FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K
March 16, 2009

As filed with the Securities and Exchange Commission on
March 16, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008.

or

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

For the transition period from _____ to _____.

Commission File Number 001-14951

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

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

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

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

Title of each class	Exchange on which registered

Class A voting common stock	New York Stock Exchange
Class C non-voting common stock	New York Stock Exchange

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

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

Yes o No x

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

Yes o No x

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

Yes x No o

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

Yes o No x

The aggregate market values of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant were $15,204,005 and $210,185,818, respectively, as of June 30, 2008, based upon the closing prices for the respective classes on June 30, 2008 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 2, 2009, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,603,708 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2009 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part II and Part III of this Annual Report on Form 10-K as described herein).

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PART I

Item 1. Business

General

The Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") is a stockholder-owned, federally chartered instrumentality of the United States organized and existing under Title VIII of the Farm Credit Act of 1971, as amended (12 U.S.C. §§ 2279aa et seq.) (the "Act"). Farmer Mac was originally created by the United States Congress to establish a secondary market for agricultural real estate and rural housing mortgage loans. This secondary market was designed to increase the availability of long-term credit at stable interest rates to America's rural communities, including farmers, ranchers and rural homeowners, and to provide those borrowers with the benefits of capital markets pricing and product innovation. In May 2008, Congress expanded Farmer Mac's charter to authorize the Corporation to purchase, and to guarantee securities backed by, loans made by cooperative lenders to cooperative borrowers to finance electrification and telecommunications systems in rural areas.

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

- purchasing eligible loans directly from lenders;
- guaranteeing securities representing interests in, or obligations secured by, pools of eligible loans; and
- issuing long-term standby purchase commitments ("LTSPCs") for eligible loans.

Farmer Mac conducts these activities through three programs—Farmer Mac I, Farmer Mac II and Rural Utilities. As of December 31, 2008, the total volume in all of Farmer Mac's programs was $10.1 billion.

Under the Farmer Mac I program, Farmer Mac purchases or commits to purchase mortgage loans secured by first liens on agricultural real estate. Farmer Mac also guarantees securities representing interests in, or obligations secured by, pools of eligible mortgage loans. The securities guaranteed by Farmer Mac under the Farmer Mac I program are referred to as "Farmer Mac I Guaranteed Securities." To be eligible for the Farmer Mac I program, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation and other specified standards that are discussed in "Business—Farmer Mac Programs—Farmer Mac I." As of December 31, 2008, outstanding Farmer Mac I loans held by Farmer Mac and loans that either back Farmer Mac I Guaranteed Securities or are subject to LTSPCs in the Farmer Mac I program totaled $8.0 billion.

Under the Farmer Mac II program, Farmer Mac purchases the portions of loans guaranteed by the United States Department of Agriculture ("USDA-guaranteed portions") pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.) and guarantees securities backed by those USDA-guaranteed portions ("Farmer Mac II Guaranteed Securities"). As of December 31, 2008, outstanding Farmer Mac II Guaranteed Securities totaled $1.0 billion.

Farmer Mac's Rural Utilities program, which is separate from the Farmer Mac I and Farmer Mac II programs, was initiated during second quarter 2008 after Congress expanded Farmer Mac's authorized secondary market activities to include rural utilities loans. Farmer Mac's authorized activities under this program are similar to those conducted under the Farmer Mac I program—loan purchases, guarantees of securities ("Farmer Mac Guaranteed Securities – Rural Utilities") and issuance of LTSPCs—with respect to eligible rural utilities loans. To be eligible for the Rural Utilities program, loans must meet Farmer Mac's credit underwriting and other specified standards that are discussed in "Business—Farmer Mac Programs—Rural Utilities." To date, Farmer Mac has retained in its portfolio all of the Farmer Mac Guaranteed Securities – Rural Utilities under this program and has not issued any LTSPCs with respect to rural utilities loans. As of December 31, 2008, outstanding Farmer Mac Guaranteed Securities – Rural Utilities totaled $1.1 billion.

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

Farmer Mac's two principal sources of revenue are:

- guarantee and commitment fees received in connection with outstanding Farmer Mac Guaranteed Securities and LTSPCs; and
- interest income earned on its portfolio of Farmer Mac Guaranteed Securities, loans and investments, net of interest expense incurred on related debt instruments issued by Farmer Mac.

Farmer Mac funds its "program" purchases of Farmer Mac Guaranteed Securities and eligible loans primarily by issuing debt obligations of various maturities in the public capital markets. As of December 31, 2008, Farmer Mac had $2.1 billion of discount notes and $2.5 billion of medium-term notes outstanding. To the extent the proceeds of debt issuance exceed Farmer Mac's need to fund program assets, those proceeds are invested in "non-program" investments that must comply with regulations promulgated by the Farm Credit Administration ("FCA"), including dollar amount, issuer concentration, and credit quality limitations. Those regulations can be found at 12 C.F.R. §§652.1-652.45 (the "Investment Regulations"). Farmer Mac's regular debt issuance and non-program investment assets support its access to the capital markets and provide an alternative source of funds should market conditions be unfavorable.

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

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Farmer Mac is an institution of the Farm Credit System (the "FCS"), but is not liable for any debt or obligation of any other institution of the FCS. Likewise, neither the FCS nor any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac.

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

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

As of December 31, 2008, Farmer Mac employed 43 people, located primarily at its principal executive offices at 1133 Twenty-First Street, N.W., Washington, D.C. 20036. Farmer Mac's main telephone number is (202) 872-7700.

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

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FARMER MAC PROGRAMS

The following tables present the outstanding balances and annual activity under Farmer Mac's three programs—Farmer Mac I, Farmer Mac II, and Rural Utilities.

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

	As of December 31,	
	2008	2007
	(in thousands)	
On-balance sheet assets:		
Farmer Mac I:		
Loans	$ 781,305	$ 762,319
Guaranteed Securities	282,185	336,778
AgVantage	53,300	30,800
Farmer Mac II:		
Guaranteed Securities	1,013,330	921,802
Farmer Mac Guaranteed Securities - Rural Utilities	1,054,941	-
Total on-balance sheet	$ 3,185,061	$ 2,051,699
Off-balance sheet assets:		
Farmer Mac I:		
Guaranteed Securities	$ 1,697,983	$ 2,018,300
AgVantage	2,945,000	2,500,000
LTSPCs	2,224,181	1,948,941
Farmer Mac II:		
Guaranteed Securities	30,095	24,815
Total off-balance sheet	$ 6,897,259	$ 6,492,056
Total	$ 10,082,320	$ 8,543,755

Farmer Mac Loan Purchases, Guarantees and LTSPCs

	For the Year Ended December 31,		
	2008	2007	2006
	(in thousands)		
Farmer Mac I:			
Loans	$ 196,622	$ 127,709	$ 98,673
AgVantage	475,000	1,000,000	1,500,000
LTSPCs	530,363	970,789	1,139,699
Farmer Mac II Guaranteed Securities	303,941	210,040	234,684
Farmer Mac Guaranteed Securities - Rural Utilities	1,560,676	-	-
Total purchases, guarantees and commitments	$ 3,066,602	$ 2,308,538	$ 2,973,056

The following sections describe Farmer Mac's activities under each program.

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Farmer Mac I

Under the Farmer Mac I program, Farmer Mac assumes, for a fee, the credit risk on agricultural real estate mortgage loans by (1) guaranteeing the timely payment of principal and interest on securities representing interests in, or obligations secured by, pools of eligible mortgage loans, or (2) issuing LTSPCs to acquire designated eligible mortgage loans. Farmer Mac also may assume the credit risk on eligible mortgage loans by purchasing and retaining them.

Loan Eligibility

To be eligible for the Farmer Mac I program, a loan is required to:

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

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

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

Although the Act does not prescribe a maximum loan size for a Farmer Mac I eligible agricultural mortgage loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac currently limits the size of these loans to $15.0 million, except that the maximum loan size of loans securing AgVantage securities is $35.0 million. Those maximum loan sizes were reduced from $22.5 million and $50.0 million, respectively, in October 2008. For a Farmer Mac I eligible agricultural mortgage loan secured by more than 1,000 acres of agricultural real estate, the Act authorizes a maximum loan size of $9.8 million (adjusted annually for inflation), which Farmer Mac currently further limits to $9.0 million for loan products as to which Farmer Mac offers daily rates to purchase.

For purposes of the Farmer Mac I program, rural housing is a one- to four-family, owner-occupied, moderately priced principal residence located in a community with a population of 2,500 or less. The current maximum purchase price or current appraised value for a dwelling, excluding the land to which the dwelling is affixed, that secures a rural housing loan is $269,807. That limit is adjusted annually based on changes in home values during the previous year. In addition to the dwelling itself, an eligible rural housing loan can be secured by land associated with the dwelling having an appraised value of no more than 50 percent of the total appraised value of the combined property. As of December 31, 2008, rural housing loans did not represent a significant part of Farmer Mac's business.

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Summary of Farmer Mac I Transactions

During the year ended December 31, 2008, Farmer Mac purchased or placed under guarantee or LTSPC $1.2 billion of loans under the Farmer Mac I program. As of December 31, 2008, loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs totaled $8.0 billion.

The following table summarizes loans purchased or newly placed under guarantees (including in AgVantage transactions) or LTSPCs under the Farmer Mac I program for each of the years ended December 31, 2008, 2007 and 2006.

	For the Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Loans and Guaranteed Securities	$ 196,622	$ 127,709	$ 98,673
AgVantage	475,000	1,000,000	1,500,000
LTSPCs	530,363	970,789	1,139,699
Total	$ 1,201,985	$ 2,098,498	$ 2,738,372

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

	As of December 31,	
	2008	2007
	(in thousands)	
On-balance sheet assets:		
Loans	$ 781,305	$ 762,319
Guaranteed Securities	282,185	336,778
AgVantage	53,300	30,800
Total on-balance sheet	$ 1,116,790	$ 1,129,897
Off-balance sheet assets:		
Guaranteed Securities	$ 1,697,983	$ 2,018,300
AgVantage	2,945,000	2,500,000
LTSPCs	2,224,181	1,948,941
Total off-balance sheet	$ 6,867,164	$ 6,467,241
Total	$ 7,983,954	$ 7,597,138

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Loan Purchases

Farmer Mac offers loan products designed to increase the secondary market liquidity of agricultural real estate mortgage loans and the lending capacity of financial institutions that originate those loans. Farmer Mac enters into mandatory and optional delivery commitments to purchase loans and offers rates for such commitments daily. Farmer Mac also purchases portfolios of newly originated and seasoned loans on a negotiated basis. Farmer Mac purchases both fixed- and adjustable rate loans that have a variety of maturities and often include balloon payments. Loans purchased or subject to purchase commitments may include provisions that require a yield maintenance payment or some other form of prepayment penalty in the event a borrower prepays a loan (depending upon the level of interest rates at the time of prepayment). Of the $196.6 million of loans purchased in the Farmer Mac I program during 2008, 59 percent included balloon payments and 2 percent included yield maintenance prepayment protection. By comparison, of the $127.7 million of loans purchased in the Farmer Mac I program during 2007, 72 percent included balloon payments and 10 percent included yield maintenance prepayment protection.

Off-Balance Sheet Guarantees and Commitments

Farmer Mac offers two Farmer Mac I credit enhancement alternatives that allow approved agricultural and rural residential mortgage lenders the ability to retain the cash flow benefits of their loans and increase their liquidity and lending capacity: (1) LTSPCs and (2) Farmer Mac I Guaranteed Securities. Both of these products result in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business.

Both types of transactions permit a seller to nominate from its portfolio a segregated pool of loans for participation in the Farmer Mac I program, subject to review by Farmer Mac for conformance with its applicable standards. In both types of transactions, the seller effectively transfers the credit risk on those loans upon Farmer Mac's approval of the eligible loans because, through its guarantee or commitment to purchase, Farmer Mac assumes the ultimate credit risk of borrower defaults on the underlying loans and, in the case of AgVantage securities, issuer default on the underlying obligations that are backed by eligible loans. That transfer of risk reduces the seller's credit and concentration risk exposures and, consequently, its regulatory capital requirements and its loss reserve requirements. The loans underlying LTSPCs and Farmer Mac I Guaranteed Securities may include loans with payment, maturity and interest rate characteristics that differ from the loan products that Farmer Mac offers for purchase on a daily basis, but all the loans are subject to the applicable underwriting standards described in "—Underwriting and Collateral Valuation (Appraisal) Standards." See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans."

LTSPCs. An LTSPC commits Farmer Mac to a future purchase of eligible loans from a segregated pool of loans that met Farmer Mac's standards at the time the loans first became subject to the LTSPC and Farmer Mac assumed the credit risk on the loans. The LTSPC structure, which is not a guarantee of loans or securities, permits the seller to retain the segregated loan pool in its portfolio until such time, if ever, as the seller delivers some or all of the segregated loans to Farmer Mac for purchase under the LTSPC. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives commitment fees payable monthly in arrears in an amount approximating what would have been the guarantee fees if the transaction were structured as Farmer Mac I Guaranteed Securities. The loans underlying an LTSPC can be converted into Farmer Mac I Guaranteed Securities at the option of the seller, with no conversion fee paid to Farmer Mac.

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Farmer Mac purchases loans subject to an LTSPC at:

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

In 2008, Farmer Mac entered into $530.4 million of LTSPCs, compared to $970.8 million in 2007. In 2008, LTSPCs remained the preferred credit enhancement alternative for new transactions and they continue to be a significant portion of the Farmer Mac I program. During 2008, there were no conversions of LTSPCs into Farmer Mac I Guaranteed Securities. As of December 31, 2008, Farmer Mac's outstanding LTSPCs covered 7,056 mortgage loans with an aggregate principal balance of $2.2 billion and outstanding off-balance sheet Farmer Mac I Guaranteed Securities were backed by 7,326 mortgage loans having an aggregate principal balance of $1.7 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

Farmer Mac I Guaranteed Securities. In Farmer Mac I Guaranteed Securities transactions, Farmer Mac either (1) guarantees securities representing interests in, or obligations secured by, eligible loans held by a trust or other entity established by a seller or (2) acquires eligible loans from sellers in exchange for Farmer Mac I Guaranteed Securities backed by those loans. Farmer Mac guarantees the timely payment of interest and principal on the securities, which are either retained by Farmer Mac or sold to third parties. These securities are customarily issued through special purpose trusts and entitle each investor in a class of securities to receive a portion of the payments of principal and interest on the related underlying pool of loans or obligation equal to the investor's proportionate interest in the pool or obligation as specified in the applicable transaction documents. As consideration for its assumption of the credit risk on loans underlying the Farmer Mac I Guaranteed Securities, Farmer Mac receives guarantee fees payable in arrears out of periodic loan interest payments and based on the outstanding balance of the related Farmer Mac I Guaranteed Securities. The Farmer Mac I Guaranteed Securities representing the general obligations of issuers secured by eligible loans are referred to as AgVantage securities. See "—AgVantage Securities."

Farmer Mac is obligated under its guarantee on the securities to make timely payments to investors of principal (including balloon payments) and interest based on the scheduled payments on the underlying loans or obligations, regardless of whether the trust has actually received such scheduled payments. Farmer Mac's guarantee fees typically are collected out of installment payments made on the underlying loans or obligations until those loans or obligations have been repaid or otherwise liquidated (generally as a result of default). The aggregate amount of guarantee fees received on Farmer Mac I Guaranteed Securities depends upon the amount of such securities outstanding and on the applicable guarantee fee rate, which Farmer Mac's statutory charter caps at 50 basis points (0.50 percent) per annum. The Farmer Mac I guarantee fee rate typically ranges from 15 to 50 basis points (0.15 to 0.50 percent) per annum, depending on the credit quality of and other criteria regarding the loans or obligations. The amount of non-AgVantage Farmer Mac I Guaranteed Securities outstanding is influenced by the repayment rates on the underlying loans and by the rate at which Farmer Mac issues new Farmer Mac I Guaranteed Securities. In general, when the level of interest rates declines significantly below the interest rates on loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to increase; conversely, when interest rates rise above the interest rates on the loans underlying Farmer Mac I Guaranteed Securities, the rate of prepayments is likely to decrease. In addition to changes in interest rates, the rate of principal payments on Farmer Mac I Guaranteed

Securities also is influenced by a variety of economic, demographic and other considerations, such as yield maintenance provisions that may be associated with loans underlying Farmer Mac I Guaranteed Securities. For more information regarding yield maintenance provisions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk."

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For each of the years ended December 31, 2008 and 2007, Farmer Mac sold non-AgVantage Farmer Mac I Guaranteed Securities in the amounts of $143.8 million and $1.3 million, respectively. The 2008 sales resulted in Farmer Mac recognizing a gain of $1.5 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume." See "—AgVantage Securities" for information about Farmer Mac's AgVantage transactions, which are a form of Farmer Mac I Guaranteed Securities.

AgVantage Securities

Each AgVantage security is a general obligation of an institution approved by Farmer Mac, which obligation is also secured by a pool of eligible loans under one of Farmer Mac's three programs. Farmer Mac guarantees those securities as to the timely payment of principal and interest and may retain AgVantage securities in its portfolio or sell them to third parties in the capital markets as Farmer Mac Guaranteed Securities.

Before approving an institution as an issuer in a Farmer Mac I AgVantage transaction, Farmer Mac assesses the institution's agricultural real estate mortgage loan performance as well as its creditworthiness. Farmer Mac continues to monitor the counterparty risk assessment on an ongoing basis after the AgVantage security is issued.

In addition to being a general obligation of the issuing institution, each Farmer Mac I AgVantage security is secured by eligible agricultural real estate mortgage loans in an amount at least equal to the outstanding principal amount of the security. In the Farmer Mac I program, Farmer Mac also requires the general obligation to be overcollateralized, either by more eligible loans or any of the following types of assets:

- cash;
- securities issued by the U.S. Treasury or guaranteed by an agency or instrumentality of the United States; or
- other highly-rated securities.

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The required collateralization level for a Farmer Mac I AgVantage security issued by an institution without a long-term debt rating from a nationally recognized statistical rating organization ("NRSRO") ranges from 111 percent to 150 percent, depending on whether physical possession of the collateral is maintained by Farmer Mac (11 percent overcollateralization) or whether a specific pledge (20 percent overcollateralization) or a general pledge (50 percent overcollateralization) of collateral is made by the issuer. Historically, these types of Farmer Mac I AgVantage securities have been retained by Farmer Mac and not sold to third parties.

A Farmer Mac I AgVantage security issued by an institution with a high long-term debt rating from an NRSRO requires a collateralization level of at least 103 percent of the outstanding principal amount of the security (3 percent overcollateralization), which level could be higher depending on the rating of the issuer. Historically, these types of Farmer Mac I AgVantage securities have been sold to third parties in the capital markets.

In all AgVantage transactions, Farmer Mac can require the issuer to remove from the pool of pledged collateral any loan that becomes more than 30 days delinquent in the payment of principal or interest and to substitute an eligible loan that is current in payment to maintain the minimum required collateralization level. As of December 31, 2008, Farmer Mac had not experienced any credit losses, nor had it been called upon to make a guarantee payment, on any of its AgVantage securities.

