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FEDERAL AGRICULTURAL MORTGAGE CORP
Form 8-K
January 28, 2004

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 27, 2004

Federal Agricultural Mortgage Corporation

(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------------|---|
| Federally chartered instrumentality of the United States | 0-17440 | 52-1578738 |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

1133 21st Street, N.W., Suite 600, Washington, D.C.

20036

(Address of principal executive offices)

(Zip Code)

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

No change

(Former name or former address, if changed since last report)

Item 7. Financial Statements and Exhibits.

(a) Not applicable.

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(b) Not applicable.

(c) Exhibits:

99 Press release dated January 27, 2004.

Item 9. Regulation FD Disclosure.

On January 27, 2004, the Registrant issued a press release to announce the Registrant's financial results for fourth quarter 2003. A copy of the press release is attached to this report as Exhibit 99 and is incorporated herein by reference.

The information set forth above is being furnished under "Item 9. Regulation FD Disclosure" and "Item 12. Results of Operations and Financial Condition" and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section. The information in this Form 8-K shall not be incorporated by reference in any other filing under the Securities Exchange Act of 1934 or the Securities Act of 1933 except as shall be expressly set forth by specific reference to this Form 8-K in such a filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

By: /s/ Jerome G. Oslick

Name: Jerome G. Oslick
Title: Vice President - General Counsel

Dated: January 27, 2004

EXHIBIT INDEX

| Exhibit No. ----- | Description ----- | Page No. ----- |
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Exhibit 99

FARMER MAC

NEWS

FOR IMMEDIATE RELEASE
January 27, 2004

CONTACT
Jerome Oslick
202-872-7700

Farmer Mac Reports Fourth Quarter Results

2003 GAAP Earnings of \$2.08 per Share

Washington, D.C. -- The Federal Agricultural Mortgage Corporation (Farmer Mac, NYSE: AGM and AGM.A) today reported U.S. GAAP net income for fourth quarter 2003 of \$4.9 million or \$0.40 per diluted share, compared to \$3.3 million or \$0.28 per diluted share for third quarter 2003 and \$2.8 million or \$0.23 per diluted share for fourth quarter 2002. For the year ended December 31, 2003, net income was \$25.1 million or \$2.08 per diluted share, compared to \$21.3 million or \$1.77 per diluted share for the year ended December 31, 2002.

Farmer Mac reports its "core earnings," a non-GAAP measure, in addition to GAAP earnings. That measure was developed by Farmer Mac to present net income available to common stockholders less the after-tax effects of unrealized gains and losses on financial derivatives resulting from the application of the derivative accounting standards, and less the after-tax net gains and losses on the repurchase of debt.

Farmer Mac President and Chief Executive Officer Henry D. Edelman stated, "Core earnings were \$5.8 million or \$0.47 per diluted share for fourth quarter 2003, compared to \$5.5 million or \$0.46 per diluted share for third quarter 2003 and \$5.9 million or \$0.49 per diluted share for fourth quarter 2002. For the year ended December 31, 2003, core earnings were \$23.0 million or \$1.91 per diluted share, compared to \$22.9 million or \$1.90 per diluted share for the year ended December 31, 2002. Farmer Mac's financial results reflect the fundamental strength of its business model as it fulfills its Congressionally-mandated mission to serve America's farmers, ranchers and rural homeowners.

"We are pleased by the continued improvements in the performance of the

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portfolio of loans underlying our guarantees and LTSPCs. As of December 31, 2003, 90-day delinquencies in Farmer Mac's portfolio were at their lowest levels in more than two years, as a result of Farmer Mac's ongoing credit risk management discussed later in this release, aided by increasing strength in the U.S. agricultural economy. As of December 31, 2003, those delinquencies totaled \$29.6 million, representing 0.59 percent of the portfolio, down from \$58.2 million and 1.21 percent as of December 31, 2002, and \$54.5 million and 1.59 percent as of December 31, 2001.

"Continued lender interest in Farmer Mac produced new Farmer Mac I and II business volume through loan purchases and additions to existing long-term standby purchase commitments ("LTSPCs"). New business volume was \$288.2 million for fourth quarter 2003, bringing total volume for the year to \$1.2 billion. Recent business activity has been affected adversely by slower loan growth in the agricultural mortgage market and increased regulatory pressure on government-sponsored enterprises, including Farmer Mac.

