FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
August 09, 2018

As filed with the Securities and Exchange Commission on August 9, 2018

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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	52-1578738
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1999 K Street, N.W., 4th Floor, Washington, D.C.	20006
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if smaller reporting company)		
		Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. 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
As of August 1, 2018, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock, and 9,137,500 shares of Class C non-voting common stock.

Table of Contents

PART I

Item 1. Financial Statements

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

	As of June 30, 2018	December 31, 2017
	(in thousands)	
Assets:		
Cash and cash equivalents	$430,812	$302,022
Investment securities:		
Available-for-sale, at fair value	2,324,598	2,215,405
Held-to-maturity, at amortized cost	45,032	45,032
Total Investment Securities	2,369,630	2,260,437
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	5,985,806	5,471,914
Held-to-maturity, at amortized cost	2,093,092	2,126,274
Total Farmer Mac Guaranteed Securities	8,078,898	7,598,188
USDA Securities:		
Trading, at fair value	10,748	13,515
Held-to-maturity, at amortized cost	2,112,618	2,117,850
Total USDA Securities	2,123,366	2,131,365
Loans:		
Loans held for investment, at amortized cost	3,916,127	3,873,755
Loans held for investment in consolidated trusts, at amortized cost	1,443,246	1,399,827
Allowance for loan losses	(6,789)	(6,796)
Total loans, net of allowance	5,352,584	5,266,786
Real estate owned, at lower of cost or fair value	56	139
Financial derivatives, at fair value	8,011	7,093
Interest receivable (includes $17,019 and $17,373, respectively, related to consolidated trusts)	156,194	155,278
Guarantee and commitment fees receivable	39,915	39,895
Deferred tax asset, net	—	2,048
Prepaid expenses and other assets	67,305	29,023
Total Assets	$18,626,771	$17,792,274
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$7,774,301	$8,089,826
Due after one year	8,416,896	7,432,790
Total notes payable	16,191,197	15,522,616
Debt securities of consolidated trusts held by third parties	1,449,888	1,404,945
Financial derivatives, at fair value	20,164	26,599
Accrued interest payable (includes $14,559 and $14,631, respectively, related to consolidated trusts)	88,506	75,402
Guarantee and commitment obligation	38,428	38,400
Accounts payable and accrued expenses	67,295	14,096
Deferred tax liability, net	2,832	—
Reserve for losses	2,249	2,070

Total Liabilities	17,860,559	17,084,128
Commitments and Contingencies (Note 6)		
Equity:		
Preferred stock:		
Series A, par value $25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	58,333
Series B, par value $25 per share, 3,000,000 shares authorized, issued and outstanding	73,044	73,044
Series C, par value $25 per share, 3,000,000 shares authorized, issued and outstanding	73,382	73,382
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 9,136,194 shares and 9,087,670 shares outstanding, respectively	9,136	9,088
Additional paid-in capital	117,684	118,979
Accumulated other comprehensive income, net of tax	73,410	51,085
Retained earnings	359,692	322,704
Total Equity	766,212	708,146
Total Liabilities and Equity	$18,626,771	$17,792,274

The accompanying notes are an integral part of these consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	$12,095	$8,368	$23,558	$15,611
Farmer Mac Guaranteed Securities and USDA Securities	74,179	50,106	136,609	92,628
Loans	49,396	39,573	95,049	76,425
Total interest income	135,670	98,047	255,216	184,664
Total interest expense	91,737	58,316	168,054	107,862
Net interest income	43,933	39,731	87,162	76,802
(Provision for)/release of loan losses	(424)	(327)	7	(964)
Net interest income after (provision for)/release of loan losses	43,509	39,404	87,169	75,838
Non-interest income:				
Guarantee and commitment fees	3,481	3,472	6,980	7,316
Gains/(losses) on financial derivatives and hedging activities	2,534	(617)	(1,316)	1,869
Gains/(losses) on trading securities	11	(2)	27	(84)
Gains on sale of real estate owned	34	757	34	752
Other income	320	134	894	687
Non-interest income	6,380	3,744	6,619	10,540
Non-interest expense:				
Compensation and employee benefits	6,936	6,682	13,590	12,999
General and administrative	5,202	3,921	9,528	7,721
Regulatory fees	625	625	1,250	1,250
Real estate owned operating costs, net	—	23	16	23
Provision for/(release of) reserve for losses	158	139	179	(54)
Non-interest expense	12,921	11,390	24,563	21,939
Income before income taxes	36,968	31,758	69,225	64,439
Income tax expense	7,332	11,124	13,770	21,910
Net income	29,636	20,634	55,455	42,529
Less: Net loss attributable to non-controlling interest	—	150	—	165
Net income attributable to Farmer Mac	29,636	20,784	55,455	42,694
Preferred stock dividends	(3,296)	(3,296)	(6,591)	(6,591)
Net income attributable to common stockholders	$26,340	$17,488	$48,864	$36,103
Earnings per common share and dividends:				
Basic earnings per common share	$2.47	$1.65	$4.59	$3.41
Diluted earnings per common share	$2.45	$1.62	$4.55	$3.35
Common stock dividends per common share	$0.58	$0.36	$1.16	$0.72