During 2008, Farmer Mac purchased $75.0 million of Farmer Mac I AgVantage securities that had been issued and sold to third parties prior to 2008 and subsequently sold $45.0 million of those acquired securities for a realized gain of $1.5 million. As of December 31, 2008 and 2007, the outstanding principal amount of Farmer Mac I AgVantage securities held by Farmer Mac was $53.3 million and $30.8 million, respectively. In August 2008, Farmer Mac guaranteed $475.0 million of off-balance sheet Farmer Mac I AgVantage securities representing a three-year obligation of M&I Marshall & Ilsley Bank ("M&I Bank") and secured by a pool of eligible loans, with a required collateralization level of 106 percent. In April 2007, Farmer Mac guaranteed $1.0 billion of off-balance sheet Farmer Mac I AgVantage securities representing a ten-year obligation of Metropolitan Life Insurance Company ("MetLife") and secured by a pool of eligible loans, with a required collateralization level of 103 percent. As of December 31, 2008 and 2007, the aggregate outstanding principal amount of off-balance sheet AgVantage securities issued under the Farmer Mac I program totaled $2.9 billion and $2.5 billion, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

Underwriting and Collateral Valuation (Appraisal) Standards

As required by the Act, Farmer Mac has established underwriting, security appraisal, and repayment standards for eligible loans taking into account the nature, risk profile, and other differences between different categories of qualified loans. These standards for agricultural real estate mortgage loans under the Farmer Mac I program at a minimum are intended to:

- provide that no loan with a loan-to-value ratio ("LTV") in excess of 80 percent may be eligible;
- require each borrower to demonstrate sufficient cash-flow to adequately service the loan;
- protect the integrity of the appraisal process with respect to any loan; and
- confirm that the borrower is or will be actively engaged in agricultural production.

Loans securing off-balance sheet Farmer Mac I AgVantage securities are required to meet these statutory standards in place of the underwriting standards set forth below.

Farmer Mac uses experienced internal agricultural credit underwriters and external agricultural loan servicing and collateral valuation contractors (under Farmer Mac supervision and review) to perform those respective functions on loans that come into the Farmer Mac I program. Farmer Mac believes that the combined expertise of its own internal staff and those third-party service providers provides the Corporation adequate resources for performing the necessary underwriting, collateral valuation and servicing functions.

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

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Farmer Mac I credit underwriting standards require that the LTV of any loan not exceed 70 percent, with the exception of a loan secured by a livestock facility and supported by a contract with an approved integrator may have an LTV of up to 80 percent. Rural housing loans and agricultural real estate mortgage loans secured primarily by owner-occupied residences may also have LTVs of up to 80 percent. Farmer Mac may require that a loan have a lower LTV when it determines that such lower LTV is appropriate. The original LTV of a loan is calculated by dividing the loan's principal balance at the time of guarantee, purchase or commitment by the appraised value at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase or commitment.

In the case of newly-originated farm and ranch loans, borrowers on the loans must, among other criteria set forth in Farmer Mac's credit underwriting standards, meet the following ratios on a pro forma basis (i.e., giving effect to the new loan):

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

Farmer Mac evaluates and adjusts these standards on an ongoing basis based on current and anticipated market conditions. During the latter part of 2008, Farmer Mac began requiring a more stringent total debt service coverage ratio for farm and ranch loans with LTVs between 60 percent and 70 percent.

For loans secured by agricultural real estate with building improvements other than a residence contributing more than 60 percent of the appraised value of the property (referred to by Farmer Mac as facility loans), the credit underwriting standards are the same as for farm and ranch loans but more stringent with respect to two ratios, requiring:

- total debt service coverage ratio, including farm and non-farm income, of not less than 1.35:1; and
- ratio of current assets to current liabilities of not less than 1.25:1

Loans secured by eligible collateral with LTVs not greater than 55 percent made to borrowers with high credit scores and adequate financial resources may be accepted without further underwriting tests being applied. Agricultural real estate mortgage loans secured primarily by owner-occupied residences and rural housing loans are underwritten to industry norms for conforming loans secured by primary residences, with fully verified repayment capacity and assets and liabilities. Applicants' credit scores are obtained and used in the underwriting process.

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In addition, Farmer Mac's underwriting standards provide for the acceptance of a loan that, in the judgment of the underwriter, is a sound loan with a high probability of repayment in accordance with its terms even though the loan does not meet one or more of the underwriting ratios usually required for loans of that type. In those cases, Farmer Mac permits exceptions to applicable underwriting standards when a loan:

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

Despite these underwriting approvals based on compensating strengths, no loan will be approved if it does not at least meet all of Farmer Mac's statutory underwriting standards described at the beginning of this section.

Farmer Mac's use of compensating strengths is not intended to provide a basis for waiving or lessening the requirement that eligible mortgage loans under the Farmer Mac I program be of consistently high quality. In fact, loans approved on the basis of compensating strengths are fully underwritten and have not demonstrated a significantly different rate of default, or loss following default, than loans that were approved on the basis of conformance with all applicable underwriting ratios. As of December 31, 2008, a total of $1.9 billion (38.9 percent) of the outstanding balance of loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) were approved based upon compensating strengths ($104.4 million of which had original LTVs of greater than 70 percent). During 2008, $51.2 million (7.0 percent) of the loans purchased or added under LTSPCs were approved based upon compensating strengths ($9.2 million of which had original LTVs of greater than 70 percent), as compared to 2007 when $447.9 million (40.8 percent) of the loans purchased or added under LTSPCs were approved based upon compensating strengths ($49.8 million of which had original LTVs of greater than 70 percent). During the latter part of 2008, Farmer Mac anticipated a leveling of agricultural real estate values and implemented a more conservative approach to underwriting decisions, resulting in fewer approvals based on compensating strengths.

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

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

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

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

- evaluating loan database information to determine conformity to the criteria set forth in the preceding paragraphs;
- confirming that loan file data conform to database information;
- validating supporting credit information in the loan files; and
- reviewing loan documentation and collateral valuations.

Farmer Mac performs these and other due diligence procedures using methods that give due regard to the size, age, leverage and nature of the collateral for the loans.

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

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

Collateral Valuations (Appraisals and Evaluations). Farmer Mac has adopted collateral valuation standards for newly originated loans purchased or placed under a Farmer Mac I Guaranteed Security or LTSPC. Those standards require, among other things, that a current valuation be performed, or has been performed within the preceding 12 months, independently of the credit decision-making process. In addition, Farmer Mac requires appraisals to conform to the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Standards Board.

Farmer Mac's collateral valuation standards require that the valuation function be conducted or administered by an individual meeting specific qualification and competence criteria who:

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

Farmer Mac's collateral valuation standards require uniform reporting of reliable and credible opinions of the market value based on analyses of comparable property sales, including consideration of the property's income producing capacity and, if relevant, the market's response to the cost of improvements, as well as information regarding market trends. For seasoned loans, Farmer Mac obtains collateral valuation updates as considered necessary in its assessment of collateral risk determined in the due diligence process. If a current or updated collateral valuation is required for a seasoned loan, the collateral valuation standards described above would apply.

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Portfolio Diversification

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

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

Sellers

As of December 31, 2008, Farmer Mac had 256 approved loan sellers eligible to participate in the Farmer Mac I program, ranging from single-office to multi-branch institutions, spanning community banks, FCS institutions, mortgage companies, commercial banks and insurance companies. The increase in the number of approved Farmer Mac I loan sellers from 224 as of December 31, 2007 is principally the result of Farmer Mac's alliance with the American Bankers Association, as well as lender informational seminars Farmer Mac conducts in key regional locations and through the internet. In addition to participating directly in the Farmer Mac I program, some of the approved loan sellers facilitate indirect participation by other lenders in the Farmer Mac I program by managing correspondent networks of lenders from which they purchase loans to sell to Farmer Mac. As of December 31, 2008, 373 lenders were participating in one or both of the Farmer Mac I or Farmer Mac II programs.

To be considered for approval as a Farmer Mac I seller, a financial institution must meet the criteria that Farmer Mac establishes. Those criteria include the following requirements:

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

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Servicing

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

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Farmer Mac II

General

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

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

Summary of Farmer Mac II Transactions

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

During the years ended December 31, 2008, 2007 and 2006, Farmer Mac issued $303.9 million, $210.0 million and $234.7 million, respectively, of Farmer Mac II Guaranteed Securities. As of December 31, 2008, 2007 and 2006, $1.0 billion, $946.6 million and $925.8 million, respectively, of Farmer Mac II Guaranteed Securities were outstanding. The following table presents Farmer Mac II activity for each of the years indicated:

	For the Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Purchased and retained	$ 291,335	$ 204,931	$ 234,684
Purchased and sold	12,606	5,109	-
Total	$ 303,941	$ 210,040	$ 234,684

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

	Outstanding Balance of Farmer Mac II Guaranteed Securities as of December 31,	
	2008	2007
	(in thousands)	
On-balance sheet	$ 1,013,330	$ 921,802
Off-balance sheet	30,095	24,815
Total	$ 1,043,425	$ 946,617

As of December 31, 2008, Farmer Mac had experienced no credit losses on any of its Farmer Mac II Guaranteed Securities. As of December 31, 2008, Farmer Mac had outstanding $0.3 million of principal and interest advances on Farmer Mac II Guaranteed Securities, compared to $0.4 million as of December 31, 2007 and $0.1 million as of December 31, 2006.

United States Department of Agriculture Guaranteed Loan Programs

The United States Department of Agriculture ("USDA"), acting through its various agencies, currently administers the federal rural credit programs first developed in the mid-1930s. The USDA makes direct loans and guarantees portions of loans made and serviced by USDA-qualified lenders for various purposes. The USDA's guarantee is supported by the full faith and credit of the United States. USDA-guaranteed portions represent up to 95 percent of the principal amount of guaranteed loans. Through its Farmer Mac II program, Farmer Mac is one of several competing purchasers of USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities and other loans that are fully guaranteed as to principal and interest by the USDA.

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

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

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

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

Lenders. Any lender authorized by the USDA to obtain a USDA guarantee on a loan may be a seller in the Farmer Mac II program. As of December 31, 2008, there were 187 active sellers in the Farmer Mac II program, consisting mostly of community and regional banks, compared to 151 sellers as of December 31, 2007, for an increase of 36 active sellers. In the aggregate, 373 sellers were participating directly in one or both of the Farmer Mac I or Farmer Mac II programs during 2008.

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

Rural Utilities

In May 2008, Congress expanded Farmer Mac's authority to permit purchases, and guarantees of securities backed by, rural electric and telephone loans made by cooperative lenders to borrowers who have received or are eligible to receive loans under the Rural Electrification Act of 1936 ("REA"). The REA is administered by the Rural Utilities Service ("RUS"), an agency of the USDA. Pursuant to this new authority, during second quarter 2008, Farmer Mac placed its guarantee on $1.3 billion of investment securities previously held as mission-related investments under authority granted by FCA, thereby creating Farmer Mac Guaranteed Securities – Rural Utilities. Those securities consisted of $430.7 million of securities representing interests in rural electric cooperative loans and $900.0 million of obligations collateralized by rural electric cooperative loans. During third quarter 2008, $500.0 million of the obligations collateralized by rural electric cooperative loans matured and was repaid. During fourth quarter 2008, Farmer Mac guaranteed and purchased $230.0 million of new Farmer Mac Guaranteed Securities – Rural Utilities representing the direct obligation of a cooperative lender secured by eligible rural electric loans. None of Farmer Mac's business to date under the Rural Utilities program has involved telecommunications loans.

Loan Eligibility

The list below summarizes Farmer Mac's eligibility requirements for rural utilities loans:

- the loan, or interest in a loan, is for an electric or telephone facility by a cooperative lender to a borrower that has received or is eligible to receive a loan under the REA;
- collateral is performing and not more than 30 days delinquent; and
- in conformance with the Farmer Mac rural utility underwriting standards and guidelines.

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Underwriting

In order for Farmer Mac to manage its credit risk, to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting to all participating sellers in its programs, Farmer Mac has adopted credit underwriting standards that vary by type of loan, be it to electric distribution cooperatives or electric generation and transmission (G&T) cooperatives, and program product under which the loan is brought to Farmer Mac. These standards were developed based on rural utility industry norms for similar loans and are designed to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac either as purchaser of or the guarantor of securities representing interests in, or obligations secured by, pools of such loans. Further, Farmer Mac requires sellers of rural utilities loans to make representations and warranties regarding the conformity of eligible loans to these standards and any other requirements the Corporation may impose from time to time.

Farmer Mac’s credit underwriting standards for rural utilities loans on which it has assumed direct credit exposure (e.g., with no general obligation of an issuer involved in the transaction) through the Rural Utilities program require:

- each electric or telephone cooperative to have received or be eligible to receive a loan under the REA;
- each borrower to demonstrate sufficient cash-flow to adequately service the rural utility loan; and
- each borrower’s leverage position to be adequate based on industry standards.

Farmer Mac’s credit underwriting standards for AgVantage transactions under the Rural Utilities program, in which Farmer Mac has indirect credit exposure on loans securing the general obligation of a lender, require:

- the credit rating of the counterparty issuing the general obligation to be investment grade as determined by an NRSRO, or equivalent as determined by Farmer Mac analysis;
- the collateral to be comprised of loans, or interests in loans, for electric or telephone facilities by a cooperative lender to a borrower that has received or is eligible to receive a loan under the REA;
- the collateral to be performing and not more than 30 days delinquent; and
- the collateralization (consisting of current, performing loans) to be maintained at the contractually prescribed level, in an amount at least equal to the outstanding principal amount of the security.

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

- evaluation of loan database information to determine conformity to Farmer Mac’s underwriting standards and guidelines;
- confirmation that loan file data conform to database information;
- validation of supporting credit information in the loan files; and
- review of loan documentation.

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Collateral

It is customary in loans to distribution cooperatives for the lender to take a security interest in substantially all of the borrower's assets, and collateral is required to secure term loans. In cases where Farmer Mac purchases a loan and another rural utility lender has a lien on all assets, Farmer Mac verifies that a lien accommodation results in either a shared first lien or a first lien in favor of Farmer Mac. In cases where public debt indentures are utilized, broader collateral exceptions can be expected and Farmer Mac determines if available collateral is adequate to support the loan program.

Servicing

Farmer Mac generally does not directly service loans held in its portfolio, although it does act as "master servicer" for pools of loans and loans underlying Farmer Mac Guaranteed Securities- Rural Utilities. Farmer Mac also may assume direct servicing for defaulted loans. Rural utilities loans held by Farmer Mac or underlying Farmer Mac Guaranteed Securities - Rural Utilities are serviced by the holders of those loans. Rural utilities loans underlying AgVantage securities are serviced by the holders of those loans in accordance with those lenders' servicing procedures, which are reviewed and approved by Farmer Mac before entering into those transactions. National Rural currently services all of the rural utilities loan in Farmer Mac's portfolio.

Sellers

The statutory authorities that authorize Farmer Mac to become involved in rural utilities lending specify that the loans be sourced from a cooperative lender. Currently the cooperative rural utilities lending space contains only two lenders, the National Rural Utilities Cooperative Finance Corporation ("National Rural") and CoBank, ACB, ("Co Bank") an institution of the Farm Credit System. As of December 31, 2008, these cooperatives had approximately $18.0 billion in loans outstanding to distribution cooperatives and $5.5 billion in loans outstanding to G&T cooperatives.

Portfolio Diversification

It is Farmer Mac's policy to diversify its rural utilities portfolio of loans held and loans underlying Farmer Mac Guaranteed Securities-Rural Utilities geographically. Since the cooperative rural utilities lending space contains only two lenders, National Rural and CoBank, these lenders geographically cover the entire United States. Farmer Mac analyzes the geographic distribution of loans to cooperatives and is not obligated to purchase, or commit to purchase, every loan that meets its underwriting standards and guidelines submitted by an eligible seller if a sizable concentration of loans accumulates in specific region.

The maximum cumulative direct credit exposure on eligible rural utilities loans (e.g., purchases of loans or securities representing interests in loans) to any one borrower or related borrowers is $20.0 million. For indirect credit exposures on rural utilities loans (e.g., AgVantage transactions) the maximum loan exposure to any one borrower or related borrowers is $35.0 million, with the amount of any direct exposure to a borrower also counting towards the $35.0 million limit. Farmer Mac's cumulative exposure to loans to electric G&T facilities, whether through direct or indirect credit exposure, is limited to no more than 20 percent of Farmer Mac's cumulative direct and indirect exposure to all Rural Utilities loans. Additionally, Farmer Mac's cumulative direct credit exposure to G&T facilities is limited to no more than 10 percent of Farmer Mac's cumulative direct and indirect exposure to all Rural Utilities loans.

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Funding of Guarantee and LTSPC Obligations

The principal sources of funding for the payment of Farmer Mac's obligations under its guarantees and LTSPCs are the fees for its guarantees and commitments, net interest income and the proceeds of debt issuances. Farmer Mac satisfies its obligations under LTSPCs and its guarantees by purchasing defaulted loans out of LTSPCs and from the related trusts for Farmer Mac Guaranteed Securities. Farmer Mac typically recovers a significant portion of the value of defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties or foreclosure and sale of the property securing the loans. Ultimate losses arising from Farmer Mac's guarantees and commitments are reflected in the Corporation's charge-offs against its allowance for losses and gains and losses on the sale of real estate owned. During 2008, Farmer Mac's net charge-offs were $5.3 million, compared to $0.5 million during 2007.

The Act requires Farmer Mac to set aside in a segregated account a portion of the guarantee fees it receives from its guarantee activities. That segregated account must be exhausted before Farmer Mac may issue obligations to the U.S. Treasury against the $1.5 billion that Farmer Mac is statutorily authorized to borrow from the U.S. Treasury to fulfill its guarantee obligations. That borrowing authority is not intended to be a routine funding source and has never been used. As of December 31, 2008, the amount in that reserve account was $63.2 million. Farmer Mac's total outstanding guarantees and LTSPCs exceed the cumulative amount (1) held as an allowance for losses, (2) the amount in the segregated account, and (3) the amount Farmer Mac may borrow from the U.S. Treasury; however, Farmer Mac does not expect its obligations under its guarantees and LTSPCs to exceed amounts available to satisfy those obligations. For information regarding Farmer Mac's allowance for losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk - Loans" and Note 2(j) and Note 8 to the consolidated financial statements. For a more detailed discussion of Farmer Mac's borrowing authority from the U.S. Treasury, see "Business—Farmer Mac's Authority to Borrow from the U.S. Treasury."

Financing

Debt Issuance

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

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

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Farmer Mac's board of directors has authorized the issuance of up to $7.0 billion of discount notes and medium-term notes (of which $4.6 billion was outstanding as of December 31, 2008), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing requirements. Farmer Mac invests the proceeds of such issuances in loans, Farmer Mac Guaranteed Securities, and non-program investment assets in accordance with policies established by its board of directors that comply with its Investment Regulations, including dollar amount, issuer concentration and credit quality limitations. Farmer Mac's regular debt issuance and non-program investment assets support its access to the capital markets and provide an alternative source of funds should market conditions be unfavorable. Farmer Mac's current policies authorize non-program investments in:

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

For more information about Farmer Mac's outstanding investments and indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review" and Note 4, Note 7, and Note 15 to the consolidated financial statements.