"Marketing initiatives Farmer Mac launched last quarter are generating promising business opportunities for 2004. New and expanded business relationships, including a strategic alliance, product enhancements and new security structures, are underway. Based on these ongoing developments and on improving credit quality, we believe that Farmer Mac's financial condition is strong and expect that 2004 core earnings per diluted share will exceed the 2003 level by as much as 10 percent."

The GAAP measure most comparable to core earnings is net income available to common stockholders. Unlike core earnings, however, the GAAP measure is heavily influenced by unrealized gains or losses in the value of financial derivatives used to hedge interest rate risk in Farmer Mac's mortgage portfolio. Because the value of those financial derivatives is driven by fluctuations in interest rates that cannot reliably be predicted, Farmer Mac does not project GAAP net income available to common stockholders.

Non-GAAP Performance Measures

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

"Core earnings" is one such non-GAAP measure that Farmer Mac developed to present net income available to common stockholders less: (a) the after-tax effects of unrealized gains and losses on financial derivatives resulting from Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("FAS 133"), and (b) the after-tax net gains and losses on the repurchase of debt that, prior to January 1, 2003, were reported under GAAP as extraordinary items. Due in part to the effects of FAS 133, Farmer Mac's GAAP net income available to common stockholders increased to \$4.9 million for fourth quarter 2003, compared to \$2.8 million for fourth quarter 2002, while its core earnings were \$5.8 million for fourth quarter 2003, compared to \$5.9 million for fourth quarter 2002. The reconciliation of GAAP net income available to common stockholders to core earnings is presented in the following table:

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

| | Three Months Ended | | | | December 31, 2003 | December 31, 2003 |
|--|--|----------------|-------------------|----------------|-------------------|-------------------|
| | December 31, 2003 | | December 31, 2002 | | | |
| | (in thousands, except per share amounts) | | | | | |
| | Per Diluted Share | | Per Diluted Share | | | |
| GAAP net income available to common stockholders | \$ 4,917 | \$ 0.40 | \$ 2,777 | \$ 0.23 | \$ 25,056 | \$ 0.40 |
| Less the effects of FAS 133: | | | | | | |
| Unrealized gains/(losses) on financial derivatives and trading assets, net of tax | (974) | (0.08) | (1,887) | (0.16) | 1,720 | |
| Benefit from non-amortization of premium payments on financial derivatives, net of tax | 76 | 0.01 | 82 | 0.01 | 317 | |
| Less gains/(losses) on the repurchase of debt previously reported as extraordinary items, net of tax | - | - | (1,313) | (0.11) | - | |
| Core earnings | \$ 5,815 | \$ 0.47 | \$ 5,895 | \$ 0.49 | \$ 23,019 | \$ 0.49 |

Later in this release, Farmer Mac provides additional information about the impact of FAS 133, which decreased GAAP net income available to common stockholders by \$0.9 million in fourth quarter 2003.

Net Interest Income

Net interest income, which does not include guarantee fees from loans purchased and retained prior to April 1, 2001 (the effective date of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("FAS 140")), was \$9.1 million for fourth quarter 2003, compared to \$8.9 million for third quarter 2003 and \$9.5 million for fourth quarter 2002. The net interest yield was 91 basis points for fourth quarter 2003, compared to 89 basis points for third quarter 2003 and 96 basis points for fourth quarter 2002. The effects of FAS 140 for fourth quarter 2003, third quarter 2003 and fourth quarter 2002 were, in each quarter, the reclassification of guarantee fee income as interest income in the amount of approximately \$1.1 million (11 basis points).

During third quarter 2003, the Chief Accountant at the U.S. Securities and Exchange Commission ("SEC") provided additional guidance to all registrants

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regarding the classification on the statement of operations of realized gains and losses resulting from financial derivatives that are not in fair value or cash flow hedge relationships. All registrants were requested to comply with this guidance in future filings and to reclassify this activity for all prior periods presented. As a result of the application of this additional guidance, the net interest income and expense realized on financial derivatives that are not in fair value or cash flow hedge relationships has been reclassified from net interest income into gains and losses on financial derivatives and trading assets. In each of fourth quarter 2003, third quarter 2003 and fourth quarter 2002, this reclassification resulted in a reduction of the net interest yield of 6 basis points, a reduction of 1 basis point and an increase of 8 basis points, respectively.

The net interest yields for fourth quarter 2003, third quarter 2003 and fourth quarter 2002 included the benefits of yield maintenance payments of 11 basis points, 11 basis points and 5 basis points, respectively. For fourth quarter 2003, yield maintenance payments increased net income by \$0.7 million or \$0.06 per diluted share, compared to \$0.7 million or \$0.06 per diluted share for third quarter 2003 and \$0.3 million or \$0.03 per diluted share for fourth quarter 2002.