The accompanying notes are an integral part of these consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(in thousands)			
Net income	$29,636	$20,634	$55,455	$42,529
Other comprehensive income before taxes:				
Net unrealized gains on available-for-sale securities	996	5,333	22,224	20,170
Net changes in held-to-maturity securities	(1,546)	(2,125)	(2,856)	(5,612)
Net unrealized gains/(losses) on cash flow hedges	2,194	(1,848)	8,857	(1,219)
Other comprehensive income before tax	1,644	1,360	28,225	13,339
Income tax expense related to other comprehensive income	(345)	(476)	(5,927)	(4,669)
Other comprehensive income net of tax	1,299	884	22,298	8,670
Comprehensive income	30,935	21,518	77,753	51,199
Less: comprehensive loss attributable to non-controlling interest	—	150	—	165
Comprehensive income attributable to Farmer Mac	$30,935	$21,668	$77,753	$51,364

The accompanying notes are an integral part of these consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Non-controlling Interest	Total Equity
	(in thousands)								
Balance as of December 31, 2016	8,400	$204,759	10,539	$10,539	$118,655	$ 33,758	$275,714	$ 222	$643,647
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	42,694	—	42,694
Attributable to non-controlling interest	—	—	—	—	—	—	—	(165)	(165)
Other comprehensive income, net of tax	—	—	—	—	—	8,670	—	—	8,670
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(6,591)	—	(6,591)
Common stock	—	—	—	—	—	—	(7,616)	—	(7,616)
Issuance of Class C Common Stock	—	—	65	65	225	—	—	—	290
Stock-based compensation cost	—	—	—	—	1,784	—	—	—	1,784
Other stock-based award activity	—	—	—	—	(1,727)	—	—	—	(1,727)
Redemption of interest in subsidiary	—	—	—	—	—	—	—	(57)	(57)
Balance as of June 30, 2017	8,400	$204,759	10,604	$10,604	$118,937	$ 42,428	$304,201	$ —	$680,929
Balance as of December 31, 2017	8,400	$204,759	10,619	$10,619	$118,979	$ 51,085	$322,704	$ —	$708,146
Cumulative effect from change in hedge accounting	—	—	—	—	—	27	471	—	498
Balance as of January 1, 2018	8,400	$204,759	10,619	$10,619	$118,979	$ 51,112	$323,175	$ —	$708,644
Net income:									
Attributable to Farmer Mac	—	—	—	—	—	—	55,455	—	55,455
Other comprehensive income, net of tax	—	—	—	—	—	22,298	—	—	22,298
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(6,591)	—	(6,591)
Common stock	—	—	—	—	—	—	(12,347)	—	(12,347)
Issuance of Class C Common Stock	—	—	48	48	7	—	—	—	55
	—	—	—	—	1,269	—	—	—	1,269

Stock-based compensation cost									
Other stock-based award activity	—	—	—	—	(2,571)	—	—	—	(2,571)
Balance as of June 30, 2018	8,400	$204,759	10,667	$10,667	$117,684	$ 73,410	$359,692	$ —	$766,212

The accompanying notes are an integral part of these consolidated financial statements.