Equity Issuance

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

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

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As of December 31, 2008, the following shares of Farmer Mac common and preferred stock were outstanding:

- 1,030,780 shares of Class A voting common stock;
- 500,301 shares of Class B voting common stock;
- 8,601,352 shares of Class C non-voting common stock;
- 150,000 shares of Series B non-voting redeemable cumulative preferred stock; and
- 9,200 shares of Series C non-voting redeemable cumulative preferred stock.

In December 2008, Farmer Mac repurchased and retired 700,000 shares of Series A non-voting cumulative preferred stock for $35.0 million. Farmer Mac may obtain additional capital from future issuances of voting and non-voting common stock and non-voting preferred stock.

The following table presents the dividends declared on the common stock during and subsequent to 2008:

Date Dividend Declared		Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 7, 2008	$	0.10	January 1, 2008	March 31, 2008	March 31, 2008
April 3, 2008		0.10	April 1, 2008	June 30, 2008	June 30, 2008
August 7, 2008		0.10	July 1, 2008	September 30, 2008	September 30, 2008
December 16, 2008		0.10	October 1, 2008	December 31, 2008	December 31, 2008
March 11, 2009		0.05	January 1, 2009	March 31, 2009	*

* The dividend declared on March 11, 2009 is scheduled to be paid on April 3, 2009.

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

Series A Preferred Stock

On December 15, 2008, Farmer Mac repurchased and retired all $35.0 million of the outstanding Series A cumulative preferred stock in conjunction with the issuance of $70.0 million of Series B-3 cumulative preferred stock to the holder of the Series A preferred stock. The following table presents the dividends declared on Series A preferred stock during 2008:

Date Dividend Declared		Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 7, 2008	$	0.80	January 1, 2008	March 31, 2008	March 31, 2008
April 3, 2008		0.80	April 1, 2008	June 30, 2008	June 30, 2008
August 7, 2008		0.80	July 1, 2008		

	September 30, 2008	September 30, 2008

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Series B Preferred Stock

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

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

The Series B Preferred Stock ranks senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock, Series C Preferred Stock and any other class of capital stock issuable in the future with respect to dividends, distributions upon a change in control, liquidation, and dissolution or winding up of Farmer Mac. Each series of Series B Preferred Stock ranks pari passu with the others.

Dividends on the Series B Preferred Stock compound quarterly at an annual rate of 10.0 percent of the then-applicable Liquidation Preference (as defined below) per share. On approximately each of the first three anniversary dates after the related issuance date, the annual rate on the Series B Preferred Stock will increase to 12.0 percent, 14.0 percent, and 16.0 percent, respectively. Dividends on the Series B Preferred Stock accrue and cumulate from the date last paid, whether or not declared by Farmer Mac's board of directors, and are payable quarterly in arrears out of legally available funds when and as declared by the board of directors on each dividend payment date. Farmer Mac may pay dividends on the Series B Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to the Series B Preferred Stock.

Farmer Mac has the right, but not the obligation, to redeem all, but not less than all, of the issued and outstanding shares of Series B Preferred Stock at a price equal to the then-applicable Liquidation Preference amount beginning nine months from issuance and on each subsequent dividend payment date. In addition, Farmer Mac must redeem all, but not less than all, of the outstanding shares of Series B Preferred Stock at a price equal to the then-applicable Liquidation Preference amount under specified circumstances, including (1) in the event that any indebtedness of Farmer Mac or its subsidiaries ("Farmer Mac Debt") becomes or is declared due and payable prior to the stated maturity thereof or is not paid when it becomes due and payable, (2) an event of default occurs with respect to any Farmer Mac Debt, or (3) Farmer Mac becomes bankrupt or insolvent or a receiver or conservator is appointed for Farmer Mac. The redemption price for any shares of Series B Preferred Stock redeemed by Farmer Mac will be payable in cash equal to the par value of the Series B Preferred Stock ($1,000 per share), plus all accrued but unpaid dividends (the "Liquidation Preference") or, at the election of Farmer Mac, payable in Farmer Mac program assets or other assets acceptable to the holders of the Series B Preferred Stock. Because of these mandatory redemption features, the Series B Preferred Stock is classified as mezzanine equity on Farmer Mac's consolidated balance sheet. Although the Series B Preferred Stock is classified as mezzanine equity, outside of the equity section of the consolidated balance sheet, it is a component of Farmer Mac's core capital for statutory and regulatory capital compliance purposes.

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Upon a change in control of Farmer Mac, holders of the Series B Preferred Stock will be entitled to receive an amount in cash equal to the Liquidation Preference. Except as required by applicable law, the holders of the Series B Preferred Stock are not entitled to any voting rights. The following table presents the dividends declared on Series B preferred stock during and subsequent to 2008:

Date Dividend Declared		Per Share Amount	For Period Beginning	For Period Ending	Date Paid
December 16, 2008	$	25.00	October 1, 2008	December 31, 2008	December 31, 2008
February 28, 2009		25.00	January 1, 2009	March 31, 2009	*

* The dividend declared on February 28, 2009 is scheduled to be paid on March 31, 2009.

Series C Preferred Stock

To ensure that Farmer Mac has adequate capital to support new business in fulfilling its mission, in fourth quarter 2008 Farmer Mac initiated the requirement that sellers who place pools of loans in excess of $20.0 million into a Farmer Mac program purchase an equity interest in Farmer Mac in the form of shares of Farmer Mac's Series C Non-Voting Cumulative Preferred Stock ("Series C Preferred Stock"). The amount of the required investment is currently an amount equal to 1.25 percent greater than the Corporation's required statutory minimum capital for the pool of loans being accepted by Farmer Mac.

Series C Preferred Stock has a par value of $1,000 per share, an initial liquidation preference of $1,000 per share and shall consist of up to 75,000 shares. Series C Preferred Stock ranks senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock and any other common stock of Farmer Mac issued in the future. Series C Preferred Stock ranks junior to Farmer Mac's outstanding Series B Preferred Stock.

Dividends on Series C Preferred Stock compound quarterly at an annual rate of 5.0 percent of the then-applicable Liquidation Preference per share. The annual rate will increase to (1) 7.0 percent on the January 1st following the fifth anniversary of the applicable issue date and (2) 9.0 percent on the January 1st following the tenth anniversary of the applicable issue date. Dividends on Series C Preferred Stock will accrue and cumulate from the applicable issue date whether or not declared by the board of directors and will be payable quarterly in arrears out of legally available funds when and as declared by the board of directors on each dividend payment date—March 31, June 30, September 30 and December 31 of each year, beginning March 31, 2009. Farmer Mac may pay dividends on Series C Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to Series C Preferred Stock.

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Farmer Mac has the right, but not the obligation, to redeem some or all of the issued and outstanding shares of Series C Preferred Stock at a price equal to the then-applicable Liquidation Preference beginning on the first anniversary of the applicable issue date and on each subsequent dividend payment date. Farmer Mac's redemption right with respect to Series C Preferred Stock is subject to receipt of the prior written approval of FCA, if required, and the consent of at least two-thirds of the then-outstanding shares of Series B-1, if any. The following table presents the dividends declared on Series C preferred stock subsequent to 2008.

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 28, 2009	$ 12.50	January 1, 2009	March 31, 2009	*

* The dividend declared on February 28, 2009 is scheduled to be paid on March 31, 2009.

On December 24, 2008, Farmer Mac sold 9,200 shares of its newly issued Series C Preferred Stock to National Rural. Farmer Mac sold those shares without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the exemption provided by Section 3(a)(2), for an aggregate purchase price of $9.2 million, or $1,000 per share. Subsequent to year-end, Farmer Mac sold an additional 10,800 shares of Series C Preferred Stock to National Rural, resulting in 20,000 shares of Series C Preferred Stock outstanding as of March 2, 2009.

Common Stock Repurchases

During 2008, 2007, and 2006 Farmer Mac repurchased 31,691, 1,086,541, and 796,450 shares, respectively, of its Class C non-voting common stock at an average price of $26.13, $26.61, and $26.82 per share, respectively, pursuant to the Corporation's stock repurchase programs. These repurchases reduced the Corporation's stockholders' equity by approximately $0.8 million, $29.0 million, and $22.0 million, respectively. The aggregate number of shares purchased by Farmer Mac under the stock repurchase programs reached the maximum number of authorized shares during first quarter 2008, thereby terminating the program according to its terms.

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

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

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

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

Such obligations would bear interest at a rate determined by the U.S. Treasury, taking into consideration the average rate on outstanding marketable obligations of the United States as of the last day of the last calendar month ending before the date of the purchase of the obligations from Farmer Mac, and would be required to be repurchased from the U.S. Treasury by Farmer Mac within a "reasonable time." As of December 31, 2008, Farmer Mac had not utilized this borrowing authority and does not expect does to utilize this borrowing authority in the future.

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

GOVERNMENT REGULATION OF FARMER MAC

General

In 1987, Congress created Farmer Mac in the aftermath of the collapse of the agricultural credit delivery system. Farmer Mac's primary committees of jurisdiction in the U.S. House of Representatives and the U.S. Senate—the Agriculture Committees—added requirements for Farmer Mac that had not been included in any of the other statutes establishing other GSEs.

Unlike the other existing GSEs at the time, Farmer Mac's initial 1987 legislation required the Corporation to be regulated by an independent regulator, the Farm Credit Administration, which has the authority to regulate Farmer Mac's safety and soundness. The statute creating Farmer Mac expressly requires that qualified loans meet minimum credit and appraisal standards that represent sound loans to profitable farm businesses. The enabling legislation also required Farmer Mac to comply with the periodic reporting requirements of the SEC, including quarterly reports on the financial status of the Corporation and interim reports when there are significant developments. Farmer Mac's statutory charter also requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act unless an exemption for an offering is available.

In May 2008, Congress enacted the Food, Conservation and Energy Act of 2008 (the "Farm Bill"), which expanded Farmer Mac's charter to authorize the Corporation to purchase, and guarantee securities backed by, loans made by cooperative lenders to cooperative borrowers to finance electrification and telecommunications systems in rural areas. Farmer Mac's authorities and regulatory structure were not revised by subsequent legislation adopted in 2008 to regulate other GSEs.

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Regulation

Office of Secondary Market Oversight (OSMO)

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

Capital Standards

General. The Act, as amended by the Farm Credit System Reform Act of 1996 (the "1996 Act"), established three capital standards for Farmer Mac:

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

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

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

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

The risk-based capital stress test then adds an additional 30 percent to the resulting capital requirement for management and operational risk. FCA promulgated a revised risk-based capital stress test that became effective July 25, 2008.

As of December 31, 2008, Farmer Mac's minimum and critical capital requirements were $193.5 million and $96.7 million, respectively, and its actual core capital level was $207.0 million, $13.5 million above the minimum capital requirement and $110.2 million above the critical capital requirement. Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2008 was $57.3 million and Farmer Mac's regulatory capital of $223.4 million exceeded that amount by approximately $166.1 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" for a presentation of Farmer Mac's current regulatory capital position.

Enforcement Levels. The Act directs FCA to classify Farmer Mac within one of four enforcement levels for purposes of determining compliance with capital standards. As of December 31, 2008, Farmer Mac was classified as within level I—the highest compliance level.

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

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

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

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

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

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

Item 1A. Risk Factors

Farmer Mac's business activities, financial performance and results of operations are, by their nature, subject to a number of risks and uncertainties. Consequently, the Corporation's net interest income, total revenues and net income have been, and are likely to continue to be, subject to fluctuations that reflect the effect of many factors, including the risk factors described below. Other sections of this Annual Report on Form 10-K may include additional factors that could adversely affect Farmer Mac's business and its financial performance and results of operations. Furthermore, because new risk factors likely will emerge from time to time, management can neither predict all such risk factors nor assess the effects of such factors on Farmer Mac's business, operating results and financial condition or the extent to which any factor, or combination of factors, may affect the Corporation's actual results and financial condition. If any of the following risks materialize, Farmer Mac's business, financial condition or results of operations could be materially adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

- continuing disruptions in the capital markets, which could adversely affect the value and performance of Farmer Mac's program and non-program assets, the Corporation's liquidity position and Farmer Mac's ability to fund assets at favorable levels by issuing debt securities and to raise capital by selling equity securities;
- legislative or regulatory developments or interpretations of Farmer Mac's statutory charter that could adversely affect Farmer Mac, its ability to offer new products, the ability or motivation of certain lenders to participate in its programs or the terms of any such participation, or increase the cost of regulation and related corporate activities;
- Farmer Mac's access to the debt markets at favorable rates and terms;
- competitive pressures in the purchase of agricultural real estate mortgage loans and the sale of Farmer Mac Guaranteed Securities and debt securities;
- substantial changes in interest rates, agricultural land values, commodity prices, export demand for U.S. agricultural products, the general economy, and other factors that may affect delinquency levels and credit losses on agricultural real estate mortgage loans;
- protracted adverse weather, animal and plant disease outbreaks, costs of agricultural production inputs for farmers and ranchers, availability and cost of agricultural workers, market or other conditions affecting particular geographic regions or particular agricultural commodities or products related to agricultural real estate mortgage loans backing Farmer Mac I Guaranteed Securities or under LTSPCs;
- the effects of any changes in federal assistance for agriculture on the agricultural economy or the value of agricultural real estate;
- energy policy changes that adversely affect the loan repayment capacity of ethanol plants; and
- public policy changes that adversely affect rural electric cooperatives, including carbon capture or limitation on coal-fired power generation.

Farmer Mac's business development, profitability and capital depend on the continued growth of the secondary market for agricultural real estate mortgage loans and the establishment of a secondary market for rural utilities loans, the future for both of which remains uncertain.

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

- reduced growth rates in the agricultural mortgage market due to the continued slowdown of the overall economy;

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- the availability of other sources of capital for customers of Farmer Mac, including through federal programs;
- the acceptance by Federal Home Loan Banks of agricultural real estate mortgage loans as collateral;
- the historical preference of many agricultural lending institutions to retain loans in their portfolios rather than to sell them into the secondary market;
- the small number of business partners that currently provide a significant proportion of Farmer Mac's business volume, resulting in vulnerability as the status of these business partners may evolve;
- expanded funding available from the federal government for rural utilities lenders; and
- legislative and regulatory developments that affect the agricultural and rural utilities sectors.

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

Farmer Mac is a government-sponsored enterprise that is governed by a statutory charter controlled by the U.S. Congress and regulated by governmental agencies. While Farmer Mac is not aware of any pending legislative proposals which would adversely affect the Corporation at this time, Farmer Mac is subject to risks and uncertainties related to legislative, regulatory or political developments. Such developments could affect the ability of lenders to participate in Farmer Mac's programs or the terms on which they may participate. Further, from time to time, legislative or regulatory initiatives are commenced that, if successful, could result in the enactment of legislation or the promulgation of regulations that could affect negatively the growth or operation of the secondary market for agricultural mortgages and rural utilities loans. Any of these political or regulatory developments could have a material and adverse effect on Farmer Mac's business, operating results, financial condition and capital levels. See "Government Regulation of Farmer Mac" in Item 1 of this Annual Report on Form 10-K for additional discussion on the rules and regulations governing Farmer Mac's activities.

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

Farmer Mac assumes the ultimate credit risk of borrower defaults on the loans it holds as well as the loans underlying Farmer Mac Guaranteed Securities and LTSPCs. In the Farmer Mac I program, repayment of eligible loans typically depends on the success of the related farming operation, which, in turn, depends on many variables and factors over which farmers may have little or no control, such as weather conditions, animal and plant disease outbreaks, economic conditions (both domestic and international) and political conditions.

In the Rural Utilities program, eligible utilities operations include the distribution of electricity, the generation and transmission of electricity, and telecommunications. Each type of utility operation has different inherent risks associated with it, but all share a common risk posed by potential changes in public and regulatory policies. Business cash flows can be disrupted as a result of storms, though distribution cooperatives have in place cost-sharing arrangements with providers in other regions that mitigate this exposure. Historically, natural disasters have resulted in disaster area declarations and financial aid to utilities providers through the Federal Emergency Management Agency and other conduits. The electrical distribution and generation sectors can be adversely affected by changes in fuel costs and prices received from consumers, as well as by contractual power obligations that do not match up with supply or demand. The depth and pace of technological change in the telecommunications industry can also provide significant challenges, as the industry requires heavy capital investment and correct judgments about the sustainability of new technologies in an area with many competitors.

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Widespread repayment shortfalls on loans in the Farmer Mac I program or Rural Utilities program could require Farmer Mac to pay under its guarantees and LTSPCs and could have a material adverse effect on the Corporation's financial condition, results of operations and liquidity.

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

Farmer Mac is exposed to credit risk and interest rate risk that could materially and adversely affect its business, operating results, financial condition, capital levels and future earnings.

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

- credit risk associated with the agricultural mortgages and rural utilities loans that Farmer Mac purchases or commits to purchase or that back Farmer Mac Guaranteed Securities;
- interest rate risk on interest-earning assets and related interest-bearing liabilities due to possible timing differences in the associated cash flows;
- credit risk associated with Farmer Mac's business relationships with other institutions, such as counterparties to interest rate swap contracts and other hedging arrangements; and
- risks as to the creditworthiness of the issuers of AgVantage securities and the Corporation's non-program investments.

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

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

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

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

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

Changes in interest rates may cause volatility in financial results and capital levels.

Farmer Mac enters into financial derivatives transactions to hedge interest rate risks inherent in its business and applies fair value accounting to its financial derivatives transactions pursuant to SFAS 133; it does not apply hedge accounting to those derivatives. Although Farmer Mac's financial derivatives provide highly effective economic hedges of interest rate risk, SFAS 133 requires the losses on financial derivatives to be reflected in net income, while a majority of the offsetting economic gains on the hedged items are not. In addition to volatile earnings under accounting principles generally accepted in the United States ("GAAP"), another consequence of the changes in the fair values of financial derivatives being accounted for in earnings is the resulting effect on Farmer Mac's regulatory core capital required to meet the Corporation's statutory minimum capital requirement.

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If Farmer Mac's management of risk associated with its program and non-program assets is not effective, its business, operating results, financial condition and capital levels could be materially adversely affected.

The unprecedented events in the financial markets relating to, for example, volatility, liquidity and credit, since at least the second half of 2007 have challenged financial institutions, including Farmer Mac, to adapt and further develop profitability and risk management models adequate to address a wider range of possible market developments. Farmer Mac's techniques and strategies may not be effective in mitigating its risk exposure in all economic market environments or against all types of risk, including risks that Farmer Mac fails to identify or anticipate. Some of Farmer Mac's qualitative tools and metrics for managing risk are based upon its use of observed historical market behavior. Farmer Mac applies statistical and other tools to these observations to quantify its risks. These tools and metrics may fail to predict future risk. Such failures could, for example, arise from factors Farmer Mac did not anticipate or correctly evaluate in its models. In addition, Farmer Mac's quantified modeling does not take into account all risks. Its more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. The inability of Farmer Mac to effectively identify and manage the risks inherent in its business could have a material adverse effect on its business, operating results, financial condition and capital levels.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Farmer Mac currently occupies its principal offices, which are located at 1133 Twenty-First Street, N.W., Washington, D.C. 20036, under the terms of a lease that expires on November 30, 2011 and covers approximately 13,500 square feet of office space. Farmer Mac also maintains an office located at 1517 North Ankeny Boulevard, Ankeny, Iowa 50021, under the terms of a lease that expires on November 14, 2010 and covers approximately 1,358 square feet of office space. Farmer Mac's offices are suitable and adequate for its current and currently anticipated needs.