Guarantee and Commitment Fees

Guarantee and commitment fees were \$5.4 million for fourth quarter 2003, compared to \$5.1 million for third quarter 2003 and \$5.1 million for fourth quarter 2002. The year-to-year increase in guarantee and commitment fees reflects an increase in the average balance of outstanding guarantees and commitments. As discussed above, for fourth quarter 2003, \$1.1 million of guarantee fee income was reclassified as interest income in accordance with FAS 140, compared to \$1.1 million for third quarter 2003 and \$1.1 million for fourth quarter 2002.

Operating Expenses

Compensation and employee benefits for fourth quarter 2003 were \$1.6 million, compared to \$1.6 million for third quarter 2003 and \$1.2 million for fourth quarter 2002. The year-to-year increase was due, in large part, to increased staffing levels for administrative activities and compliance with regulatory requirements, including those of the Sarbanes-Oxley Act of 2002. General and administrative expenses for fourth quarter 2003 were \$1.0 million, compared to \$1.6 million for third quarter 2003 and \$0.8 million for fourth quarter 2002. The decrease from the level in third quarter 2003 to a level consistent with the first two quarters of 2003 was due to higher levels of professional fees incurred during third quarter 2003. For the year ended December 31, 2003, general and administrative expenses were \$5.0 million, compared to \$5.5 million for the year ended December 31, 2002.

Regulatory fees for fourth quarter 2003 were \$0.9 million, compared to \$0.4 million for third quarter 2003 and \$0.4 million for fourth quarter 2002. The increase was a result of two items. First, Farmer Mac's federal regulator, the Farm Credit Administration ("FCA"), set its estimated regulatory assessment for the year ending September 30, 2004 at \$1.7 million, up from its \$1.4 million estimated assessment level for the year ended September 30, 2003. Second, in December 2003, FCA advised Farmer Mac of an upward revision to its estimated assessment for the fiscal year ended September 30, 2003, and issued an additional assessment in the amount of \$0.4 million.

Farmer Mac's net REO operating costs for fourth quarter 2003 were \$0.3 million, resulting from operating revenues of \$0.4 million and expenses of \$0.7 million. Net REO operating costs in prior periods were nominal. Discussion of the provision for losses is covered under the topic of "Credit" later in this release.

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Capital

Farmer Mac's core capital totaled \$215.5 million as of December 31, 2003, compared to \$206.4 million as of September 30, 2003 and \$184.0 million as of December 31, 2002. The regulatory methodology for calculating core capital excludes the effects on capital of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("FAS 115") and FAS 133, which are reported on Farmer Mac's balance sheet as accumulated other comprehensive income/(loss). Farmer Mac's core capital as of December 31, 2003 exceeded the statutory minimum capital requirement of \$142.0 million by \$73.5 million.

Farmer Mac is required to meet the capital standards of a risk-based capital stress test promulgated by FCA ("RBC test"). The RBC test determines the amount of regulatory capital (core capital plus the allowance for losses) Farmer Mac would need to maintain positive capital during a ten-year stress period while incurring credit losses equivalent to the highest historical two-year agricultural mortgage loss rates and an interest rate shock at the lesser of 600 basis points or 50 percent of the ten-year U.S. Treasury rate. The RBC test then adds to the resulting capital requirement an additional 30 percent for management and operational risk.

As of December 31, 2003, the RBC test generated an estimated risk-based capital requirement of \$38.8 million, compared to the risk-based capital requirement of \$45.5 million as of September 30, 2003. Farmer Mac's regulatory capital of \$239.0 million as of December 31, 2003 exceeded the RBC requirement by approximately \$200.2 million. Farmer Mac is required to hold capital at the higher of the statutory minimum capital requirement or the amount required by the RBC test.

Credit

As of December 31, 2003, Farmer Mac's 90-day delinquencies totaled \$29.6 million, representing 0.59 percent of the principal balance of all loans held and loans underlying post-Farm Credit System Reform Act ("1996 Act") Farmer Mac I Guaranteed Securities and LTSPCs, compared to \$58.2 million (1.21 percent) as of December 31, 2002. The 90-day delinquencies are loans 90 days or more past due, in foreclosure, restructured after delinquency, or in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

As of December 31, 2003, non-performing assets totaled \$67.6 million, representing 1.35 percent of the principal balance of all loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, compared to \$75.3 million (1.56 percent) as of December 31, 2002. Non-performing assets are loans 90 days or more past due, in foreclosure, restructured after delinquency, in bankruptcy, or real estate owned ("REO"). The principal balance of non-performing assets includes a group of loans that are current under the original loan terms or a court-approved bankruptcy plan, though the borrowers on those loans have filed for bankruptcy protection, and certain segments of the portfolio that have cycled through foreclosure and into the REO asset category, which completes the involuntary loan liquidation process.