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

	For the Six Months Ended	
	June 30, 2018	June 30, 2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$55,455	$42,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums, and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Securities	1,536	534
Amortization of debt premiums, discounts and issuance costs	13,701	11,479
Net change in fair value of trading securities, hedged assets, and financial derivatives	26,100	(12,122)
(Gains)/losses on sale of real estate owned	(34)	(752)
Total provision for losses	172	910
Excess tax benefits related to stock-based awards	903	832
Deferred income taxes	(2,457)	2,095
Other	—	100
Stock-based compensation expense	1,269	1,784
Proceeds from repayment of loans purchased as held for sale	62,078	32,510
Net change in:		
Interest receivable	(879)	(3,700)
Guarantee and commitment fees receivable	8	320
Other assets	(12,877)	300
Accrued interest payable	13,104	14,260
Other liabilities	4,075	(488)
Net cash provided by operating activities	162,154	90,591
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(539,667)	(271,684)
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(1,843,294)	(2,108,174)
Purchases of loans held for investment	(491,858)	(678,710)
Purchases of defaulted loans	(721)	(415)
Proceeds from repayment of available-for-sale investment securities	403,018	508,409
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	1,331,245	618,340
Proceeds from repayment of loans purchased as held for investment	335,808	250,111
Proceeds from sale of Farmer Mac Guaranteed Securities	196,290	247,975
Proceeds from sale of real estate owned	101	6,144
Net cash used by investing activities	(609,078)	(1,428,004)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	21,036,787	27,501,915
Proceeds from issuance of medium-term notes	4,103,234	5,257,762
Payments to redeem discount notes	(21,157,585)	(29,090,607)
Payments to redeem medium-term notes	(3,313,236)	(2,206,300)
Payments to third parties on debt securities of consolidated trusts	(72,031)	(54,949)
Proceeds from common stock issuance	7	232
Tax payments related to share-based awards	(2,523)	(1,669)
Dividends paid on common and preferred stock	(18,939)	(14,207)

Net cash provided/(used) by financing activities	575,714	1,392,177
Net increase in cash and cash equivalents	128,790	54,764
Cash and cash equivalents at beginning of period	302,022	265,229
Cash and cash equivalents at end of period	$430,812	$319,993

The accompanying notes are an integral part of these consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac") and subsidiaries have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2017 consolidated balance sheet presented in this report has been derived from Farmer Mac's audited 2017 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements of Farmer Mac and subsidiaries included in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 8, 2018. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Presented below are Farmer Mac's significant accounting policies that contain updated information for the three months ended June 30, 2018.

Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its two subsidiaries during the year: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities; and (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the USDA Guarantees line of business – primarily the acquisition of USDA Securities. The consolidated financial statements also include the accounts of VIEs in which Farmer Mac determined itself to be the primary beneficiary. The accounts of Contour Valuation Services, LLC (which began doing business as AgVisory during first quarter 2016) ("AgVisory"), Farmer Mac's former majority-owned subsidiary, are also included through June 30, 2017. Farmer Mac redeemed its ownership interest in AgVisory on May 1, 2017.

The following tables present, by line of business, details about the consolidation of VIEs:

Table 1.1

	Consolidation of Variable Interest Entities As of June 30, 2018					
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Total
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	$1,443,246	$ —	$ —	$ —	$ —	$1,443,246
Debt securities of consolidated trusts held by third parties (1)	1,449,888	—	—	—	—	1,449,888
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value (2)	—	29,206	—	—	—	29,206
Maximum exposure to loss (3)	—	28,938	—	—	—	28,938
Investment securities:						
Carrying value (4)	—	—	—	—	917,479	917,479
Maximum exposure to loss (3) (4)	—	—	—	—	917,260	917,260
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss (3) (5)	297,833	325,652	—	—	—	623,485

(1) Includes borrower remittances of $6.6 million. The borrower remittances had not been passed through to third party investors as of June 30, 2018.

(2) Includes $0.3 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business.

(3) Farmer Mac uses unpaid principal balance and outstanding face amount of investment securities to represent maximum exposure to loss.

(4) Includes auction-rate certificates, asset-backed securities, and government-sponsored enterprise ("GSE")-guaranteed mortgage-backed securities.