Item 3. Legal Proceedings

On December 5, 2008, a lawsuit was filed in the United States District Court for the District of Columbia against Farmer Mac and certain of its present and former officers and directors on behalf of purchasers of the securities of the Corporation between March 15, 2007 and September 12, 2008. The lawsuit alleges, among other things, violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder by all defendants and violations of Section 20(a) of the Exchange Act by the individual defendants in relation to alleged statements and omissions concerning the financial condition of the Corporation alleged to be materially false or misleading. The complaint seeks class certification, compensatory damages, and other remedies. On February 23, 2009, the Court appointed lead plaintiffs for the litigation, and the lead plaintiffs are expected to file an amended complaint, which the defendants expect to move to dismiss. Farmer Mac intends to defend against plaintiffs' claims vigorously.

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

There were no matters submitted to a vote of Farmer Mac's security holders during fourth quarter 2008.

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PART II

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

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

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

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

	Sales Prices			
	Class A Stock		Class C Stock	
	High	Low	High	Low
	(per share)			
2009				
First quarter (through March 2, 2009)	$ 3.50	$ 2.45	$ 4.47	$ 2.93
2008				
Fourth quarter	$ 9.14	$ 1.25	$ 10.99	$ 2.38
Third quarter	22.06	2.25	32.25	2.28
Second quarter	22.05	14.75	33.85	24.52
First quarter	20.15	15.50	29.92	21.63
2007				
Fourth quarter	$ 25.38	$ 15.79	$ 34.78	$ 24.44
Third quarter	25.15	17.54	35.81	25.02
Second quarter	25.70	19.55	35.73	27.00
First quarter	20.00	17.95	28.25	24.49

As of March 2, 2009, Farmer Mac estimates that there were 1,204 registered owners of the Class A voting common stock, 87 registered owners of the Class B voting common stock and 1,121 registered owners of the Class C non-voting common stock.

The dividend rights of all three classes of the Corporation's common stock are the same, and dividends may be paid on common stock only when, as and if declared by Farmer Mac's board of directors in its sole discretion. From fourth quarter 2004 through fourth quarter 2008, Farmer Mac paid a quarterly dividend of $0.10 per share on all classes of the Corporation's common stock. On March 11, 2009, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock payable on April 3, 2009. The board reduced the dividend to preserve capital based on its assessment of the uncertain outlook for capital market conditions and to ensure that Farmer Mac has adequate capital to meet its statutory capital requirements and support new business. Farmer Mac's ability to pay dividends on its common stock is subject to the payment of dividends on its outstanding preferred stock. Farmer Mac's ability to declare and pay dividends could also be restricted if it were to fail to comply with regulatory capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement Levels."

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Information about securities authorized for issuance under Farmer Mac's equity compensation plans appears under "Equity Compensation Plans" in the Corporation's definitive proxy statement to be filed on or about April 22, 2009. That portion of the definitive proxy statement is incorporated by reference into this Annual Report on Form 10-K.

Farmer Mac is a federally chartered instrumentality of the United States and its common stock is exempt from registration pursuant to Section 3(a)(2) of the Securities Act. Two types of transactions related to Farmer Mac common stock occurred during fourth quarter 2008 that were not registered under the Securities Act and not otherwise reported on a Current Report on Form 8-K. On October 2, 2008, Farmer Mac granted stock appreciation rights under its 2008 Omnibus Incentive Plan with respect to an aggregate of 90,000 shares of Class C non-voting common stock, at an exercise price of $7.35 per share, to nine non-officer employees as incentive compensation. On October 22, 2008, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 2,923 shares of its Class C non-voting common stock to the five directors who elected to receive such stock in lieu of their cash retainers. The number of shares issued to the directors was calculated based on a price of $4.10 per share, which was the closing price of the Class C non-voting common stock on September 30, 2008 as reported by the New York Stock Exchange.

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Performance Graph. The following graph compares the performance of Farmer Mac's Class A voting common stock and Class C non-voting common stock with the performance of the New York Stock Exchange Composite Index (the "NYSE Comp") and the Standard & Poor's 500 Diversified Financials Index (the "S&P Div Fin") over the period from December 31, 2003 to December 31, 2008. The graph assumes that $100 was invested on December 31, 2003 in each of: Farmer Mac's Class A voting common stock; Farmer Mac's Class C non-voting common Stock; the NYSE Comp; and the S&P Div Fin. The graph also assumes that all dividends were reinvested into the same securities throughout the past five years. Farmer Mac obtained the information contained in the performance graph from SNL Financial.

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

(b) Not applicable.

(c) Farmer Mac did not repurchase any shares of its common stock during fourth quarter 2008. See "Business—Farmer Mac Programs—Financing—Equity Issuance—Common Stock Repurchases" for information regarding Farmer Mac's repurchases of its Class C non-voting common stock during 2008, 2007 and 2006.

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Item 6. Selected Financial Data

The selected consolidated financial data presented below is summarized from Farmer Mac's consolidated balance sheet data as of December 31, 2008 and the five-year period then ended, as well as selected results of operations data for the five-year period then ended. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

	As of December 31,				
Summary of Financial Condition:	2008	2007	2006	2005	2004
	(dollars in thousands)				
Cash and cash equivalents	$ 278,412	$ 101,445	$ 877,714	$ 458,852	$ 430,504
Investment securities	1,235,859	2,624,366	1,830,904	1,621,941	1,056,143
Farmer Mac Guaranteed Securities	2,451,244	1,298,823	1,330,418	1,330,976	1,376,847
Loans, net	774,596	766,219	775,421	799,516	882,874
Total assets	5,107,307	4,977,613	4,953,673	4,341,445	3,847,410
Notes payable:					
Due within one year	3,757,099	3,829,698	3,298,097	2,587,704	2,620,172
Due after one year	887,999	744,649	1,296,691	1,406,527	864,412
Total liabilities	4,947,743	4,754,020	4,705,184	4,095,416	3,612,176
Mezzanine equity	144,216	-	-	-	-
Stockholders' equity	15,348	223,593	248,489	246,029	235,234
Selected Financial Ratios:					
Return on average assets	-3.06%	0.09%	0.64%	1.15%	0.96%
Return on average common equity	-158.24%	2.20%	14.03%	22.87%	20.76%
Average equity to assets	2.37%	4.75%	5.32%	5.88%	5.47%

	For the Year Ended December 31,				
Summary of Operations:	2008	2007	2006	2005	2004
	(in thousands, except per share amounts)				
Interest Income:					
Net interest income after recovery/ (provision) for loan losses	$ 74,184	$ 44,668	$ 40,686	$ 50,689	$ 65,763
Non-interest (loss)/income:					
Guarantee and commitment fees	28,381	25,232	21,815	19,554	20,977
(Losses)/gains on financial derivatives and trading assets	(141,042)	(40,274)	1,617	11,537	(14,687)
Impairment losses on available-for-sale investment securities	(106,240)	-	-	-	-
Gains on asset sales and debt repurchases	2,689	288	1,150	116	567
Gains on the sale of real estate owned	-	130	809	34	523
Representation and warranty claims income	-	-	718	79	2,816
Other income	1,413	1,411	1,001	1,872	1,295
Non-interest (loss)/income	(214,799)	(13,213)	27,110	33,192	11,491
Non-interest expense	32,612	24,877	23,094	11,518	16,263
(Loss)/income before income taxes	(173,227)	6,578	44,702	72,363	60,991

Income tax (benefit)/expense	(22,864)	(83)	12,689	23,091	19,751
Net (loss)/income	(150,363)	6,661	32,013	49,272	41,240
Preferred stock dividends	(3,717)	(2,240)	(2,240)	(2,240)	(2,240)
Net (loss)/income available to common stockholders	$ (154,080)	$ 4,421	$ 29,773	$ 47,032	$ 39,000
Allowance for Losses Activity:					
Provision/(recovery) for losses	$ 17,840	$ (142)	$ (3,408)	$ (8,777)	$ (412)
Net charge-offs/(recoveries)	5,292	526	690	(329)	4,540
Ending balance	16,435	3,887	4,555	8,653	17,101
Earnings Per Common Share and Dividends:					
Basic (loss)/earnings per common share	$ (15.40)	$ 0.43	$ 2.74	$ 4.14	$ 3.24
Diluted (loss)/earnings per common share	(15.40)	0.42	2.68	4.09	3.20
Common stock dividends per common share	0.40	0.40	0.40	0.40	0.10
Regulatory Capital:					
Statutory minimum capital requirement	$ 193,476	$ 186,032	$ 174,539	$ 142,439	$ 128,931
Core capital	206,976	226,386	243,533	244,792	237,734
Minimum capital surplus	13,500	40,354	68,994	102,353	108,803

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information as of and for each of the years ended December 31, 2008, 2007 and 2006 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 Farmer Mac's consolidated financial statements and the related notes to the consolidated financial statements for the fiscal years ended December 31, 2008, 2007 and 2006.

The discussion below is not necessarily indicative of future results.

Forward-Looking Statements

Some statements made in this Annual Report on Form 10-K 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 any statement that may predict, forecast, indicate or imply future results, performance or achievements, and typically are accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends," "should" and similar phrases. The following discussion and analysis includes forward-looking statements addressing Farmer Mac's:

- prospects for earnings;
- prospects for growth in loan purchase, guarantee, securitization and LTSPC volume;
- trends in net interest income;
- trends in portfolio credit quality, delinquencies and provisions for losses;
- trends in expenses;
- trends in non-program investments;
- prospects for asset impairments and allowance for losses;
- 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 this Annual Report on Form 10-K and uncertainties regarding:

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

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

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this Annual Report on Form 10-K. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC.

Critical Accounting Policies and Estimates

The preparation of Farmer Mac's consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policies that are both important to the portrayal of Farmer Mac's financial condition and results of operations and require complex, subjective judgments are the accounting policies for: (1) the allowance for losses, (2) fair value measurement, and (3) other-than-temporary impairment.

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated losses on loans held, real estate owned and loans underlying LTSPCs, Farmer Mac I Guaranteed Securities, and Farmer Mac Guaranteed Securities – Rural Utilities 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").

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

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

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Farmer Mac's provision for losses is presented in two components on the consolidated statement of operations:

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

The purpose of the allowance for losses is to provide for estimated losses that are probable to have occurred as of the balance sheet date, and not to predict or account for future potential losses. The determination of the allowance for losses requires management to make significant estimates based on information available as of the balance sheet date, including the amounts and timing of losses and current market and economic conditions. These estimates are subject to change in future reporting periods if such conditions and information change. For example, a decline in the national or agricultural economy could result in an increase in delinquencies or foreclosures, which may require additional allowances for losses in future periods.

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

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

Farmer Mac separately evaluates the cooperative lender obligations and loans underlying its Farmer Mac Guaranteed Securities – Rural Utilities to determine if there are probable losses inherent in the securities or the underlying rural utilities loans.

Farmer Mac also analyzes impaired assets in accordance with SFAS 114. Farmer Mac's impaired assets include:

- non-performing assets (loans 90 days or more past due, in foreclosure, restructured, in bankruptcy – including loans performing under either their original loan terms or a court-approved bankruptcy plan – and real estate owned);
- loans for which Farmer Mac had adjusted the timing of borrowers' payment schedules, but still expects to collect all amounts due and has not made economic concessions; and
- additional performing loans that have previously been delinquent or are secured by real estate that produces agricultural commodities or products currently under stress.

For loans with an updated appraised value, other updated collateral valuation or management's estimate of discounted collateral value, this analysis includes the measurement of the fair value of the underlying collateral for individual loans relative to the total recorded investment, including principal, interest and advances. In the event that the collateral value does not support the total recorded investment, Farmer Mac specifically allocates an allowance for the loan for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. For the remaining impaired assets without updated valuations, this analysis is performed in the aggregate in consideration of the similar risk characteristics of the assets and historical statistics.

Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, in accordance with SFAS 5 and 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 charged to non-interest expense and 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. The establishment of and periodic adjustments to the valuation allowance for real estate owned are charged against income as a portion of the provision for losses charged to non-interest expense. Gains and losses on the sale of real estate owned are recorded in income based on the difference between the recorded investment at the time of sale and liquidation proceeds and are reported as "Gains on the sale of real estate owned" in the consolidated statements of operations.

No allowance for losses has been provided for AgVantage securities or Farmer Mac II Guaranteed Securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. As of December 31, 2008, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. As of December 31, 2008, Farmer Mac had not experienced any credit losses on any AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of December 31, 2008, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities.

Further information regarding the allowance for losses is included in "—Risk Management—Credit Risk - Loans."

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Fair Value Measurement

A significant portion of Farmer Mac's assets consists of financial instruments that are measured at fair value in the consolidated balance sheets. For financial instruments that are complex in nature or for which observable inputs are not available, the measurement of fair value requires significant management judgments and assumptions. These judgments and assumptions, as well as changes in market conditions, may have a material impact on the consolidated balance sheets and statements of operations.

Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date (also referred to as an exit price). The amount of judgment involved in measuring the fair value of a financial instrument is affected by a number of factors, such as the type of investment, the liquidity of the markets for the instrument and the contractual characteristics of the instrument. Farmer Mac uses one of the following three practices for estimating fair value, the selection of which is based on the reliability and availability of relevant market data: (1) quoted market prices for identical instruments, (2) quoted prices, from multiple third parties, in markets that are not active or for which all significant inputs are observable, either directly or indirectly, or (3) analytical models that employ techniques such as discounted cash flow approach and that include market-based assumptions such as prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Price transparency tends to be limited in less liquid markets where quoted market prices or observable market data may not be available. Farmer Mac refines and enhances its valuation methodologies to correlate more closely to observable market data. When observable market prices or data are not readily available or do not exist, the estimation of fair value may require significant management judgment and assumptions. The estimates are subject to change in future reporting periods if such conditions and information change. For example, volatility in credit markets could result in wider credit spreads, which may change fair value measurements for certain financial instruments.

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

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

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

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The fair value hierarchy established in SFAS 157 ranks the quality and reliability of the information used to determine fair values. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard describes the following three levels used to classify fair value measurements:

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

As of December 31, 2008, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $2.8 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., Level 3). These financial instruments measured as Level 3 represented 55 percent of total assets and 72 percent of financial instruments measured at fair value as of December 31, 2008. Assets underlying these financial instruments measured as Level 3 primarily include the following:

Type of Financial Instrument	Underlying Assets
Farmer Mac I Guaranteed Securities	Agricultural real estate mortgage loans eligible under the standards for the Farmer Mac I program.
Farmer Mac II Guaranteed Securities	Portions of loans guaranteed by the USDA pursuant to the Consolidated Farm Rural Development Act.
Farmer Mac Guaranteed Securities – Rural Utilities	General obligations of National Rural and/or loans made to rural electric distribution cooperatives by National Rural.
Auction-rate certificates ("ARCs")	Guaranteed student loans that are backed by the full faith and credit of the United States.
GSE preferred stock	Preferred stock investments in CoBank, ACB and AgFirst Farm Credit Bank, both of which are institutions of the Farm Credit System, a government-sponsored enterprise.

Further information regarding fair value measurement is included in Note 13 to the consolidated financial statements.

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Other-than-Temporary Impairment

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

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

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Results of Operations

Overview. The ongoing world-wide credit market disruptions and economic slowdown have caused unprecedented financial market volatility, which adversely affected Farmer Mac's 2008 financial results and capital position. Farmer Mac's net loss to common stockholders for 2008 was $154.1 million or $15.40 per diluted common share, compared to net income of $4.4 million or $0.42 per diluted common share for 2007 and $29.8 million or $2.68 per diluted common share for 2006.

The most significant events related to Farmer Mac's disappointing results for 2008 were Fannie Mae entering into conservatorship on September 7, 2008 and Lehman Brothers Holdings Inc. ("Lehman Brothers") declaring bankruptcy on September 15, 2008. At the time of these events, Farmer Mac held in its investment portfolio $50.0 million of Fannie Mae floating rate preferred stock and $60.0 million of Lehman Brothers senior debt securities. As a result of these events, Farmer Mac recognized a total of $106.2 million other-than-temporary impairment charges on these holdings during 2008. These two investments were acquired in 2005 and 2007, respectively, as part of the Corporation's non-program investment portfolio, which is designed to provide liquidity in the event of a market disruption, facilitate Farmer Mac's regular debt issuance program, and provide net interest income to support Farmer Mac's Congressional mission. Following the recognition of these significant losses, Farmer Mac conducted an extensive review of its investment policies and operations with a view to strengthening policies, procedures and oversight of its investment portfolio and related funding strategies. This review was concluded during first quarter 2009 and its findings are currently being implemented, with the goals of minimizing the Corporation's exposure to financial market volatility, preserving capital and supporting the Corporation's access to the debt markets.

In 2008, Farmer Mac recorded losses of $130.4 million on financial derivatives used to manage interest rate risk, compared with losses of $39.9 million in 2007 and gains of $1.6 million in 2006. Although Farmer Mac's financial derivatives provide highly effective economic hedges of interest rate risk, the accounting treatment elected under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133") required the losses on financial derivatives to be reflected in net income, while a substantial portion of the offsetting economic gains on the hedged items was not. To date, the resulting cumulative effect of the application of SFAS 133 on Farmer Mac's regulatory core capital has been a reduction of approximately $100.2 million. Beginning in October 2008, Farmer Mac discontinued entering into pay-fixed interest rate swaps. Over time, this cessation will lead to a reduction of the volatility in earnings, and as Farmer Mac's existing pay-fixed interest rate swaps approach maturity, the negative impact on Farmer Mac's core capital of the fair value of those swaps will decline substantially. Accordingly, such reductions will be restored to earnings and capital over time, as the pay-fixed interest rate swaps and the items being economically hedged mature. Farmer Mac may use pay-fixed interest rate swaps as necessary in the future to manage specific interest rate risks for specific transactions. Other derivatives such as receive-fixed interest rate swaps may still affect earnings and capital, although to a much lesser extent.

Farmer Mac's overall delinquencies and non-performing assets increased significantly during fourth quarter 2008 due primarily to adverse developments in Farmer Mac's ethanol portfolio. As of December 31, 2008, Farmer Mac's ethanol portfolio consisted of loan participations with a cumulative unpaid principal amount of $280.4 million with exposure to 29 different plants in 11 states. As of that date, Farmer Mac also had $41.5 million of undisbursed commitments with respect to ethanol loans. That exposure level is at Farmer Mac's maximum tolerance level for ethanol, and Farmer Mac is not seeking to add additional ethanol loans to its portfolio. Other than the ethanol loans in Farmer Mac's portfolio, the loans underlying the Corporation's guarantees and commitments continued to perform well during 2008, with delinquencies on non-ethanol loans remaining near historically low levels consistent with the strength of the U.S. agricultural economy through the end of the year. In total, Farmer Mac recorded provisions for losses of $17.8 million and charge-offs of $5.3 million during 2008, both primarily related to ethanol loans. Given the potential decline in the profitability of certain agricultural industries, Farmer Mac expects that delinquencies are likely to increase in 2009 and beyond, although any such delinquencies are expected to remain within manageable levels. See "—Results of Operations—Outlook for 2009" and "—Risk Management—Credit Risk – Loans" for more detail ab outlook for certain agricultural industries.