The difference between the non-performing asset and 90-day delinquency measures is the exclusion of REO and loans performing in bankruptcy from 90-day delinquencies. Unlike the non-performing asset measure, the 90-day delinquency measure takes into account only those outstanding loans on which borrowers are not current on their required payments and does not include loans that have been liquidated.

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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 many Farmer Mac I loans.

As of December 31, 2003, Farmer Mac had \$13.9 million of REO, compared to \$16.4 million as of September 30, 2003 and \$5.0 million as of December 31, 2002. The commodity and geographic diversification of the REO properties is consistent with the commodity and geographic diversification of the non-performing assets. Analysis of the portfolio by geographic and commodity distribution indicates that non-performing assets, including REO, have been and are expected to be most prevalent in the loans in geographic areas and commodities that do not receive significant government support. Prior to acquisition of property securing a loan, Farmer Mac devises a liquidation strategy that results in either an immediate sale or retention pending later sale. Farmer Mac evaluates these and other alternatives based upon the economics of the transactions and the requirements of local law.

As of December 31, 2003, Farmer Mac analyzed the following three categories of assets for impairment, based on the fair value of the underlying collateral: (1) the \$67.6 million of non-performing assets; (2) the \$37.4 million of loans for which Farmer Mac has adjusted the timing of borrowers' payment schedules within the past three years, but still expects to collect all amounts due and has not made economic concessions; and (3) the additional \$65.3 million of performing loans it suspects may have inherent credit issues. Those individual assessments covered a total of \$170.3 million of assets measured for impairment against updated appraised values, other updated collateral valuations or discounted values. Of the \$170.3 million of assets analyzed, \$152.1 million were adequately collateralized. For the \$18.2 million that were not adequately collateralized, individual collateral shortfalls totaled \$3.8 million. Accordingly, Farmer Mac allocated specific allowances of \$3.8 million to those under-collateralized assets as of December 31, 2003. After the allocation of specific allowances from the total allowance for losses of \$23.5 million, non-specific or general allowances and the contingent obligation for inherent probable losses were \$19.7 million.

During fourth quarter 2003, Farmer Mac charged off \$1.7 million in losses against the allowance for losses. In certain collateral liquidation scenarios, Farmer Mac may recover amounts previously charged off or incur additional losses, if liquidation proceeds vary from previous estimates. During fourth quarter 2003, Farmer Mac recovered \$0.2 million of losses previously charged off. Farmer Mac's total provision for losses was \$2.2 million for fourth quarter 2003, compared to \$2.1 million for third quarter 2003 and \$2.1 million for fourth quarter 2002. As of December 31, 2003, Farmer Mac's allowance for losses and contingent obligation for probable losses totaled \$23.5 million, or 47 basis points of the outstanding balance of loans held and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs, compared to \$22.7 million (47 basis points) as of September 30, 2003 and \$20.0 million (42 basis points) as of December 31, 2002. Based on Farmer Mac's analysis of its entire portfolio, individual loan-by-loan analyses, and loan collection experience, Farmer Mac believes that specific and inherent probable losses are covered adequately by its allowance for losses.

Interest Rate Risk

Farmer Mac measures its interest rate risk through several tests, including the sensitivity of its Market Value of Equity ("MVE") and Net Interest Income ("NII") to uniform or "parallel" yield curve shocks. As of December 31, 2003, a parallel increase of 100 basis points across the entire U.S. Treasury yield curve would have increased MVE by 0.4 percent, while a parallel decrease of 100

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basis points would have had no effect on MVE. As of December 31, 2003, a parallel increase of 100 basis points would have increased Farmer Mac's NII, a shorter-term measure of interest rate risk, by 5.6 percent, while a parallel decrease of 100 basis points would have decreased NII by 9.4 percent. Farmer Mac's duration gap, another measure of interest rate risk, was minus 0.1 months as of December 31, 2003.