(5) The amount under the Farm & Ranch line of business relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.

	Consolidation of Variable Interest Entities As of December 31, 2017					
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Total
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	$1,399,827	$ —	$ —	$ —	$ —	$1,399,827
Debt securities of consolidated trusts held by third parties [1]	1,404,945	—	—	—	—	1,404,945
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value [2]	—	30,300	—	—	—	30,300
Maximum exposure to loss [3]	—	29,980	—	—	—	29,980
Investment securities:						
Carrying value [4]	—	—	—	—	783,964	783,964
Maximum exposure to loss [3] [4]	—	—	—	—	783,916	783,916
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss [3] [5]	333,511	254,217	—	—	—	587,728

(1) Includes borrower remittances of $5.1 million, which have not been passed through to third party investors as of December 31, 2017.

(2) Includes $0.3 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business.

(3) Farmer Mac uses unpaid principal balance and the outstanding face amount of investment securities to represent maximum exposure to loss.

(4) Includes auction-rate certificates, asset-backed securities, and GSE-guaranteed mortgage-backed securities.

(5) The amount under the Farm & Ranch line of business relates to unconsolidated trusts where Farmer Mac determined it was not the primary beneficiary due to shared power with an unrelated party.

(a) Statements of Cash Flows

The following table sets forth information regarding certain cash and non-cash transactions for the six months ended June 30, 2018 and 2017:

Table 1.2

	For the Six Months Ended	
	June 30, 2018	June 30, 2017
	(in thousands)	
Non-cash activity:		
Real estate owned acquired through loan liquidation	—	5,261
Loans acquired and securitized as Farmer Mac Guaranteed Securities	196,290	247,975

Consolidation of Farm & Ranch Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts and to debt securities of consolidated trusts held by third parties	116,983	161,880
Purchases of securities - traded not yet settled	48,600	50,000

11

(b) Earnings Per Common Share

Basic earnings per common share ("EPS") is based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share is based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights ("SARs"), and non-vested restricted stock awards. The following schedule reconciles basic and diluted EPS for the three and six months ended June 30, 2018 and 2017:

Table 1.3

	For the Three Months Ended					
	June 30, 2018			June 30, 2017		
	Net Income	Weighted-Average Shares	$ per Share	Net Income	Weighted-Average Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	$26,340	10,658	$2.47	$17,488	10,600	$1.65
Effect of dilutive securities[1]						
Stock options, SARs and restricted stock	—	84	(0.02)	—	183	(0.03)
Diluted EPS	$26,340	10,742	$2.45	$17,488	10,783	$1.62

(1) For the three months ended June 30, 2018, no SARs were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive, compared to 24,907 stock options and SARs for the three months ended June 30, 2017. For the three months ended June 30, 2018 and 2017, contingent shares of non-vested restricted stock of 13,138 and 32,892, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

	For the Six Months Ended					
	June 30, 2018			June 30, 2017		
	Net Income	Weighted-Average Shares	$ per Share	Net Income	Weighted-Average Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	$48,864	10,640	$4.59	$36,103	10,576	$3.41
Effect of dilutive securities[1]						
Stock options, SARs and restricted stock	—	102	(0.04)	—	207	(0.06)
Diluted EPS	$48,864	10,742	$4.55	$36,103	10,783	$3.35

(1) For the six months ended June 30, 2018, 25,062 SARs were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive, compared to 37,832 stock options and SARs for the six months ended June 30, 2017. For the six months ended June 30, 2018 and 2017, contingent shares of non-vested restricted stock of 13,138 and 32,892, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

(c) Comprehensive Income

Comprehensive income represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised of net income and unrealized gains and losses on available-for-sale securities, certain held-to-maturity securities transferred from the available-for-sale classification, and cash flow hedges, net of related taxes.