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Beyond the effects of the items discussed above, there were positive developments in Farmer Mac's business during 2008. The Farm Bill expanded Farmer Mac's authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders to cooperative borrowers. This expanded authority resulted in new program volume in 2008, as Farmer Mac placed its guarantee on $1.3 billion of investment securities previously held as mission-related investments ($500.0 million of which matured and was repaid during third quarter 2008) and the Corporation guaranteed and purchased $230.0 million of new Farmer Mac Guaranteed Securities – Rural Utilities during fourth quarter 2008. During 2008, Farmer Mac added $3.1 billion of program volume, compared to $2.3 billion in 2007. Farmer Mac's outstanding program volume as of December 31, 2008 was $10.1 billion, compared to $8.5 billion as of December 31, 2007 and $7.2 billion as of December 31, 2006.

During 2008, Farmer Mac achieved growth in its guarantee and commitment fees associated with its core business. Guarantee and commitment fees increased to $28.4 million for 2008, compared to $25.2 million and $21.8 million for 2007 and 2006, respectively. Farmer Mac also maintained access to the capital markets at favorable rates throughout 2008, as the Corporation's short-term borrowing costs were significantly more advantageous than historical levels. Consequently, Farmer Mac's net interest income on program assets and investments was significantly higher during 2008 than in previous years. For 2008, net interest income including (expensive)/income related to financial derivatives was $61.7 million, compared to $44.5 million and $35.4 million for 2007 and 2006, respectively. Given the volatility in the debt markets, the federal government's effective guarantee of certain corporate debt and questions concerning the status of all GSEs, it is uncertain whether Farmer Mac's advantageous short-term borrowing costs will continue and, if so, for how long.

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To assist in the comparison of results to prior periods, the table below summarizes many of the significant items discussed above as they relate to Farmer Mac's results of operations for the years ended December 31, 2008, 2007 and 2006 and reconciles those items as separate components of net (loss)/income available to common stockholders, distinct from the recurring items during the periods presented.

	For the Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Recurring items:			
Guarantee and commitment fees	$ 28,381	$ 25,232	$ 21,815
Net interest income including realized gains/(losses) and amortization on financial derivatives	59,441	43,235	33,741
Other income	1,413	1,411	1,001
Credit related (charges)/benefit	(17,956)	300	4,812
Operating costs	(29,187)	(24,832)	(23,983)
Related tax expense	(12,509)	(13,486)	(10,128)
Preferred stock dividends	(3,717)	(2,240)	(2,240)
Subtotal	25,866	29,620	25,018
Items resulting from fair value fluctuations:			
Fair value changes in financial derivatives	(101,129)	(38,729)	6,156
Fair value changes in trading assets	(10,639)	(327)	10
Related tax benefit/(expense)	39,119	13,670	(2,158)
Subtotal	(72,649)	(25,386)	4,008
Unusual items:			
Impairment losses on available-for-sale investment securities	(106,240)	-	-
Gains on asset sales and debt repurchases	2,689	288	1,150
Related tax expense	(3,746)	(101)	(403)
Subtotal	(107,297)	187	747
Net (loss)/income available to common stockholders	$ (154,080)	$ 4,421	$ 29,773

A detailed presentation of Farmer Mac's financial results for the years ended December 31, 2008, 2007 and 2006 follows.

Net Interest Income. Net interest income was $88.7 million for 2008, $44.5 million for 2007 and $38.3 million for 2006. The net interest yield was 162 basis points for the year ended December 31, 2008, compared to 85 basis points for each of the years ended December 31, 2007 and 2006. The following table provides information regarding interest-earning assets and funding for the years ended December 31, 2008, 2007 and 2006. The balance of non-accruing loans is included in the average balance of interest-earning loans and Farmer Mac Guaranteed Securities presented, though the related income is accounted for on the cash basis. Therefore, as the balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly.

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	For the Year Ended December 31,								
		2008			2007			2006	
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
					(dollars in thousands)				
nterest-earning assets:									
ash and investments	$ 2,928,424	$ 113,722	3.88%	$ 3,195,475	$ 174,196	5.45%	$ 2,474,900	$ 128,199	5.18%
oans and Farmer Mac uaranteed Securities	2,540,802	141,973	5.59%	2,020,290	123,562	6.12%	2,055,657	121,723	5.92%
otal interest-earning assets	5,469,226	255,695	4.68%	5,215,765	297,758	5.71%	4,530,557	249,922	5.52%
unding:									
otes payable due within one ear	3,731,051	98,049	2.63%	3,493,047	176,786	5.06%	2,731,245	134,084	4.91%
otes payable due after one ear (1)	1,521,305	68,931	4.53%	1,521,738	76,519	5.03%	1,583,592	77,548	4.90%
otal interest-bearing liabilities	5,252,356	166,980	3.18%	5,014,785	253,305	5.05%	4,314,837	211,632	4.90%
et non-interest-bearing unding	216,870	-	0.00%	200,980	-	0.00%	215,720	-	0.00%
otal funding	$ 5,469,226	166,980	3.05%	$ 5,215,765	253,305	4.86%	$ 4,530,557	211,632	4.67%
et interest income/yield		$ 88,715	1.62%		$ 44,453	0.85%		$ 38,290	0.85%

(1) Includes current portion of long-term notes.

The average rate earned on cash and investments reflects lower short-term interest rates in 2008 compared to 2007 and 2006, and the short-term or floating rate nature of most investments acquired and outstanding during 2008. The lower average rate on loans and Farmer Mac Guaranteed Securities reflects the reset of adjustable rate mortgages to lower rates and the acquisition of new lower-yielding loans compared to rates on loans that have matured. The lower average rate on Farmer Mac's notes payable due within one year is consistent with general trends in average short-term rates during the periods presented. The downward trend in the average rate on notes payable due after one year reflects the retirement of older debt at higher market rates and the issuance of new debt at lower market rates during 2008.

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

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	2008 vs. 2007 Increase/(Decrease) Due to			2007 vs. 2006 Increase/(Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
			(in thousands)			
Income from interest-earning assets:						
Cash and investments	$ (46,859)	$ (13,615)	$ (60,474)	$ 7,014	$ 38,983	$ 45,997
Loans and Farmer Mac Guaranteed Securities	(11,364)	29,775	18,411	3,957	(2,118)	1,839
Total	(58,223)	16,160	(42,063)	10,971	36,865	47,836
Expense from interest-bearing liabilities	(97,821)	11,496	(86,325)	6,477	35,196	41,673
Change in net interest income	$ 39,598	$ 4,664	$ 44,262	$ 4,494	$ 1,669	$ 6,163

The following table presents the net effective spread between Farmer Mac's interest earning assets and its net funding costs. This spread is measured by adding (expense)/income related to financial derivatives to net interest income and subtracting yield maintenance payments.

	For the Year Ended December 31,					
	2008		2007		2006	
	Dollars	Yield	Dollars	Yield	Dollars	Yield
			(dollars in thousands)			
Net interest income/yield	$ 88,715	1.62%	$ 44,453	0.85%	$ 38,290	0.85%
(Expense)/income related to financial derivatives	(26,975)	-0.49%	76	0.00%	(2,903)	-0.07%
Yield maintenance payments	(3,556)	-0.07%	(3,896)	-0.07%	(3,889)	-0.09%
Net spread	$ 58,184	1.06%	$ 40,633	0.78%	$ 31,498	0.69%

Farmer Mac's borrowing costs during 2008 were significantly more advantageous than historical levels. Consequently, during 2008 the spread between Farmer Mac's cost of funds and the interest income earned on its interest-earning assets was significantly higher than prior years.

Yield maintenance payments represent the present value of expected future interest income streams and accelerate the recognition of interest income from the related loans. While the amount of yield maintenance payments has been relatively consistent over the past three years, the timing and amounts of these payments could vary greatly. Future variations in yield maintenance payments would not necessarily indicate positive or negative trends upon which gauge future financial results. For the years ended December 31, 2008, 2007 and 2006, the after-tax effects of yield maintenance payments on net income and diluted earnings per share were $2.3 million or $0.23 per diluted share, $2.5 million or $0.24 per diluted share and $2.5 million or $0.23 per diluted share, respectively.

Provision for Loan Losses. During 2008, Farmer Mac provided for $14.5 million of loan losses compared to recoveries during 2007 and 2006 of $0.2 million and $2.4 million, respectively. The $14.5 million of provisions for loan losses during 2008 were largely attributable to defaulted ethanol loans purchased from Agstar Financial Services, a related party, pursuant to the term, of an LTSPC Agreement. See "—Risk Management—Credit Risk – Loans."

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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 $28.4 million for 2008, compared to $25.2 million for 2007 and $21.8 million for 2006. The amounts of these fees have risen with increases in the average balance of outstanding guarantees and LTSPCs.

Gains and Losses on Financial Derivatives. 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 (loss)/income. As discussed in Note 6 to the consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives and does not apply hedge accounting available under SFAS 133.

The net effect of gains and losses on financial derivatives recorded in Farmer Mac's consolidated statements of operations was a net loss of $130.4 million for 2008, a net loss of $39.9 million for 2007 and a net gain of $1.6 million for 2006. The components of gains and losses on financial derivatives for the years ended December 31, 2008, 2007 and 2006 are summarized in the following table:

	For the Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Realized:			
(Expense)/income related to financial derivatives	$ (26,975)	$ 76	$ (2,903)
Losses due to terminations or net settlements	(1,876)	(720)	(809)
Unrealized (losses)/gains due to fair value changes	(101,129)	(38,729)	6,156
Amortization of SFAS 133 transition adjustment	(423)	(574)	(837)
(Losses)/gains on financial derivatives	$ (130,403)	$ (39,947)	$ 1,607

The accrual of periodic cash settlements for interest paid or received from Farmer Mac's interest rate swap portfolio is shown as (expense)/income related to financial derivatives in the table above. Payments or receipts to terminate derivative positions or net cash settle forward sales contracts on mortgage-backed securities and the debt of other GSEs and U.S. Treasury futures are included in losses due to terminations or net settlements. Changes in the fair value of Farmer Mac's open derivative positions are captured in unrealized (losses)/gains due to fair value changes and are primarily the result of fluctuations in market interest rates. The amortization of the SFAS 133 transition adjustment reflects the reclassification into earnings the unrealized losses on financial derivatives included in accumulated other comprehensive (loss)/income as a result of the adoption of SFAS 133. 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.

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Gains and Losses on Trading Assets. On January 1, 2008, with the adoption of SFAS 159, Farmer Mac elected to measure $600.5 million of investment securities and $427.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Upon adoption, Farmer Mac recorded a cumulative effect of adoption adjustment of $12.1 million, net of tax, as an increase to the beginning balance of retained earnings. During 2008, Farmer Mac elected to measure an additional $113.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. One of the FASB's stated objectives of SFAS 159 was to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Consistent with that objective, Farmer Mac selected all of these assets for the fair value option under SFAS 159 because they were funded or hedged principally with financial derivatives. Consequently, Farmer Mac expected that the changes in fair value of the assets would provide partial economic and financial reporting offsets to the related financial derivatives. Due to the significant declines in the fair values of investment securities attributable to the widening of credit spreads experienced during 2008, such financial reporting offsets were not achieved. For 2008, Farmer Mac recorded net losses on trading assets of $5.6 million for changes in fair values of the assets selected for the fair value option. Losses on all trading assets totaled $10.6 million in 2008. Farmer Mac incurred losses on trading assets of $0.3 million during 2007 and gains of $10,000 during 2006. Effective January 1, 2009, Farmer Mac will no longer elect the fair value option for new purchases of Farmer Mac II Guaranteed Securities.

During fourth quarter 2008, Farmer Mac elected to measure put rights related to $119.9 million (par value) of its ARC holdings at fair value upon the election of the fair value option as permitted by SFAS 159. See Note 4 and Note 15 to the consolidated financial statements for more information related to these put rights.

Gains on Sale of Available-for-Sale Investment Securities. During 2008, 2007 and 2006, Farmer Mac recognized realized net gains of $0.3 million, $0.3 million and $1.2 million, respectively, from the sale of securities from its available-for-sale portfolio.

Gain on Sale of Farmer Mac Guaranteed Securities. During 2008, Farmer Mac recognized a gain on sale of Farmer Mac Guaranteed Securities of $1.5 million. That gain resulted from the purchase and subsequent sale of an AgVantage security that had previously been an off-balance sheet Farmer Mac Guaranteed Security. There were no gains or losses on the sale of Farmer Mac Guaranteed Securities during 2007 or 2006.

Representation and Warranty Claims Income. During 2006, Farmer Mac recovered approximately $0.7 million from sellers (one of which was Zions First National Bank, a related party, as described in Note 3 to the consolidated financial statements) for breaches of representations and warranties associated with prior sales of agricultural mortgage loans to Farmer Mac. Farmer Mac had previously charged off these amounts as losses on the associated loans. Because these payments are received from sellers rather than borrowers, such recoveries are reported as income and are not reflected as recoveries in the net losses charged against the allowance for losses. Farmer Mac did not have any such recoveries for breaches of representations and warranties during 2008 or 2007.

Other Income. Other income was $1.4 million, $1.4 million and $1.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. The increase in 2007 compared to 2006 was the result of a higher level of late fees received and increased income on recovered loan valuations on loans held-for-sale.

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Compensation and Employee Benefits. Compensation and employee benefits were $15.3 million, $14.2 million and $11.9 million for 2008, 2007 and 2006, respectively. The increases from 2006 reflect a higher level of incentive compensation paid in 2007 compared to both 2006 and 2008. The decrease in incentive compensation from 2007 to 2008 was offset by accruals in 2008 for severance payments to the former Chief Executive Officer and Chief Financial Officer.

General and Administrative Expenses. General and administrative expenses, including legal, independent audit, and consulting fees, were $11.9 million, $8.5 million and $9.8 million for 2008, 2007 and 2006, respectively. The increase from 2007 to 2008 was largely attributable to advisory fees related to the issuance of Series B Preferred Stock and legal and other advisory fees related to the development of Farmer Mac programs and corporate governance matters. The decrease from 2006 to 2007 was largely attributable to reduced legal fees in 2007, as Farmer Mac incurred above-average legal fees related to large AgVantage transactions and regulatory compliance matters in 2006. Farmer Mac expects all of the above-mentioned expenses to continue at approximately the same levels for 2009.

Regulatory Fees. Regulatory fees were $2.1 million, $2.2 million and $2.3 million for 2008, 2007 and 2006, respectively. FCA has advised Farmer Mac that its estimated assessment for 2009 is $2.1 million. The regulatory assessments from FCA for each of the examination periods corresponding approximately with each of the years ended December 31, 2008, 2007 and 2006 include both their originally estimated assessments and revisions to those estimates that reflect actual costs incurred. These revisions have resulted in both additional assessments and refunds in the past.

Provision for Losses. The provision for losses was $3.3 million for 2008, compared to a provision of $0.1 million for 2007 and recoveries of $1.0 million during 2006. Similar to the provision for loan losses discussed above, the increase in 2008 was largely attributable to Farmer Mac's general exposure to the ethanol industry. See "—Risk Management—Credit Risk – Loans."

Income Tax (Benefit)/Expense. Income tax (benefit)/expense totaled $(22.9) million in 2008, compared to $(0.1) million in 2007 and $12.7 million in 2006. Farmer Mac's effective tax rates for 2008, 2007 and 2006 were approximately (13.2) percent, (1.3) percent and 28.4 percent, respectively. Farmer Mac's negative tax rate for 2008 was largely attributable to significant pre-tax losses recognized on Farmer Mac's derivative and investment portfolios, which were partially offset by the recognition of a deferred tax valuation allowance. The negative tax rate for 2007 was a result of a portion of Farmer Mac's dividend income on investment securities being non-taxable. During 2007, the effect of that non-taxable dividend income on investment securities exceeded Farmer Mac's tax expense at its statutory tax rate.

During 2008, Farmer Mac recorded a deferred tax asset valuation allowance against the deferred tax assets resulting from impairment losses and losses on preferred stock classified as trading assets because the losses were capital losses and any tax benefits can only be realized to the extent Farmer Mac would have offsetting capital gains. Farmer Mac does not currently expect to produce sufficient capital gains to recognize any material tax benefits related to these losses. As of December 31, 2008, that deferred tax asset valuation allowance totaled $40.0 million. For more information about income taxes, see Note 10 to the consolidated financial statements.

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Business Volume. During 2008, Farmer Mac added $3.1 billion of program volume, compared to $2.3 billion and $3.0 billion in 2007 and 2006, respectively. Farmer Mac's outstanding program volume as of December 31, 2008 was $10.1 billion, compared to $8.5 billion as of December 31, 2007 and $7.2 billion as of December 31, 2006. During 2008, Farmer Mac:

- purchased $196.6 million of newly originated Farmer Mac I eligible loans;
- added $530.4 million of Farmer Mac I eligible loans under LTSPCs;
- guaranteed $475.0 million of AgVantage securities through the Farmer Mac I program;
- purchased or placed its guarantee on $1.6 billion of Farmer Mac Guaranteed Securities - Rural Utilities ($1.3 billion of which were investment securities held as mission-related investments at the time of the enactment of the Farm Bill and $230.0 million of which the Corporation guaranteed and purchased during fourth quarter 2008); and
- purchased $303.9 million of Farmer Mac II USDA-guaranteed portions.

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

Farmer Mac Loan Purchases, Guarantees and LTSPCs

	For the Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Farmer Mac I:			
Loans and Guaranteed Securities	$ 196,622	$ 127,709	$ 98,673
AgVantage	475,000	1,000,000	1,500,000
LTSPCs	530,363	970,789	1,139,699
Farmer Mac II Guaranteed Securities	303,941	210,040	234,684
Farmer Mac Guaranteed Securities - Rural Utilities	1,560,676	-	-
Total purchases, guarantees and commitments	$ 3,066,602	$ 2,308,538	$ 2,973,056

The purchase price of newly originated and seasoned eligible loans and portfolios, none of which are delinquent at the time of purchase, is the fair value based on current market interest rates and Farmer Mac's target net yield, which includes an amount to compensate Farmer Mac for credit risk that is similar to the guarantee or commitment fee it receives for assuming credit risk on loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

Based on market conditions, Farmer Mac either retains the loans it purchases or securitizes them and sells Farmer Mac Guaranteed Securities backed by those loans. Farmer Mac's decision to retain loans it purchases is based on analysis of the underlying funding costs and resulting net interest income achievable over the lives of the loans. The weighted-average age of the Farmer Mac I newly originated and current seasoned loans purchased and retained (excluding the purchases of defaulted loans) during both 2008 and 2007 was less than one year. Of those loans, 59 percent and 72 percent, respectively, had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 16.3 and 17.3 years, respectively.