The economic effects of derivatives, including interest rate swaps, are included in the MVE, NII and duration gap analyses. As an alternative to long-term fixed-rate debt issuance, Farmer Mac issues short-term debt and enters into contracts to pay fixed rates of interest and receive floating rates of interest from counterparties. These "floating-to-fixed" interest rate swaps are used to adjust the characteristics of Farmer Mac's short-term debt to match more closely the cash flow and duration characteristics of its longer-term assets, thereby reducing interest rate risk, and also to derive an overall lower effective fixed-rate cost of borrowing than would otherwise be available in the conventional debt market. As of December 31, 2003, Farmer Mac had \$674.4 million notional amount of floating-to-fixed interest rate swaps for terms ranging from two months to 15 years. In addition, Farmer Mac enters into "fixed-to-floating" interest rate swaps and "basis swaps" to adjust the characteristics of its assets and liabilities to match more closely, on a cash flow and duration basis, thereby reducing interest rate risk. As of December 31, 2003, Farmer Mac had \$591.9 million of such interest rate swaps.

Farmer Mac uses derivatives for hedging purposes, not for speculative purposes. All of Farmer Mac's derivative transactions are conducted through standard, collateralized agreements that limit Farmer Mac's potential credit exposure to any counterparty. As of December 31, 2003, Farmer Mac had no uncollateralized net exposure to any counterparty.

Derivatives and Financial Statement Effects of FAS 133

Farmer Mac accounts for its derivatives under FAS 133, which became effective January 1, 2001. The implementation of FAS 133 resulted in significant accounting changes to both the consolidated statements of operations and balance sheets. During fourth quarter 2003, the decrease in net after-tax income resulting from FAS 133 was \$0.9 million and the net after-tax increase in accumulated other comprehensive income was \$11.0 million. During third quarter 2003, the decrease in net after-tax income resulting from FAS 133 was \$2.2 million and the net after-tax increase in accumulated other comprehensive income was \$11.5 million. For fourth quarter 2002, the decreases in net after-tax income and accumulated other comprehensive income resulting from FAS 133 were \$1.8 million and \$16.9 million, respectively. Accumulated other comprehensive income is not a component of Farmer Mac's regulatory core capital.

Forward-Looking Statements

In addition to historical information, this release includes forward-looking statements that reflect management's current expectations for Farmer Mac's future financial results, business prospects and business developments. Management's expectations for Farmer Mac's future necessarily involve assumptions, estimates and the evaluation of risks and uncertainties. Various factors could cause actual events or results to differ materially from those expectations. Some of the important factors that could cause Farmer Mac's actual results to differ materially from management's expectations include uncertainties regarding: (1) the rate and direction of development of the secondary market for agricultural mortgage loans; (2) the possible establishment of additional statutory or regulatory restrictions on Farmer Mac that could hamper its growth or restrain its profitability; (3) substantial changes in interest rates, agricultural land values, commodity prices, export demand for U.S. agricultural products and the general economy; (4) protracted adverse weather, market or other conditions affecting particular geographic regions or

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particular commodities related to agricultural mortgage loans backing Farmer Mac I Guaranteed Securities or under LTSPCs; (5) legislative or regulatory developments or interpretations of Farmer Mac's statutory charter that could adversely affect Farmer Mac or the ability of certain lenders to participate in its programs or the terms of any such participation; (6) Farmer Mac's access to the debt markets at favorable rates and terms; (7) the possible effect of the risk-based capital requirement, which could, under certain circumstances, be in excess of the statutory minimum capital level; (8) borrower preferences for fixed-rate agricultural mortgage indebtedness; (9) lender interest in Farmer Mac credit products and the Farmer Mac secondary market; (10) competitive pressures in the purchase of agricultural mortgage loans and the sale of agricultural mortgage-backed and debt securities; (11) the effects on the agricultural economy of any changes in federal assistance for agriculture; (12) possible reaction in the financial markets to events involving government-sponsored enterprises other than Farmer Mac; or (13) the rate of growth in agricultural mortgage indebtedness. Other factors are discussed in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the SEC on March 27, 2003 and Farmer Mac's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the SEC on November 14, 2003. The forward-looking statements contained in this release represent management's expectations as of the date of this release. Farmer Mac undertakes no obligation to release publicly the results of any revisions to the forward-looking statements included in this release to reflect events or circumstances after today, or to reflect the occurrence of unanticipated events, except as otherwise mandated by the SEC.

