
LTSPCs	570,595	96,419	643,750	129,701
AgVantage	-	-	500,000	-
Farmer Mac II Guaranteed Securities	61,204	45,123	106,331	88,757
Total purchases, guarantees and commitments	\$ 657,913	\$ 161,924	\$ 1,306,455	\$ 257,380
Farmer Mac I Guaranteed Securities issuances:				
Retained	\$ -	\$ -	\$ -	\$ -
Sold	1,548	20,098		