The following table presents the changes in accumulated other comprehensive income ("AOCI"), net of tax, by component for the three and six months ended June 30, 2018 and 2017:

Table 1.4

	As of June 30, 2018				As of June 30, 2017			
	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total
	(in thousands)							
For the Three Months Ended:								
Beginning Balance	$15,094	$ 47,201	$9,816	$72,111	$(4,742)	$ 43,485	$2,801	$41,544
Other comprehensive income/(loss) before reclassifications	2,209	—	1,778	3,987	6,191	—	(1,500)	4,691
Amounts reclassified from AOCI	(1,421)	(1,222)	(45)	(2,688)	(2,725)	(1,381)	299	(3,807)
Net comprehensive income/(loss)	788	(1,222)	1,733	1,299	3,466	(1,381)	(1,201)	884
Ending Balance	$15,882	$ 45,979	$11,549	$73,410	$(1,276)	$ 42,104	$1,600	$42,428
For the Six Months Ended:								
Beginning Balance	$(1,676)	$ 48,236	$4,525	$51,085	$(14,387)	$ 45,752	$2,393	$33,758
Cumulative effect from change in hedge accounting	—	—	27	27	—	—	—	—
Adjusted Beginning Balance	(1,676)	48,236	4,552	51,112	(14,387)	45,752	2,393	33,758
Other comprehensive income/(loss) before reclassifications	20,396	—	6,831	27,227	18,413	—	(1,426)	16,987
Amounts reclassified from AOCI	(2,838)	(2,257)	166	(4,929)	(5,302)	(3,648)	633	(8,317)
Net comprehensive income/(loss)	17,558	(2,257)	6,997	22,298	13,111	(3,648)	(793)	8,670
Ending Balance	$15,882	$ 45,979	$11,549	$73,410	$(1,276)	$ 42,104	$1,600	$42,428

The following table presents other comprehensive income activity, the impact on net income of amounts reclassified from each component of AOCI, and the related tax impact for the three and six months ended June 30, 2018 and 2017:

Table 1.5

	For the Three Months Ended					
	June 30, 2018			June 30, 2017		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income:						
Available-for-sale-securities:						
Unrealized holding gains on available-for-sale-securities	$2,795	$ 586	$2,209	$9,525	$ 3,334	$6,191
Less reclassification adjustments included in:						
Net Interest Income[1]	(1,791)	(376)	(1,415)	—	—	—
Gains/(losses) on financial derivatives and hedging activities[1]	—	—	—	(4,186)	(1,465)	(2,721)
Other income[2]	(8)	(2)	(6)	(6)	(2)	(4)
Total	$996	$ 208	$788	$5,333	$ 1,867	$3,466
Held-to-maturity securities:						
Less reclassification adjustments included in:						
Net interest income[3]	(1,546)	(324)	(1,222)	(2,125)	(744)	(1,381)
Total	$(1,546)	$ (324)	$(1,222)	$(2,125)	$ (744)	$(1,381)
Cash flow hedges						
Unrealized gains/(losses) on cash flow hedges	$2,251	$ 473	$1,778	$(2,309)	$ (809)	$(1,500)
Less reclassification adjustments included in:						
Net interest income[4]	(57)	(12)	(45)	461	162	299
Total	$2,194	$ 461	$1,733	$(1,848)	$ (647)	$(1,201)
Other comprehensive income	$1,644	$ 345	$1,299	$1,360	$ 476	$884

(1) Relates to the amortization of unrealized gains on hedged items prior to the application of fair value hedge accounting.

(2) Represents amortization of deferred gains related to certain available-for-sale USDA Securities and Farmer Mac Guaranteed USDA Securities.

(3) Relates to the amortization of unrealized gains or losses prior to the reclassification of these securities from available-for-sale to held-to-maturity. The amortization of unrealized gains or losses reported in AOCI for held-to-maturity securities will be offset by the amortization of the premium or discount created from the transfer into held-to-maturity securities, which occurred at fair value. These unrealized gains or losses will be recorded over the remaining life of the security with no impact on future net income.

(4) Relates to the recognition of unrealized gains and losses on cash flow hedges recorded in AOCI.