Farmer Mac is a stockholder-owned instrumentality of the United States chartered by Congress to establish a secondary market for agricultural real estate and rural housing mortgage loans and to facilitate capital market funding for USDA-guaranteed farm program and rural development loans. Farmer Mac's Class C non-voting and Class A voting common stocks are listed on the New York Stock Exchange under the symbols AGM and AGM.A, respectively. Additional information about Farmer Mac (as well as the Form 10-K and Form 10-Q referenced above) is available on Farmer Mac's website at www.farmermac.com. The conference call to discuss Farmer Mac's fourth quarter 2003 earnings and this press release will be webcast on Farmer Mac's website beginning at 11:00 a.m. eastern time, Wednesday, January 28, 2004, and an audio recording of that call will be available for two weeks on Farmer Mac's website after the call is concluded. * * * *

Federal Agricultural Mortgage Corporation Consolidated Balance Sheets (in thousands)

| | December 31, 2003 | December 31, 2002 |
|---|----------------------|----------------------|
| | ----- (unaudited) | ----- (audited) |
| Assets: | | |
| Cash and cash equivalents | \$ 623,674 | \$ 723,800 |
| Investment securities | 1,064,782 | 830,409 |
| Farmer Mac Guaranteed Securities | 1,508,134 | 1,608,507 |
| Loans | 989,006 | 966,123 |
| Allowance for loan losses | (7,388) | (2,662) |
| | ----- | ----- |
| Loans, net | 981,618 | 963,461 |
| Real estate owned, net of valuation allowance of \$0.2 million and \$0.6 million | 13,918 | 5,031 |
| Financial derivatives | 961 | 317 |
| Interest receivable | 58,819 | 65,276 |

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| | | |
|---|--------------|--------------|
| Guarantee and commitment fees receivable | 16,885 | 5,938 |
| Deferred tax asset | 10,891 | 9,666 |
| Prepaid expenses and other assets | 20,008 | 10,510 |
| | ----- | ----- |
| Total Assets | \$ 4,299,690 | \$ 4,222,915 |
| | ----- | ----- |
| Liabilities and Stockholders' Equity: | | |
| Notes payable: | | |
| Due within one year | \$ 2,799,384 | \$ 2,895,746 |
| Due after one year | 1,136,110 | 985,318 |
| | ----- | ----- |
| Total notes payable | 3,935,494 | 3,881,064 |
| Financial derivatives | 67,670 | 94,314 |
| Accrued interest payable | 26,342 | 29,756 |
| Guarantee and commitment obligation | 14,144 | - |
| Accounts payable and accrued expenses | 29,588 | 17,453 |
| Reserve for losses | 13,172 | 16,757 |
| | ----- | ----- |
| Total Liabilities | 4,086,410 | 4,039,344 |
| Preferred stock | 35,000 | 35,000 |
| Common stock at par | 12,054 | 11,638 |
| Additional paid-in capital | 88,652 | 82,527 |
| Accumulated other comprehensive income/(loss) | (2,295) | (407) |
| Retained earnings | 79,869 | 54,813 |
| | ----- | ----- |
| Total Stockholders' Equity | 213,280 | 183,571 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 4,299,690 | \$ 4,222,915 |
| | ----- | ----- |

Federal Agricultural Mortgage Corporation
Consolidated Statements of Operations
(in thousands, except per share amounts)

| | Three Months Ended | | Twelve Months | |
|---|--------------------|--------------|---------------|-------|
| | December 31, | December 31, | December 31, | Decem |
| | 2003 | 2002 | 2003 | |
| | (unaudited) | (unaudited) | (unaudited) | (au |
| Interest income: | | | | |
| Investments and cash equivalents | \$ 8,797 | \$ 10,101 | \$ 35,287 | \$ |
| Farmer Mac Guaranteed Securities | 18,104 | 21,383 | 74,088 | |
| Loans | 12,901 | 12,578 | 52,580 | |
| | ----- | ----- | ----- | ----- |
| Total interest income | 39,802 | 44,062 | 161,955 | 1 |
| Interest expense | 30,668 | 34,557 | 124,664 | 1 |
| | ----- | ----- | ----- | ----- |
| Net interest income | 9,134 | 9,505 | 37,291 | |
| Provision for loan losses | (1,930) | (1,340) | (7,944) | |
| | ----- | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 7,204 | 8,165 | 29,347 | |
| Guarantee and commitment fees | 5,424 | 5,114 | 20,685 | |
| Gains/(Losses) on financial derivatives and trading assets | (939) | (3,679) | 2,714 | |