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During 2008, 2007 and 2006, Farmer Mac securitized loans it purchased and sold the resulting Farmer Mac Guaranteed Securities in the amount of $98.8 million, $1.3 million and $4.0 million, respectively. Of the 2008 transactions, $96.1 million was sold to Zions First National Bank ("Zions") and $2.7 million was sold to AgStar Financial Services, ACA ("AgStar"). All of the 2007 and 2006 transactions were sold to AgStar. Both Zions and AgStar are related parties with respect to Farmer Mac. Additionally, during 2007 and 2006, Farmer Mac issued $681.7 million and $1.0 billion, respectively, of Farmer Mac I Guaranteed Securities as the result of conversions of LTSPCs, of which $400.2 million and $470.2 million, respectively, were issued to related parties. All of those 2007 transactions were with AgStar. Of the 2006 transactions, $341.2 million was with AgStar and $129.0 million was with Sacramento Valley Farm Credit, ACA, another related party with respect to Farmer Mac. See Note 3 to the consolidated financial statements for more information about related party transactions.

The following table sets forth information regarding the Farmer Mac I Guaranteed Securities issued during the periods indicated:

Farmer Mac I Guaranteed Securities Activity

	For the Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Loans securitized and sold as Farmer Mac I			
Guaranteed Securities	$ 98,843	$ 1,324	$ 3,994
AgVantage securities	475,000	1,000,000	1,500,000
Conversions of LTSPCs into Farmer Mac I			
Guaranteed Securities	-	681,732	1,034,860
Total Farmer Mac Guaranteed Securities Issuances	$ 573,843	$ 1,683,056	$ 2,538,854

The outstanding principal balance of loans held and loans underlying LTSPCs and on- and off-balance sheet Farmer Mac Guaranteed Securities (including Agvantage securities) increased 18.0 percent to $10.1 billion as of December 31, 2008 from $8.5 billion as of December 31, 2007. The following table sets forth information regarding those outstanding balances as of the dates indicated:

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

	As of December 31,		
	2008	2007	2006
		(in thousands)	
Farmer Mac I:			
Loans and Guaranteed Securities	$ 5,759,773	$ 5,648,197	$ 4,343,755
LTSPCs	2,224,181	1,948,941	1,969,734
Farmer Mac II	1,043,425	946,617	925,799
Farmer Mac Guaranteed Securities -			
Rural Utilities	1,054,941	-	-
Total	$ 10,082,320	$ 8,543,755	$ 7,239,288

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As part of fulfilling its guarantee obligations for Farmer Mac I Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet. The purchase price for defaulted loans purchased out of Farmer Mac I Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for defaulted loans purchased under an LTSPC is the then-current outstanding principal balance of the loan, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received. The purchase price of a defaulted loan is not an indicator of the expected loss on that loan; many other factors affect expected loss, if any, on loans so purchased. See "—Risk Management—Credit Risk - Loans."

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

	For the Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Farmer Mac I newly originated and current seasoned loan purchases	$ 196,622	$ 127,709	$ 98,673
Defaulted loans purchased underlying off-balance sheet Farmer Mac I Guaranteed Securities	647	1,562	707
Defaulted loans purchased underlying LTSPCs	56,560	1,033	7,449
Defaulted loans underlying on-balance sheet Farmer Mac I Guaranteed Securities transferred to loans	1,072	1,316	1,467

The purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs are pursuant to Farmer Mac's obligations as guarantor and under its contractual commitments, respectively. Farmer Mac may, in its sole discretion, purchase the defaulted loans underlying Farmer Mac Guaranteed Securities and is obligated to purchase those underlying an LTSPC. With respect to the transfer of loans from on-balance sheet Farmer Mac I Guaranteed Securities to loans, when particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac I Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records all such defaulted loans at their fair values during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Fair values are determined by current collateral valuations or management's estimate of discounted collateral values. Farmer Mac records, at acquisition, the difference between each loan's acquisition cost and its fair value, if any, as a charge-off to the reserve for losses. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs during 2008, 2007 and 2006 was 3 years, 8 years and 7 years, respectively.

For information regarding sellers in the Farmer Mac I and Farmer Mac II programs, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer Mac Programs—Farmer Mac II—United States Department of Agriculture Guaranteed Loan Programs."

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Related Party Transactions. As provided by Farmer Mac's statutory charter, only banks, insurance companies and other financial institutions or similar entities may hold Farmer Mac's Class A voting common stock and only institutions of the Farm Credit System may hold Farmer Mac's Class B voting common stock. Farmer Mac's statutory charter also provides that Class A stockholders elect five members of Farmer Mac's 15-member board of directors and that Class B stockholders elect five members of the board of directors. Additionally, in order to participate in the Farmer Mac I program, a financial institution must own a requisite amount of Farmer Mac Class A or Class B voting common stock, based on the size and type of institution. As a result of these requirements, Farmer Mac regularly conducts business with related parties. These transactions are conducted in the ordinary course of business, with terms and conditions comparable to those available to any other third party. For more information about related party transactions, see Note 3 to the consolidated financial statements.

Outlook for 2009. In 2008, the repercussions from the collapse of markets for subprime mortgage securities cascaded into higher grade mortgage securities, then other types of asset-backed securities and then broader classes of assets heavily financed with securitized debt or bank loans. Those disruptions in the capital markets led to a sharp downturn in the national economy. In early 2009, there are only faint signs of recovery from this downturn.

Conditions in the agricultural sector have been relatively better and more stable than the national economy in general, but the sector is not insulated from the effects of the economic downturn. The agricultural sector is made up of diverse industries that respond in different ways to changes in economic conditions and, in fact, often compete with one another. While some industries continue to prosper, others, such as ethanol producers and the protein sector (i.e., cattle, poultry and pork producers) are being pressured by falling prices for their products and elevated input costs. In addition, the dairy sector is currently experiencing losses from operations due to oversupply and the worldwide economic slowdown, and significant portions of California and Texas are facing issues related to persistent drought. Farmer Mac will continue to monitor closely developments in those industries and areas experiencing stress, but anticipates that loan problems in those industries and areas are likely to increase in 2009, which could lead to higher delinquencies provisions for losses and charge-offs, although any such credit issues are expected to remain within manageable levels.

Broader trends underway now, such as the deleveraging of capital, will also have an effect in reducing credit availability from traditional lenders to the agricultural sector. Accordingly, there should be a growing need for financial vehicles to expand credit availability to those agricultural industries that have sound financial fundamentals, which presents both a challenge and an opportunity that Farmer Mac is actively pursuing.

There will also be opportunities for loan growth in the rural utilities segment, a new area for Farmer Mac as a result of the legislative expansion of its charter in May 2008. Farmer Mac expects to continue the growth it experienced in this sector during 2008 in providing financing to rural utilities lenders. Farmer Mac expects that demand for rural utilities loans will be robust, particularly as the industry adds significant new capacity for the first time since the 1970s. Also, additional power transmission lines will need to be constructed as the development of wind and solar power plants increase the demand for means to transfer power from the source of clean power generation to the ultimate consumer. Farmer Mac's ability to participate in the growth of the rural utilities portion of its business will be limited by Farmer Mac's limits on borrower exposures and its overall risk tolerance. Public policy shifts in the energy sector may also alter Farmer Mac's opportunities in this area, as electrical power generated by and for rural electric cooperatives tends to be biased toward coal as a fuel.

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With respect to rural utilities business prospects:

- The U.S. electric power industry is a $326 billion dollar industry that has seen a 20 percent increase in public demand over the last 10 years.
- Outstanding loan balances for the rural electric industry are in excess of $57 billion, and capital needs over the next 10 year period are expected to exceed $40 billion.
  - RUS alone has already committed $356 million in rural electric funding for 2009.
- National Rural, one of the primary sources for supplemental capital in rural electric financing, has maintained stable counterparty credit rating outlooks moving into 2009.

These statistics do not assure increased business volume for Farmer Mac, but do evidence a strong and growing industry with needs for future financing from capital markets. Both National Rural and CoBank have seen a substantial increase in the rate of portfolio growth from 2007 to 2008. This may be a harbinger of the things to come, as significant capital requirements are anticipated for the rural utilities industry within the next five to ten years. This capital will be needed to finance the construction of new generation and transmission facilities, modernize existing equipment, and comply with environmental regulations.

With respect to the agricultural operating and lending markets in general, USDA's most recent publications (as available on USDA's website as of March 1, 2009) forecast:

- 2009 net cash farm income to be $77.3 billion, a decrease of $16.0 billion over 2008 figures, but still $5.5 billion over the 10-year average of $71.8 billion.
  - 2009 net farm income to be $71.2 billion, a very sizable decrease from 2008 estimates, but still a 9 percent increase over the 10-year average of $65.3 billion.
- Total direct U.S. government payments to be $11.4 billion in 2009, down from $12.4 billion in 2008, and 27 percent below the 5-year average. Direct payment rates are fixed in legislation and are not affected by the level of program crop prices.
  - Countercyclical payments to increase to $1.2 billion in 2009 from $720.0 million in 2008.
- Marketing loan benefits – which include loan deficiency payments, marketing loan gains, and certificate exchange gains – are expected to have dropped to $90.0 million in 2008 from $1.1 billion in 2007. The value of these benefits is forecast to increase to $685.0 million in 2009, realized almost exclusively by cotton producers.
- The value of U.S. farm real estate to increase a modest 2.1 percent in 2009 to $2.1 trillion from the current projection of $2.0 trillion for 2008.
- The amount of farm real estate debt to increase by 2.5 percent in 2009 to $113.9 billion, compared to the current projection of $111.1 billion in 2008.

The USDA forecasts referenced above relate to U.S. agriculture generally, but should collectively be favorable for Farmer Mac's financial condition relative to its exposure to outstanding guarantees and commitments, as the forecasts indicate adequate borrower cash flows. Recent farmland sales have not reflected the level of buyer confidence that has been evident over the past several years, though farm real estate values appear stable to slightly lower in most U.S. agricultural regions. Farm input costs and current commodity prices have significantly squeezed profits and the related demand for farmland, especially in the protein sector and stressed irrigation water areas. Additionally, non-farmer investors who bought farmland during the past several years contributed to the rise in farm real estate values over that time, and these farmland buyers are notably fewer under current economic and market conditions. Based on these factors, Farmer Mac does not expect the rapid farm real estate value appreciation of the past several years to continue into 2009.

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Balance Sheet Review

Assets. Total assets as of December 31, 2008 were $5.1 billion, compared to $5.0 billion as of December 31, 2007. On-balance sheet program assets (Farmer Mac Guaranteed Securities and loans) increased $1.2 billion during 2008 to a total of $3.2 billion. Farmer Mac's non-program assets decreased $1.0 billion to $1.9 billion as of December 31, 2008. As of December 31, 2008, Farmer Mac had $278.4 million of cash and cash equivalents compared to $101.4 million as of December 31, 2007. As of December 31, 2008, Farmer Mac had $1.2 billion of investment securities compared to $2.6 billion as of December 31, 2007. The decrease in investment securities during the year ended December 31, 2008 reflects the transfer of $1.4 billion of rural utilities loan-related securities from investment securities to Farmer Mac Guaranteed Securities with Farmer Mac's guarantee of those securities pursuant to the expanded authorities granted in the Farm Bill. During third quarter 2008, $500.0 million of those Farmer Mac Guaranteed Securities matured and was repaid. Farmer Mac also guaranteed and purchased $230.0 million of new Farmer Mac Guaranteed Securities – Rural Utilities during fourth quarter 2008. Accordingly, during 2008 Farmer Mac Guaranteed Securities increased by a net amount of $1.2 billion to $2.5 billion.

As noted above, Farmer Mac's 2008 financial results were adversely affected by losses on certain investment securities. The following table summarizes Farmer Mac's $1.2 billion of investment securities and the unrealized gains and losses as of December 31, 2008.

	As of December 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans (1)	$ 193,950	$ -	$ (15,373)	$ 178,577
Floating rate asset-backed securities	85,005	1	(3,750)	81,256
Floating rate corporate debt securities	458,428	-	(39,363)	419,065
Floating rate Government/GSE guaranteed mortgage-backed securities	338,907	270	(3,512)	335,665
Fixed rate GSE guaranteed mortgage-backed securities	7,375	188	-	7,563
Floating rate GSE subordinated debt	70,000	-	(20,811)	49,189
Floating rate GSE preferred stock	781	-	-	781
Total available-for-sale	1,154,446	459	(82,809)	1,072,096
Trading:				
Floating rate asset-backed securities	7,494	-	(5,283)	2,211
Fixed rate GSE preferred stock	180,579	-	(19,027)	161,552
Total trading	188,073	-	(24,310)	163,763
Total investment securities	$ 1,342,519	$ 459	$ (107,119)	$ 1,235,859

(1) AAA-rated callable auction-rate certificates collateralized by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States, the interest rates of which are reset through an auction process, most commonly at intervals of 28 days. The fair value of these securities as of December 31, 2008 are inclusive of the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its auction-rate certificates. See Note 15 to the consolidated financial statements for more information on these auction-rate certificates.

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The unrealized losses on the investment securities classified as trading have been recognized in earnings and, as such, reduced Farmer Mac's core capital for regulatory compliance purposes as of December 31, 2008. The unrealized losses on available-for-sale investment securities are recorded as reductions to Accumulated other comprehensive (loss)/income in the equity section of Farmer Mac's balance sheet. Accumulated other comprehensive (loss)/income is not a component of Farmer Mac's core capital for regulatory capital compliance purposes. Therefore, such losses do not impact Farmer Mac's regulatory capital compliance measures. If such losses were realized, either through sale or determination that the unrealized losses were other-than-temporary, Farmer Mac's regulatory capital compliance measures would be affected as such items would be recorded through retained earnings, which is a component of Farmer Mac's core capital for regulatory capital compliance purposes.

As shown in the table above, unrealized losses on the investment securities are concentrated in four categories: floating rate auction-rate certificates backed by Government guaranteed student loans, floating rate corporate debt securities, floating rate GSE subordinated debt, and fixed rate GSE preferred stock. The GSE subordinated debt and the GSE preferred stock are investments in CoBank and AgFirst Farm Credit Bank, both of which are institutions of the Farm Credit System, a government-sponsored enterprise. The floating rate corporate debt securities with significant unrealized losses, the issuers of which are primarily financial institutions, are summarized in the following table:

	As of December 31, 2008				
	Amortized Cost	Unrealized Losses	Fair Value	S&P Credit Rating	Maturity
	In thousands				
Goldman Sachs	$ 61,706	$ (9,338)	$ 52,368	A	February 2012
HSBC Finance (1)	49,892	(9,264)	40,628	AA-	Various through July 2012
Merrill Lynch (2)	49,986	(6,257)	43,729	A	November 2011
Morgan Stanley	34,926	(3,858)	31,068	A	Various through January 2011
Credit Suisse	55,000	(3,225)	51,775	A+	Various through August 2011
Sallie Mae	25,005	(1,440)	23,565	BBB-	July 2009
CIT	35,000	(1,360)	33,640	BBB+	August 2009
John Deere Capital Corp (3)	20,000	(1,266)	18,734	A2	July 2010
Lehman Brothers (4)	5,400	-	5,400	Not Rated	Various through May 2010
Other (5)	121,513	(3,355)	118,158	A (Minimum)	Various through October 2011
	$ 458,428	$ (39,363)	$ 419,065		

(1) HSBC Finance was downgraded by S&P to a credit rating of A in March 2009.
(2) Merrill Lynch & Co., Inc. was acquired by Bank of America in January 2009.
(3) This investment was rated by Moody's.
(4) The amortized cost of this investment was written down to its fair value resulting in no unrealized loss as of December 31, 2008.
(5) Consists of 8 corporate debt securities with unrealized losses ranging from $11 thousand to $979 thousand.

Farmer Mac continues to evaluate the inherent risks of holding each of the investment securities in an unrealized loss position. That evaluation includes the assessment of the potential losses that could be realized (including other-than-temporary impairment charges), the likelihood of recovery (including an evaluation of the time to maturity and likelihood of repayment), the impact of recent and planned interventions by several governments and their agencies to support financial institutions, as well as the adequacy of Farmer Mac's core capital to absorb a realized loss on the sale of a security.

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On February 6, 2009, Farmer Mac sold the Lehman Brothers senior debt securities in its portfolio for $8.6 million, resulting in the recovery of $3.2 million of the $54.5 million of other-than-temporary impairment losses recognized on those securities during 2008. At this time, selling the remaining corporate debt securities would adversely affect the level of Farmer Mac's excess capital above its statutory minimum capital requirement. As of December 31, 2008, that excess capital was $13.5 million. Farmer Mac currently has the intent and ability to retain all of the investments identified above until either the market values recover or the securities mature. Management will continue to evaluate each of these investment positions in light of the inherent risks and Farmer Mac's capital position.

Liabilities. Total liabilities increased to $4.9 billion as of December 31, 2008 from $4.8 billion as of December 31, 2007. The increase in liabilities was due primarily to an overall increase in financial derivatives liability due to the decline in fair value resulting from changes in interest rates. For more information about Farmer Mac's funding and interest rate risk practices and how financial derivatives are used, see "—Risk Management—Interest Rate Risk." For more information about Farmer Mac's reserve for losses, see "—Risk Management—Credit Risk – Loans."

Capital. As of December 31, 2008, Farmer Mac had mezzanine equity of $144.2 million resulting from issuances of preferred stock in 2008 and stockholders' equity of $15.3 million, compared to stockholders' equity of $223.6 million as of December 31, 2007. The decrease in stockholders' equity was primarily due to the $146.5 million reduction to retained earnings, $44.6 million of increased accumulated other comprehensive losses due to unrealized losses on investment securities and Farmer Mac Guaranteed Securities classified as available-for-sale, and the redemption of $35.0 million of Farmer Mac's Series A preferred stock. Those reductions to stockholders' equity were partially offset by the issuance of $9.2 million of Series C Preferred Stock. Farmer Mac's $144.2 million of mezzanine equity is included in its core capital for the purposes of meeting its statutory minimum capital requirement and risk-based capital standards.

Farmer Mac was in compliance with its statutory minimum capital requirement and its risk-based capital standard as of December 31, 2008. Farmer Mac is required to hold capital at the higher of its statutory minimum capital requirement or the amount required by its risk-based capital stress test. As of December 31, 2008, Farmer Mac's core capital totaled $207.0 million and exceeded its statutory minimum capital requirement of $193.5 million by $13.5 million. As of December 31, 2007, Farmer Mac's core capital totaled $226.4 million and exceeded its statutory minimum capital requirement of $186.0 million by $40.4 million. As of December 31, 2008, Farmer Mac's risk-based capital stress test generated a risk-based capital requirement of $57.3 million. Farmer Mac's regulatory capital of $223.4 million exceeded that amount by approximately $166.1 million. Accumulated other comprehensive (loss)/income is not a component of Farmer Mac's core capital or regulatory capital. For further information, see "—Liquidity and Capital Resources—Capital Requirements."

Farmer Mac is currently evaluating its capital position and structure with respect to its statutory and regulatory capital requirements and expected prospective business opportunities. Strategies to further strengthen Farmer Mac's regulatory capital position may include asset sales as well as offerings of common and preferred equity. Strengthening the Corporation's capital position will provide greater flexibility to ensure continued compliance with its statutory and regulatory capital requirements and accomplish its Congressional mission.