	For the Six Months Ended					
	June 30, 2018			June 30, 2017		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income:						
Available-for-sale-securities:						
Unrealized holding gains on available-for-sale-securities	$25,817	$5,421	$20,396	$28,328	$9,915	$18,413
Less reclassification adjustments included in:						
Net Interest Income[(1)]	(3,578)	(752)	(2,826)	—	—	—
Gains/(losses) on financial derivatives and hedging activities[(1)]	—	—	—	(8,145)	(2,851)	(5,294)
Other income[(2)]	(15)	(3)	(12)	(13)	(5)	(8)
Total	$22,224	$4,666	$17,558	$20,170	$7,059	$13,111
Held-to-maturity securities:						
Less reclassification adjustments included in:						
Net interest income[(3)]	(2,856)	(599)	(2,257)	(5,612)	(1,964)	(3,648)
Total	$(2,856)	$(599)	$(2,257)	$(5,612)	$(1,964)	$(3,648)
Cash flow hedges						
Unrealized gains/(losses) on cash flow hedges	$8,647	$1,816	$6,831	$(2,192)	$(766)	$(1,426)
Less reclassification adjustments included in:						
Net interest income[(4)]	210	44	166	973	340	633
Total	$8,857	$1,860	$6,997	$(1,219)	$(426)	$(793)
Other comprehensive income	$28,225	$5,927	$22,298	$13,339	$4,669	$8,670

(1) Relates to the amortization of unrealized gains on hedged items prior to the application of fair value hedge accounting.

(2) Represents amortization of deferred gains related to certain available-for-sale USDA Securities and Farmer Mac Guaranteed USDA Securities.

(3) Relates to the amortization of unrealized gains or losses prior to the reclassification of these securities from available-for-sale to held-to-maturity. The amortization of unrealized gains or losses reported in AOCI for held-to-maturity securities will be offset by the amortization of the premium or discount created from the transfer into held-to-maturity securities, which occurred at fair value. These unrealized gains or losses will be recorded over the remaining life of the security with no impact on future net income.

(4) Relates to the recognition of unrealized gains and losses on cash flow hedges recorded in AOCI.

(d) New Accounting Standards

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, "Leases," which provides new guidance intended to improve financial reporting about leasing transactions. The ASU requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The ASU also requires new disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac’s financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses," which will require entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will be required to use forward-looking information to form their credit loss estimates. The ASU will also require enhanced disclosures to help users of financial statements better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Farmer Mac is currently developing its accounting policy, planning for changes to its loss estimation methodologies and evaluating the impact that the new guidance will have on its consolidated financial statements. That impact will primarily be from the new requirement to recognize all expected losses rather than just incurred losses as of the reporting date.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

In first quarter 2018 Farmer Mac adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which amends hedge accounting recognition and presentation requirements to better align a reporting entity's risk management activities and hedge accounting. The new guidance reduces the complexity and simplifies the application of hedge accounting by eliminating the requirement to separately measure and report hedge ineffectiveness and by requiring the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The cumulative-effect adjustment to retained earnings as of January 1, 2018 reflected application of the new guidance and did not have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

(e) Reclassifications

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

2. INVESTMENT SECURITIES

The following tables set forth information about Farmer Mac's investment securities as of June 30, 2018 and December 31, 2017:

Table 2.1

	As of June 30, 2018					
	Amount Outstanding	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$19,700	$ —	$19,700	$ —	$ (690)	$19,010
Floating rate asset-backed securities	31,531	(132)	31,399	25	(103)	31,321
Floating rate Government/GSE guaranteed mortgage-backed securities	1,367,091	1,796	1,368,887	1,250	(2,012)	1,368,125
Fixed rate GSE guaranteed mortgage-backed securities(1)	416	—	416	23	—	439
Fixed rate U.S. Treasuries	909,921	(2,714)	907,207	—	(1,504)	905,703
Total available-for-sale	2,328,659	(1,050)	2,327,609	1,298	(4,309)	2,324,598
Held-to-maturity:						
Fixed rate Government/GSE guaranteed mortgage-backed securities	45,032	—	45,032	831	—	45,863
Total investment securities	$2,373,691	$ (1,050)	$2,372,641	$ 2,129	$ (4,309)	$2,370,461

(1) During second quarter 2018, the remaining premium of an interest-only security was fully amortized because the issuer called the security upon full prepayment of the underlying mortgage loan that collateralized the security.