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| | | | |
|---|----------|----------|-----------|
| Gains/(Losses) on the repurchase of debt | - | (2,021) | - |
| Miscellaneous income | 68 | 114 | 812 |
| Total revenues | 11,757 | 7,693 | 53,558 |
| Expenses: | | | |
| Compensation and employee benefits | 1,634 | 1,238 | 6,121 |
| General and administrative | 1,019 | 774 | 4,969 |
| Regulatory fees | 857 | 383 | 2,005 |
| REO operating costs, net | 264 | 7 | 264 |
| Provision for losses | 258 | 808 | 581 |
| Total operating expenses | 4,032 | 3,210 | 13,940 |
| Income before income taxes | 7,725 | 4,483 | 39,618 |
| Income tax expense | 2,248 | 1,146 | 12,322 |
| Net income | 5,477 | 3,337 | 27,296 |
| Preferred stock dividends | (560) | (560) | (2,240) |
| Net income available to common stockholders | \$ 4,917 | \$ 2,777 | \$ 25,056 |
| Earnings per common share: | | | |
| Basic earnings per common share | \$ 0.42 | \$ 0.24 | \$ 2.13 |
| Diluted earnings per common share | \$ 0.40 | \$ 0.23 | \$ 2.08 |

Federal Agricultural Mortgage Corporation
Supplemental Information

The following tables present quarterly and annual information regarding loan purchases, guarantees and LTSPCs, outstanding guarantees and LTSPCs and non-performing assets and 90-day delinquencies.

Farmer Mac Purchases, Guarantees and LTSPCs

| | Farmer Mac I | | | |
|------------------------|---------------------------------------|------------|---------------|------------|
| | Loans and Guaranteed Securities | LTSPCs | Farmer Mac II | Total |
| | (in thousands) | | | |
| For the quarter ended: | | | | |
| December 31, 2003 | \$ 25,148 | \$ 218,097 | \$ 44,971 | \$ 288,216 |
| September 30, 2003 | 42,760 | 199,646 | 106,729 | 349,135 |
| June 30, 2003 | 65,615 | 179,025 | 77,636 | 322,276 |
| March 31, 2003 | 59,054 | 166,574 | 41,893 | 267,521 |
| December 31, 2002 | 62,841 | 395,597 | 38,714 | 497,152 |
| September 30, 2002 | 58,475 | 140,157 | 37,374 | 236,006 |
| June 30, 2002 | 551,690 | 280,904 | 57,769 | 890,363 |

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| | | | | |
|--------------------|--------|---------|--------|---------|
| March 31, 2002 | 74,875 | 338,821 | 39,154 | 452,850 |
| December 31, 2001 | 62,953 | 237,292 | 51,056 | 351,301 |
| September 30, 2001 | 75,135 | 246,472 | 42,396 | 364,003 |
| June 30, 2001 | 85,439 | 499,508 | 57,012 | 641,959 |
| March 31, 2001 | 48,600 | 49,695 | 47,707 | 146,002 |

For the year ended:

| | | | | |
|-------------------|---------|-----------|---------|-----------|
| December 31, 2003 | 192,577 | 763,342 | 271,229 | 1,227,148 |
| December 31, 2002 | 747,881 | 1,155,479 | 173,011 | 2,076,371 |
| December 31, 2001 | 272,127 | 1,032,967 | 198,171 | 1,503,265 |

Outstanding Balance of Farmer Mac Loans, Guarantees and LTSPCs (1)

| Farmer Mac I | | | | |
|---------------------------------------|--------------|-----------------|---------------|------------|
| Post-1996 Act | | | | |
| Loans and Guaranteed Securities | LTSPCs | Pre-1996 Act | Farmer Mac II | |
| (in thousands) | | | | |
| As of: | | | | |
| December 31, 2003 | \$ 2,693,280 | \$2,348,702 | \$ 24,734 | \$ 729,470 |
| September 30, 2003 (2) | 2,721,775 | 2,174,182 | 25,588 | 720,584 |
| June 30, 2003 | 2,108,180 | 2,790,480 | 28,057 | 668,899 |
| March 31, 2003 | 2,111,861 | 2,732,620 | 29,216 | 650,152 |
| December 31, 2002 | 2,168,994 | 2,681,240 | 31,960 | 645,790 |
| September 30, 2002 | 2,127,460 | 2,407,469 | 35,297 | 630,452 |
| June 30, 2002 | 2,180,948 | 2,336,886 | 37,873 | 617,503 |
| March 31, 2002 | 1,655,485 | 2,126,485 | 41,414 | 592,836 |
| December 31, 2001 | 1,658,716 | 1,884,260 | 48,979 | 595,156 |