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Risk Management

Credit Risk – Loans. Farmer Mac is exposed to credit risk resulting from the inability of borrowers to repay their loans in conjunction with a deficiency in the value of the collateral relative to the amount outstanding balance of the loan and the costs of liquidation. Farmer Mac is exposed to credit risk on:

- loans held;
- loans underlying Farmer Mac Guaranteed Securities; and
- loans underlying LTSPCs.

Farmer Mac generally assumes 100 percent of the credit risk on loans held and loans underlying Farmer Mac I Guaranteed Securities, LTSPCs and Farmer Mac Guaranteed Securities – Rural Utilities. Farmer Mac's credit exposure on USDA-guaranteed portions is covered by the full faith and credit of the United States. Farmer Mac believes it has little or no credit risk exposure to USDA-guaranteed portions because of the USDA guarantee. As of December 31, 2008, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

For accepting the credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs, Farmer Mac receives guarantee fees and commitment fees, respectively. Farmer Mac conducts guarantee fee adequacy analyses, using stress-test models developed internally and with the assistance of outside experts. These analyses have taken into account the diverse and dissimilar characteristics of the various asset categories for which Farmer Mac manages its risk exposures, and have evolved as the mix and character of assets under management has shifted with growth in the business and the addition of new asset categories. Based on current information, Farmer Mac believes that the guarantee fees charged for various products provide adequate compensation for the credit risk that it assumes.

Farmer Mac has established underwriting, collateral valuation and documentation standards (including interest rate shock tests for adjustable rate mortgages with initial reset periods of five years or less) for agricultural real estate mortgage loans to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting and appraisals to all participating sellers and potential sellers in its programs. These standards were developed on the basis of industry norms for agricultural real estate mortgage loans and are designed to assess the creditworthiness of the borrower, as well as the value of the collateral securing the loan. Farmer Mac evaluates and adjusts these standards on an ongoing basis based on current and anticipated market conditions. Farmer Mac also requires sellers to make representations and warranties regarding the conformity of eligible mortgage loans to these standards, the accuracy of loan data provided to Farmer Mac and other requirements related to the loans. Sellers are responsible to Farmer Mac for breaches of those representations and warranties that result in economic losses to the Corporation. Pursuant to contracts with Farmer Mac and in consideration for servicing fees, Farmer Mac-approved central servicers service loans in accordance with Farmer Mac requirements. Central servicers are responsible to Farmer Mac for serious errors in the servicing of those mortgage loans. Detailed information regarding Farmer Mac's underwriting and collateral valuation standards and seller eligibility requirements are presented in "Business—Farmer Mac Programs—Farmer Mac I—Underwriting and Collateral Valuation (Appraisal) Standards" and "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer M Programs—Rural Utilities."

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Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held, real estate owned, and loans underlying Farmer Mac I Guaranteed Securities, LTSPCs and Farmer Mac Guaranteed Securities – Rural Utilities, in accordance with SFAS 5 and SFAS 114. The methodology that Farmer Mac uses to determine the level of its allowance for losses is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Allowance for Losses." Management believes that this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying Farmer Mac Guaranteed Securities and LTSPCs, in accordance with SFAS 5 and SFAS 114.

The following table summarizes the components of Farmer Mac's allowance for losses as of December 31, 2008 and December 31, 2007.

	As of, December 31,	
	2008	2007
	(in thousands)	
Allowance for loan losses	$ 10,929	$ 1,690
Real estate owned valuation allowance	-	-
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	869	857
Off-balance sheet Farmer Mac I Guaranteed Securities	535	655
LTSPCs	4,102	685
Farmer Mac Guaranteed Securities - Rural Utilities	-	-
Total	$ 16,435	$ 3,887

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The following table summarizes the changes in the components of Farmer Mac's allowance for losses for each year in the five-year period ended December 31, 2008:

	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
		(in thousands)		
Balance as of January 1, 2004	$ 5,967	$ 238	$ 15,848	$ 22,053
Provision/(recovery) for losses	1,589	1,137	(3,138)	(412)
Charge-offs	(3,326)	(1,375)	(4)	(4,705)
Recoveries	165	-	-	165
Balance as of December 31, 2004	$ 4,395	$ -	$ 12,706	$ 17,101
Provision/(recovery) for losses	(3,335)	206	(859)	(3,988)
Charge-offs	(105)	(206)	-	(311)
Recoveries	640	-	-	640
Change in accounting estimate	3,281	-	(8,070)	(4,789)
Balance as of December 31, 2005	$ 4,876	$ -	$ 3,777	$ 8,653
Provision/(recovery) for losses	(2,396)	155	(1,167)	(3,408)
Charge-offs	(900)	(155)	-	(1,055)
Recoveries	365	-	-	365
Balance as of December 31, 2006	$ 1,945	$ -	$ 2,610	$ 4,555
Provision/(recovery) for losses	(215)	100	(27)	(142)
Charge-offs	(60)	(100)	(386)	(546)
Recoveries	20	-	-	20
Balance as of December 31, 2007	$ 1,690	$ -	$ 2,197	$ 3,887
Provision/(recovery) for losses	14,531	-	3,309	17,840
Charge-offs	(5,308)	-	-	(5,308)
Recoveries	16	-	-	16
Balance as of December 31, 2008	$ 10,929	$ -	$ 5,506	$ 16,435

Farmer Mac provided $17.8 million to the allowance for losses during 2008, compared to a release of $0.1 million in 2007. During 2008 and 2007, Farmer Mac charged off $5.3 million and $0.5 million, respectively, in losses against the allowance for losses. The charge-offs for 2008 and 2007 did not include any amounts related to previously accrued or advanced interest on loans or Farmer Mac I Guaranteed Securities.

As of December 31, 2008, Farmer Mac's allowance for losses totaled $16.4 million, or 33 basis points of the outstanding principal balance of loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities), compared to $3.9 million (8 basis points) as of December 31, 2007. The year-to-year increase in this ratio is largely attributable to provisions for losses related to the ethanol industry and general exposure to the ethanol industry.

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As of December 31, 2008, Farmer Mac's 90-day delinquencies were $67.1 million (1.35 percent), compared to $10.6 million (0.21 percent) as of December 31, 2007. Those delinquencies are concentrated in the Corporation's ethanol portfolio, with ethanol loans comprising $49.2 million of all 90-day delinquencies as of December 31, 2008. Other than the ethanol portfolio, the loans underlying the Corporation's guarantees and commitments continued to perform well during 2008, with delinquencies on non-ethanol loans remaining near historically low levels consistent with the strength of the U.S. agricultural economy through the end of the year. As of December 31, 2008, there were no delinquencies or non-performing assets in Farmer Mac's portfolio of rural utilities loans. As of December 31, 2008, Farmer Mac's non-performing assets totaled $80.0 million (1.61 percent), compared to $31.9 million (0.63 percent) as of December 31, 2007. Loans that have been restructured were insignificant and are included within the reported 90-day delinquency and non-performing asset disclosures. From quarter to quarter, Farmer Mac anticipates that 90-day delinquencies and non-performing assets will fluctuate, both in dollars and as a percentage of the outstanding portfolio, with higher levels likely at the end of the first and third quarters of each year corresponding to the semi-annual (January 1st and July 1st) payment characteristics of most Farmer Mac I loans.

As of December 31, 2008, Farmer Mac's ethanol portfolio consisted of loan participations with a cumulative unpaid principal amount of $280.4 million with exposure to 29 different plants in 11 states. As of that date, Farmer Mac also had $41.5 million of undisbursed commitments with respect to ethanol loans. That exposure level is at Farmer Mac's maximum tolerance level for ethanol, and Farmer Mac is not seeking to add additional ethanol loans to its portfolio. During fourth quarter 2008, VeraSun Energy Corporation and its subsidiaries filed for chapter 11 bankruptcy. VeraSun's subsidiaries include four ethanol plants with $41.2 million of outstanding loans in Farmer Mac's portfolio with the largest single exposure to any one plant of $11.2 million. As of December 31, 2008, Farmer Mac provided a specific allowance for loan losses of $8.6 million for the VeraSun subsidiary loans. One additional ethanol non-VeraSun loan for $12.0 million in Farmer Mac's portfolio became 90 days delinquent during fourth quarter 2008, and Farmer Mac charged off $4.0 million related to that loan. In total, Farmer Mac recorded provisions for losses of $17.8 million during 2008.

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The following table presents historical information regarding Farmer Mac's non-performing assets and 90-day delinquencies in the Farmer Mac I program compared to the principal balance of all loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs:

	Outstanding Loans, Guarantees (1), LTSPCs, and REO	Non-performing Assets	Percentage	Less: REO and Performing Bankruptcies	90-day Delinquencies	Percentage
			(dollars in thousands)			
As of:						
December 31, 2008	$ 4,983,963	$ 80,032	1.61%	$ 12,912	$ 67,120	1.35%
September 30, 2008	4,989,755	32,883	0.66%	21,402	11,481	0.23%
June 30, 2008	4,937,870	28,230	0.57%	23,060	5,170	0.11%
March 31, 2008	4,933,720	31,640	0.64%	20,666	10,974	0.22%
December 31, 2007	5,063,164	31,924	0.63%	21,340	10,584	0.21%
September 30, 2007	4,891,525	37,364	0.76%	20,341	17,023	0.35%
June 30, 2007	4,904,592	37,225	0.76%	22,462	14,763	0.30%
March 31, 2007	4,905,244	50,026	1.02%	21,685	28,341	0.58%
December 31, 2006	4,784,983	39,232	0.82%	19,577	19,655	0.41%
September 30, 2006	4,621,083	44,862	0.97%	16,425	28,437	0.62%
June 30, 2006	4,633,841	40,083	0.87%	19,075	21,008	0.46%
March 31, 2006	4,224,669	49,475	1.17%	20,713	28,762	0.68%
December 31, 2005	4,399,189	48,764	1.11%	23,303	25,461	0.58%

(1) Excludes loans underlying AgVantage securities.

As of December 31, 2008, Farmer Mac individually analyzed $80.8 million of its $119.6 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $38.8 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac recorded specific allowances of $8.6 million for under-collateralized assets as of December 31, 2008. Farmer Mac's non-specific or general allowances were $7.8 million as of December 31, 2008.

Loans in the Farmer Mac I program are all first mortgage agricultural real estate loans. Accordingly, Farmer Mac's exposure on a loan is limited to the difference between the total of the accrued interest, advances and the principal balance of a loan and the value of the property. Measurement of that excess or shortfall is the best predictor and determinant of loss, compared to other measures that evaluate the efficiency of a particular farm operator. Debt service ratios depend upon farm operator efficiency and leverage, which can vary widely within a geographic region, commodity type, or an operator's business and farming skills. Original LTVs (calculated by dividing the loan principal balance at the time of guarantee, purchase or commitment by the appraised value at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase or commitment) are one of many factors Farmer Mac considers in evaluating loss severity. Other factors include, but are not limited to, other underwriting standards, commodity and farming forecasts and regional economic and agricultural conditions.

LTVs depend upon the market value of a property, as determined in accordance with Farmer Mac's collateral valuation standards. As of December 31, 2008, the weighted-average original LTV for loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) was 50 percent, and the weighted-average original LTV for all non-performing assets was 60 percent.

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The following table presents outstanding loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and non-performing assets as of December 31, 2008 by year of origination, geographic region and commodity/collateral type:

Farmer Mac I Non-performing Assets
as of December 31, 2008

	Distribution of Outstanding Loans, Guarantees and LTSPCs	Outstanding Loans, Guarantees and LTSPCs (1)	Non-performing Assets	Non-performing Asset Rate
		(dollars in thousands)		
By year of origination:				
Before 1997	9%	$ 441,940	$ 6,591	1.49%
1997	4%	183,308	3,445	1.88%
1998	6%	300,238	4,714	1.57%
1999	7%	344,911	2,246	0.65%
2000	3%	176,728	2,438	1.38%
2001	7%	328,021	1,754	0.53%
2002	8%	422,441	1,267	0.30%
2003	9%	443,677	2,286	0.52%
2004	7%	331,120	149	0.04%
2005	10%	503,105	186	0.04%
2006	12%	588,604	47,169	8.01%
2007	9%	470,815	3,293	0.70%
2008	9%	449,055	4,494	1.00%
Total	100%	$ 4,983,963	$ 80,032	1.61%
By geographic region (2):				
Northwest	16%	$ 793,433	$ 34,775	4.38%
Southwest	39%	1,928,669	5,715	0.30%
Mid-North	21%	1,065,590	33,427	3.14%
Mid-South	12%	609,378	1,953	0.32%
Northeast	8%	377,079	1,337	0.35%
Southeast	4%	209,814	2,825	1.35%
Total	100%	$ 4,983,963	$ 80,032	1.61%
By commodity/collateral type:				
Crops	40%	$ 2,011,475	$ 16,388	0.81%
Permanent plantings	19%	959,636	7,539	0.79%
Livestock	27%	1,336,004	4,862	0.36%
Part-time farm/rural housing	7%	347,629	2,004	0.58%
Ag storage and processing (including ethanol facilities)	6%	294,273	49,239	16.73%
Other	1%	34,946	-	0.00%

Total	100%	$ 4,983,963	$ 80,032	1.61%

(1) Excludes loans underlying AgVantage securities.

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

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The following table presents Farmer Mac's cumulative net credit losses relative to the cumulative original balance for all loans purchased and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of December 31, 2008, by year of origination, geographic region and commodity/collateral type. The purpose of this information is to present information regarding losses relative to original guarantees and commitments.

Farmer Mac I Credit Losses Relative to all
Cumulative Original Loans, Guarantees and LTSPCs
as of December 31. 2008

	Cumulative Original Loans, Guarantees and LTSPCs (1)	Cumulative Net Credit Losses	Cumulative Loss Rate
	(dollars in thousands)		
By year of origination:			
Before 1997	$ 3,319,660	$ 1,594	0.05%
1997	717,213	2,493	0.35%
1998	1,088,184	3,885	0.36%
1999	1,087,415	1,291	0.12%
2000	695,329	2,285	0.33%
2001	997,243	695	0.07%
2002	1,025,428	-	0.00%
2003	840,781	-	0.00%
2004	612,907	-	0.00%
2005	747,762	114	0.02%
2006	744,634	4,000	0.54%
2007	541,408	-	0.00%
2008	484,691	1,200	0.25%
Total	$ 12,902,655	$ 17,557	0.14%
By geographic region (2):			
Northwest	$ 2,424,918	$ 6,891	0.28%
Southwest	5,115,484	5,978	0.12%
Mid-North	2,256,471	4,057	0.18%
Mid-South	1,249,411	336	0.03%
Northeast	969,765	66	0.01%
Southeast	886,606	229	0.03%
Total	$ 12,902,655	$ 17,557	0.14%
By commodity/collateral type:			
Crops	$ 5,303,647	$ 1,209	0.02%
Permanent plantings	2,904,787	9,349	0.32%
Livestock	3,289,656	2,676	0.08%
Part-time farm/rural housing	868,377	323	0.04%
Ag storage and processing (including ethanol facilities)	397,524(3)	4,000	1.01%
Other	138,664	-	0.00%

Total	$	12,902,655	$	17,557	0.14%

(1) Excludes loans underlying AgVantage securities.
(2) Geographic regions - Northwest (AK, ID, MT, ND, NE, OR, SD, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, NH, NJ, NY, OH, PA, RI, TN, VA, VT, WV); and Southeast (AL, AR, FL, GA, LA, MS, SC)
(3) Several of the loans underlying agricultural storage and processing LTSPCs are for facilities under construction, and as of December 31, 2008, approximately $41.5 million of the loans were not yet disbursed by the lender.

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Analysis of portfolio performance by commodity distribution indicates that losses and collateral deficiencies have been and are expected to remain less prevalent in the loans secured by real estate producing agricultural commodities that receive significant government support (such as cotton, soybeans, wheat and corn) and more prevalent in those that do not receive such support (such as the protein sector, permanent plantings and vegetables). This analysis is consistent with corresponding commodity analyses, which indicates that Farmer Mac has experienced higher loss and collateral deficiency rates in its loans classified as permanent plantings. Most of the loans classified as permanent plantings do not receive significant government support and are therefore more susceptible to adverse commodity-specific economic trends. Further, as adverse economic conditions persist for a particular commodity that requires a long-term improvement on the land, such as permanent plantings, the prospective sale value of the land is likely to decrease and the related loans may become under-collateralized. Farmer Mac anticipates that one or more particular commodity groups will be under economic pressure at any one time and actively manages its portfolio to mitigate concentration risks while preserving Farmer Mac's ability to meet the financing needs of all commodity groups. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Outlook for 2009."

Analysis of portfolio performance by geographic distribution indicates that, while commodities are the primary determinant of exposure to loss, within most commodity groups certain geographic areas allow greater economies of scale or proximity to markets than others and, consequently, result in more successful farms within the commodity group. Likewise, certain geographic areas offer better growing conditions than others and, consequently, result in more versatile and more successful farms within a given commodity group – and the ability to switch crops among commodity groups.

Farmer Mac's methodologies for pricing its guarantee and commitment fees, managing credit risks and providing adequate allowances for losses consider all of the foregoing factors and information.

Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions and the collateralization level for the securities, as well as because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As of December 31, 2008, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future.

Credit Risk – Institutional. Farmer Mac is also exposed to credit risk arising from its business relationships with other institutions including:

- issuers of AgVantage securities and other investments held or guaranteed by Farmer Mac;
- sellers and servicers; and
- interest rate swap contract counterparties.

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AgVantage securities are general obligations of the AgVantage issuers and are secured by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollaterization also required for Farmer Mac I AgVantage securities. Outstanding AgVantage on-balance sheet Farmer Mac I Guaranteed Securities totaled $53.3 million as of December 31, 2008 and $30.8 million as of December 31, 2007. Farmer Mac Guaranteed Securities – Rural Utilities structured as AgVantage transactions issued by National Rural and held by Farmer Mac totaled $630 million as of December 31, 2008. In addition, outstanding off-balance sheet AgVantage Farmer Mac I Guaranteed Securities totaled $2.9 billion as of December 31, 2008 and $2.5 billion as of December 31, 2007. The following table provides information about the issuers of AgVantage securities, as well as the required and actual collateralization levels for those transactions as of December 31, 2008 and 2007.

	As of December 31,					
	2008			2007		
Counterparty	Balance	S&P Rating	Required	Balance	S&P Rating	Required
	(dollars in thousands)					
MetLife 1	$ 2,500,000	AA	103%	$ 2,500,000	AA	103%
National Rural	630,000	A	100%	500,000	A	100%
M&I Bank 2	475,000	A	106%	-	A+	106%
Others 3	23,300	N/A	(4)	30,800	N/A	(4)
Total outstanding	$ 3,628,300			$ 2,530,800		

1 Met Life was downgraded to AA- in February 2009.
2 M&I Bank was downgraded to A- in January 2009.
3 Consists of Agvantage securities issued by 7 different issuers as of December 31, 2008 and 9 different issuers as of December 31, 2007.
(4) Ranges from 111% to 120%

Farmer Mac manages institutional credit risk related to sellers and servicers by requiring those institutions to meet Farmer Mac's standards for creditworthiness. Farmer Mac monitors the financial condition of those institutions by evaluating financial statements and bank credit rating agency reports. For more information on Farmer Mac's approval of sellers, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers." Credit risk related to interest rate swap contracts i discussed in "—Risk Management—Interest Rate Risk" and Note 6 to the consolidated financial statements.