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

| | Fixed Rate (10-yr. Wtd. Avg. Term) | 5-to-10-Year ARMs and Resets | 1-Month-to-3-Year ARMs |
|--------------------|--|---------------------------------|---------------------------|
| (in thousands) | | | |
| As of: | | | |
| December 31, 2003 | \$ 860,874 | \$ 1,045,217 | \$ 542,024 |
| September 30, 2003 | 865,817 | 1,037,168 | 535,915 |
| June 30, 2003 | 889,839 | 1,064,824 | 511,700 |
| March 31, 2003 | 880,316 | 1,057,310 | 515,910 |
| December 31, 2002 | 1,003,434 | 981,548 | 494,713 |
| September 30, 2002 | 1,000,518 | 934,435 | 498,815 |
| June 30, 2002 | 1,016,997 | 892,737 | 516,892 |
| March 31, 2002 | 751,222 | 797,780 | 350,482 |

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December 31, 2001

764,115

790,948

302,169

Non-performing Assets and 90-Day Delinquencies

| | Outstanding Post-1996 Act Loans, Guarantees and LTSPCs | Non- performing Assets (3) | Percentage | Less: REO and Performing Bankruptcies |
|------------------------|--|----------------------------------|------------|--|
| (dollars in thousands) | | | | |
| As of: | | | | |
| December 31, 2003 | \$ 5,016,781 | \$ 67,590 | 1.35% | \$ 37,986 |
| September 30, 2003 | 4,871,756 | 84,583 | 1.74% | 37,442 |
| June 30, 2003 | 4,875,059 | 80,169 | 1.64% | 28,883 |
| March 31, 2003 | 4,820,887 | 94,822 | 1.97% | 18,662 |
| December 31, 2002 | 4,821,634 | 75,308 | 1.56% | 17,094 |
| September 30, 2002 | 4,506,330 | 91,286 | 2.03% | 11,460 |
| June 30, 2002 | 4,489,735 | 65,196 | 1.45% | 14,931 |
| March 31, 2002 | 3,754,171 | 87,097 | 2.32% | 7,903 |
| December 31, 2001 | 3,428,176 | 58,279 | 1.70% | 3,743 |
| September 30, 2001 | 3,318,796 | 71,686 | 2.16% | 5,183 |
| June 30, 2001 | 3,089,460 | 53,139 | 1.72% | 4,274 |
| March 31, 2001 | 2,562,374 | 67,134 | 2.62% | 2,154 |

Distribution of Post-1996 Act
Non-performing Assets by Original LTV Ratio (5)
as of December 31, 2003

| (dollars in thousands) | | |
|------------------------|--------------------------|------------|
| Original LTV Ratio | Non-performing Assets | Percentage |
| 0.00% to 40.00% | \$ 7,239 | 11% |
| 40.01% to 50.00% | 9,879 | 14% |
| 50.01% to 60.00% | 27,562 | 41% |
| 60.01% to 70.00% | 21,687 | 32% |
| 70.01% to 80.00% | 1,050 | 2% |
| 80.01% + | 173 | 0% |
| Total | \$ 67,590 | 100% |

Distribution of Post-1996 Act Non-performing Assets
by Loan Origination Date
as of December 31, 2003

(dollars in thousands)

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| Loan Origination Date | Non-performing Assets | Outstanding Loans, Guarantees and LTSPCs | Percentage |
|-----------------------------|--------------------------|---|------------|
| ----- | ----- | ----- | ----- |
| Before 1994 | \$ 2,328 | \$ 660,588 | 0.35% |
| 1994 | 863 | 156,634 | 0.55% |
| 1995 | 4,902 | 154,805 | 3.17% |
| 1996 | 8,693 | 342,153 | 2.54% |
| 1997 | 13,436 | 403,455 | 3.33% |
| 1998 | 13,595 | 644,931 | 2.11% |
| 1999 | 9,928 | 671,921 | 1.48% |
| 2000 | 7,517 | 390,061 | 1.93% |
| 2001 | 5,791 | 581,473 | 1.00% |
| 2002 | 537 | 627,122 | 0.09% |
| 2003 | - | 383,638 | 0.00% |
| | ----- | ----- | ----- |
| Total | \$ 67,590 | \$ 5,016,781 | 1.35% |
| | ----- | ----- | ----- |