Credit Risk – Other Investments. As of December 31, 2008, Farmer Mac had $278.4 million of cash and cash equivalents and $1.2 billion of investment securities. The management of the credit risk inherent in these investments is governed by FCA's Investment Regulations and Farmer Mac's own policies. In general, these regulations and policies require each investment or issuer of an investment to be highly rated by an NRSRO. Investments in mortgage securities and asset-backed securities are required to have a rating in the highest NRSRO category. Corporate debt securities with maturities of no more than five years but more than three years are required to be rated in one of the two highest categories; corporate debt securities with maturities of three years or less are required to be rated in one of the three highest categories. There are limited exceptions where a rating is not required, such as obligations of the United States or diversified investment funds regulated under the Investment Company Act of 1940. Investments in money market funds are further limited to those funds that are holding only instruments approved for direct purchase by Farmer Mac.

FCA's Investment Regulations and Farmer Mac's policies also establish concentration limits, which are intended to reduce exposure to any one counterparty. Farmer Mac's total credit exposure to any single issuer of securities or uncollateralized financial derivatives is limited to the greater of 25 percent of the Corporation's regulatory capital or

$25.0 million (as of December 31, 2008, 25 percent of Farmer Mac’s regulatory capital was $55.9 million). This limitation is not applied to the obligations of the United States or to qualified investment funds. The limitation applied to the obligations of any GSE is 100 percent of Farmer Mac’s regulatory capital.

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In light of the severe impact that the historic turmoil in the nation's capital markets has had on Farmer Mac's investments, which is further described in "—Results of Operations—Overview," Farmer Mac conducted an extensive review of its investment policies and operations with a view to strengthening policies, procedures and oversight of its investment portfolio and related funding strategies. This review was concluded during first quarter 2009 and its findings are currently being implemented, with the goals of minimizing the Corporation's exposure to financial market volatility, preserving capital and supporting the Corporation's access to the debt markets.

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

Yield maintenance provisions and other prepayment penalties contained in many agricultural mortgage loans reduce, but do not eliminate, prepayment risk, particularly in the case of a defaulted loan where yield maintenance may not be collected. Those provisions require borrowers to make an additional payment when they prepay their loans so that, when reinvested with the prepaid principal, yield maintenance payments generate substantially the same cash flows that would have been generated had the loan not prepaid. Those provisions create a disincentive to prepayment and compensate the Corporation for some of its interest rate risks. As of December 31, 2008, 37 percent of the total outstanding balance of retained Farmer Mac I loans and Guaranteed Securities had yield maintenance provisions and 5 percent had other forms of prepayment protection (together covering 70 percent of all loans with fixed interest rates). Of the Farmer Mac I new and current loans purchased in 2008, 2 percent had yield maintenance or another form of prepayment protection (including 8 percent of all loans with fixed interest rates). As of December 31, 2008, none of the USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities had yield maintenance provisions; however, 5 percent contained prepayment penalties. Of the USDA-guaranteed portions purchased in 2008, 8 percent contained various forms of prepayment penalties.

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

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The following table presents Farmer Mac's on-balance sheet program assets based on their interest rate characteristics.

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

	As of December 31,			
	2008		2007	
	(in thousands)			
Fixed rate (10-yr. wtd. avg. term)	$	1,659,983	$	962,320
5- to 10-year ARMs and resets		746,623		750,472
1-Month to 3-Year ARMs		819,234		352,250
Total held in portfolio	$	3,225,840	$	2,065,042

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

Farmer Mac's $278.4 million of cash and cash equivalents as of December 31, 2008 matures within three months and is match-funded with discount notes having similar maturities. As of December 31, 2008, $1.1 billion of the $1.2 billion of investment securities (86.3 percent) were floating rate securities with rates that adjust within one year or fixed rate securities with original maturities between three months and one year. See Note 4 to the consolidated financial statements for more information on investment securities. These investments are funded using:

- a series of discount note issuances in which each successive discount note is issued and matures on or about the corresponding interest rate reset date of the related investment;
- floating rate notes having similar interest rate reset provisions as the related investment; or
- fixed rate notes swapped to floating rates having similar interest rate reset provisions as the related investment.

Farmer Mac is also subject to interest rate risk on loans, including loans that Farmer Mac has committed to acquire (other than through LTSPCs) but has not yet purchased. When Farmer Mac commits to purchase such loans, it is exposed to interest rate risk between the time it commits to purchase the loans and the time it either:

- sells Farmer Mac Guaranteed Securities backed by the loans; or
- issues debt to retain the loans in its portfolio (although issuing debt to fund the loans as investments does not fully eliminate interest rate risk due to the possible timing differences in the cash flows of the assets and related liabilities, as discussed above).

Farmer Mac manages the interest rate risk related to such loans, and any related Farmer Mac Guaranteed Securities or debt issuance, through the use of forward sale contracts on the debt and mortgage-backed securities of other GSEs and futures contracts involving U.S. Treasury securities. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both Treasury rates and spreads on Farmer Mac debt and Farmer Mac I Guaranteed Securities.

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Recognizing that interest rate sensitivity may change with the passage of time and as interest rates change, Farmer Mac assesses this exposure on a regular basis and, if necessary, readjusts its portfolio of assets and liabilities by:

- purchasing mortgage assets in the ordinary course of business;
- refunding existing liabilities; or
- using financial derivatives to alter the characteristics of existing assets or liabilities.

An important "stress test" of Farmer Mac's exposure to long-term interest rate risk is the measurement of the sensitivity of its Market Value of Equity ("MVE") to yield curve shocks. MVE represents management's estimate of the present value of all future cash flows from on- and off-balance sheet assets, liabilities and financial derivatives. The following schedule summarizes the results of Farmer Mac's MVE sensitivity analysis as of December 31, 2008 and December 31, 2007 to an immediate and instantaneous uniform or "parallel" shift in the yield curve.

Interest Rate Scenario	Percentage Change in MVE from Base Case As of December 31, 2008	2007
+ 300 bp	-10.4%	-10.6%
+ 200 bp	-2.1%	-6.3%
+ 100 bp	3.7%	-2.5%
- 100 bp	*	-0.1%
- 200 bp	*	-1.4%
- 300 bp	*	-3.4%

* As of the date indicated, a parallel shift of the U.S. Treasury yield curve by the number of basis points indicated produced negative interest rates for portions or all of this curve.

As measured by this MVE analysis, Farmer Mac's long-term interest rate sensitivity remained at relatively low levels despite the significant change in the yield curve that occurred during the year. As of December 31, 2008, Farmer Mac's effective duration gap, another standard measure of interest rate risk that measures the difference between the sensitivities of assets compared to that of liabilities, was minus 2.4 months, compared to plus 0.7 months as of December 31, 2007. Duration matching helps to maintain the correlation of cash flows and stabilize portfolio earnings even when interest rates are not stable.

As of December 31, 2008, a uniform or parallel increase of 100 basis points would have decreased Farmer Mac's net interest income ("NII"), a shorter-term measure of interest rate risk, by 2.2 percent, while a parallel decrease of 25 basis points would have decreased NII by 3.5 percent. Farmer Mac also measures the sensitivity of both MVE and NII to a variety of non-parallel interest rate shocks, including flattening and steepening yield curve scenarios. As of December 31, 2008, both MVE and NII showed similar or less sensitivity to non-parallel shocks than to the parallel shocks. Farmer Mac believes that the relative insensitivity of its MVE and NII to both parallel and non-parallel interest rate shocks, and its duration gap, indicate that Farmer Mac's approach to managing its interest rate risk exposures is effective.

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The economic effects of financial derivatives are included in the Corporation's MVE, NII and duration gap analyses. Farmer Mac enters into the following financial derivative transactions principally 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:

- "pay-fixed" interest rate swaps, in which it pays fixed rates of interest to, and receives floating rates of interest from, counterparties;
- "receive-fixed" interest rate swaps, in which it receives fixed rates of interest from, and pays floating rates of interest to, counterparties; and
- "basis swaps," in which it pays variable rates of interest based on one index to, and receives variable rates of interest based on another index from, counterparties.

As of December 31, 2008, Farmer Mac had $3.7 billion combined notional amount of interest rate swaps, with terms ranging from one to fifteen years, of which $1.5 billion were pay-fixed interest rate swaps, $2.0 billion were receive-fixed interest rate swaps, and $0.2 billion were basis swaps.

Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term mortgage and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and also to derive an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Specifically, interest rate swaps convert the variable cash flows related to the forecasted issuance of short-term debt into effectively fixed rate medium-term notes that match the anticipated duration and interest rate characteristics of the corresponding assets. Farmer Mac historically evaluated the overall cost of using the swap market as an alternative to issuing medium-term notes in the capital markets, which in most instances resulted in the use of the swap market. Due to volatile capital markets conditions, beginning in October 2008 Farmer Mac discontinued its practice of synthetically creating long-term fixed rate debt through the use of pay-fixed interest rate swaps and a planned series of discount note issuances, and instead issued medium-term notes as its source of longer-term fixed rate funding.

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.

As discussed in Note 6 to the consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. All of Farmer Mac's financial derivative transactions are conducted under standard collateralized agreements that limit Farmer Mac's potential credit exposure to any counterparty. As of December 31, 2008, Farmer Mac had uncollateralized net exposures of $8.0 million to two counterparties.

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Liquidity and Capital Resources

Farmer Mac depends on regular access to the capital markets for liquidity, and Farmer Mac maintained access to the capital markets at favorable rates throughout 2008. Assuming continuation of current market conditions, Farmer Mac believes it has sufficient liquidity and capital resources to support its operations for the next 12 months and for the foreseeable future. Farmer Mac also has a liquidity contingency plan to manage unanticipated disruptions in its access to the capital markets. That plan involves borrowing through repurchase agreement arrangements and the sale of liquid assets. Consistent with FCA regulations, Farmer Mac maintains a minimum of 60 days of liquidity and a target of 90 days of liquidity. In accordance with the methodology prescribed by those regulations, Farmer Mac maintained an average of 92 days of liquidity during 2008 and had 90 days of liquidity as of December 31, 2008.

Debt Issuance. Farmer Mac funds its purchases of program and non-program assets primarily by issuing debt obligations of various maturities in the public capital markets. Debt obligations issued by Farmer Mac include discount notes and fixed and floating rate medium-term notes, including callable notes. Farmer Mac also issues discount notes and medium-term notes to obtain funds to finance its investments, transaction costs, guarantee payments and LTSPC purchase obligations. See “Business—Financing—Debt Issuance” for more information regarding Farmer Mac’ debt issuance.

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

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

Farmer Mac’s short-term borrowing costs have remained at historically low levels despite recent market volatility. Historically, Farmer Mac has used pay-fixed interest rate swaps, combined with a planned series of discount note issuances, as an alternative source of effectively fixed rate funding. While the swap market may provide favorable fixed rates, interest rate swap transactions expose Farmer Mac to the risk of future increases of its own issuance rates versus corresponding LIBOR rates. If the rates on the Farmer Mac discount notes were to increase relative to LIBOR, Farmer Mac would be exposed to a commensurate reduction on its net interest yield on the notional amount of its pay-fixed interest rate swaps and other LIBOR-based floating rate assets. Conversely, if the rates on the Farmer Mac discount notes were to decrease relative to LIBOR, Farmer Mac would be exposed to a commensurate increase on its net interest yield on the notional amount of its pay-fixed interest rate swaps and other LIBOR-based floating rate assets.

Farmer Mac maintains cash, cash equivalents (including commercial paper and other short-term money market instruments) and other investment securities that can be drawn upon for liquidity needs. As of December 31, 2008, these assets consisted of: $278.4 million of cash and cash equivalents; $554.8 million of securities issued or guaranteed by GSEs or the U.S. Government and its agencies; $419.1 million of corporate debt securities issued primarily by financial institutions; and $262.0 million of asset-backed securities principally backed by Government guaranteed student loans. None of Farmer Mac’s asset-backed securities were backed by sub-prime or Alt-A residential or commercial mortgages or home-equity loans.

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

Farmer Mac's asset-backed investment securities include callable, AAA-rated auction-rate certificates ("ARCs"), the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates in the event of a failed auction. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac held $178.6 million of ARCs (including related put rights) as of December 31, 2008, compared to $131.5 million as of December 31, 2007. Beginning in mid-February 2008, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. Farmer Mac believes that the credit quality of these securities is high, based on that guarantee and the securities' continued AAA ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so. Farmer Mac does not believe that the auction failures will affect the Corporation's liquidity or its ability to fund its operations or make dividend payments. On October 31, 2008, Farmer Mac accepted an offer of Auction Rate Securities Rights, Series B 2 from UBS AG related to $119.9 million (par value) of the ARCs in Farmer Mac's investment portfolio, which granted Farmer Mac put rights related to these securities. Under the terms of the rights, UBS has the discretion to purchase or sell the $119.9 million (par value) of ARCs at any time without prior notice so long as Farmer Mac receives par value, while Farmer Mac has the right to require UBS to purchase the securities at par value at any time between January 2, 2009 and January 4, 2011. Farmer Mac elected the fair value option for these put rights and recorded them at their fair value as of December 31, 2008. Farmer Mac exercised its rights and sold the ARCs to UBS on January 7, 2009, thus reducing the remaining par value of the ARC portfolio to $74.1 million. As of December 31, 2008, Farmer Mac recorded $119.9 million of ARC holdings and put rights at an amount equal to the par amount of these securities and $74.1 million at fair values of approximately 79 percent of par. Farmer Mac believes it is likely the remaining $74.1 million of ARCs will be called or repurchased during the next two years.

As of September 30, 2008, Farmer Mac had an investment of $81.7 million in The Reserve Primary Fund (the "Fund"), a money market fund that has suspended redemptions and is being liquidated. On September 15, 2008, Farmer Mac delivered a timely redemption request to redeem its entire investment in the Fund, but its confirmed redemption request was not honored. The Fund announced on September 16, 2008 that the net asset value of the Fund decreased below $1.00 per share as a result of the valuing at zero the Fund's holdings of debt securities issued by Lehman Brothers, but that all redemption requests received before 3:00 p.m. that day would be redeemed at $1.00 per share. On September 22, 2008, the Fund announced that redemptions of shares in the Fund were being suspended for the protection of the Fund's investors pursuant to an SEC order until the financial markets allow an orderly liquidation to be effected. Investments in money market funds are generally recorded in "Cash and cash equivalents" on the Corporation's balance sheet; however, based on the foregoing information, as of September 30, 2008 the Corporation presented $39.2 million of its investment in the Fund as "Cash and cash equivalents" and $42.5 million of its unsettled trades with the Fund separately on the balance sheet as "Prepaid expenses and other assets," both at net asset values of $1.00 per share.

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On December 3, 2008, the Fund announced that it had adopted a Plan of Liquidation (the "Plan") for the orderly liquidation of the assets of the Fund, to be implemented subject to the supervision of the SEC. Under the terms of the Plan, interim distributions are to be made to shareholders pro rata out of Fund assets, up to the amount of a special reserve. On February 26, 2009, the Fund announced its decision to initially set aside $3.5 billion in a special reserve to cover potential liabilities for damages and associated expenses related to lawsuits and regulatory actions against the Fund. The special reserve was estimated based upon a range of costs and expenses that might be included in the special reserve and may be increased or decreased as further information becomes available. Interim distributions will continue to be made up to $0.9172 per share unless the Fund determines the need to increase the special reserve. Amounts in the special reserve will be distributed to shareholders once claims, if any are successful, have been paid or set aside for payment.

The Fund distributed cash to Farmer Mac of $64.4 million during fourth quarter 2008 and an additional $5.4 million on February 20, 2009. As of December 31, 2008, Farmer Mac had $17.3 million of unsettled trades with the Fund presented as "Prepaid expenses and other assets" on the balance sheet. Farmer Mac believes that it will receive its remaining investment upon final distribution of the Fund; however it may take an extended period of time. Farmer Mac will continue to monitor further developments with respect to the expected recovery of its remaining investment in the Fund.

The following table presents Farmer Mac's five largest investments as of December 31, 2008:

Investment	Issuer	S&P Credit Rating	Amount2 (in thousands)
GSE Preferred Stock	CoBank, ACB 1	A	$ 88,500
GSE Preferred Stock	AgFirst Farm Credit Bank 1	A	88,035
Corporate Debt	CoBank, ACB 1	A	70,000
Corporate Debt	Goldman Sachs Group, Inc.	A	61,850
Corporate Debt	Merrill Lynch & Co., Inc. 3	A	50,000

1 CoBank, ACB and AgFirst Farm Credit Bank are institutions of the Farm Credit System, a government- sponsored enterprise.

2 Investment balance does not include premiums paid or unrealized gains or losses on the securities.

3 Merrill Lynch & Co., Inc. was acquired by Bank of America in January 2009.

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Capital Requirements. The Act establishes three capital standards for Farmer Mac—minimum, critical and risk-based. The minimum capital requirement is expressed as a percentage of on-balance sheet assets and off-balance sheet obligations, with the critical capital requirement equal to one-half of the minimum capital amount. The Act does not specify the required level of risk-based capital but directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters. For a discussion of the risk-based capital stress test, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—General." Certain enforcement powers are given to FCA depending upon Farmer Mac's compliance with the capital standards. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement Levels."

As of December 31, 2008 and 2007, Farmer Mac was classified as within "level I" (the highest compliance level). The following table sets forth Farmer Mac's minimum capital requirement as of December 31, 2008 and 2007.

	December 31, 2008			December 31, 2007		
	Amount	Ratio	Capital Required	Amount	Ratio	Capital Required
			(dollars in thousands)			
On-balance sheet assets as defined for determining statutory minimum capital	$ 5,145,139	2.75%	$ 141,491	$ 4,979,147	2.75%	$ 136,927
Outstanding balance of Farmer Mac						
Guaranteed Securities held by others and LTSPCs	6,897,259	0.75%	51,730	6,492,056	0.75%	48,690
Financial Derivatives	34,032	0.75%	255	55,273	0.75%	415
Minimum capital level			193,476			186,032
Actual core capital			206,976			226,386
Capital surplus			$ 13,500			$ 40,354

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2008 was $57.3 million and Farmer Mac's regulatory capital of $223.4 million exceeded that amount by approximately $166.1 million.

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Contractual Obligations. The following table presents the amount and timing of Farmer Mac's known fixed and determinable contractual obligations by payment date as of December 31, 2008. The payment amounts represent those amounts contractually due to the recipient (including return of discount and interest on debt) and do not include unamortized premiums or discounts or other similar carrying value adjustments.

	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
			(in thousands)		
Discount notes (1)	$ 2,129,584	$ -	$ -	$ -	$ 2,129,584
Medium-term notes (1)	1,633,500	272,865			