	As of December 31, 2017					
	Amount Outstanding	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$19,700	$ —	$19,700	$ —	$ (886)	$18,814
Floating rate asset-backed securities	34,462	(154)	34,308	22	(120)	34,210
Floating rate Government/GSE guaranteed mortgage-backed securities	1,289,123	2,217	1,291,340	2,215	(3,368)	1,290,187
Fixed rate GSE guaranteed mortgage-backed securities(1)	451	2,138	2,589	2,230	—	4,819
Fixed rate senior agency debt	100,000	—	100,000	—	(49)	99,951
Fixed rate U.S. Treasuries	770,852	(1,836)	769,016	—	(1,592)	767,424
Total available-for-sale	2,214,588	2,365	2,216,953	4,467	(6,015)	2,215,405
Held-to-maturity:						
Fixed rate Government/GSE guaranteed mortgage-backed securities	45,032	—	45,032	532	—	45,564

Total investment securities	$2,259,620	$ 2,365	$2,261,985	$ 4,999	$ (6,015)	$2,260,969

(1) Fair value includes $4.3 million of an interest-only security with a notional amount of $143.7 million.

Farmer Mac did not sell any securities from its available-for-sale investment portfolio during the three and six months ended June 30, 2018 and 2017.

As of June 30, 2018 and December 31, 2017, unrealized losses on available-for-sale investment securities were as follows:

Table 2.2

	As of June 30, 2018			
	Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$ —	$ 19,010	$ (690)
Floating rate asset-backed securities	—	—	20,996	(103)
Floating rate Government/GSE guaranteed mortgage-backed securities	437,975	(799)	195,425	(1,213)
Fixed rate U.S. Treasuries	863,715	(1,489)	34,987	(15)
Total	$ 1,301,690	$ (2,288)	$ 270,418	$ (2,021)

	As of December 31, 2017			
	Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$ —	$ 18,814	$ (886)
Floating rate asset-backed securities	—	—	23,145	(120)
Floating rate Government/GSE guaranteed mortgage-backed securities	292,522	(2,337)	221,641	(1,031)
Fixed rate U.S. Treasuries	742,442	(1,572)	24,983	(20)
Fixed rate senior agency debt	—	—	99,951	(49)
Total	$ 1,034,964	$ (3,909)	$ 388,534	$ (2,106)

The unrealized losses presented above are principally due to a general widening of market spreads and an increase in the levels of interest rates from the dates of acquisition to June 30, 2018 and December 31, 2017, as applicable. The resulting decrease in fair values reflects an increase in the perceived risk by the financial markets related to those securities. As of June 30, 2018 and December 31, 2017, all of the investment securities in an unrealized loss position either were backed by the full faith and credit of the U.S. government or had credit ratings of at least "AA+." The unrealized losses were on 100 and 91 individual investment securities as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018, 44 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $2.0 million. As of December 31, 2017, 51 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $2.1 million. Securities in unrealized loss positions for 12 months or longer have a fair value as of June 30, 2018 that is, on average, approximately 99.3 percent of their amortized cost basis. Farmer Mac believes that all of these unrealized losses are recoverable within a reasonable period of time by way of maturity or changes in credit spreads. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities are other-than-temporary impairment as of June 30, 2018 and December 31, 2017.

As of June 30, 2018, Farmer Mac owned $45.0 million of held-to-maturity investment securities at amortized cost with a fair value of $45.9 million and a weighted average yield of 3.0 percent. As of December 31, 2017, Farmer Mac owned $45.0 million of held-to-maturity investment securities at amortized cost with a fair value of $45.6 million and a weighted average yield of 2.5 percent. Farmer Mac did not own any trading investment securities as of June 30, 2018 and December 31, 2017.

The amortized cost, fair value, and weighted-average yield of available-for-sale investment securities by remaining contractual maturity as of June 30, 2018 are set forth below. Asset-backed and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

Table 2.3

	As of June 30, 2018		
	Available-for-Sale Securities		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$890,555	$889,077	1.18%
Due after one year through five years	234,693	234,979	2.40%
Due after five years through ten years	520,939	521,199	2.35%
Due after ten years	681,422	679,343	2.41%
Total	$2,327,609	$2,324,598	1.92%

3. FARMER MAC GUARANTEED SECURITIES AND USDA SECURITIES

The following tables set forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Securities as of June 30, 2018 and December 31, 2017:

Table 3.1

	As of June 30, 2018					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	$2,064,274	$ (388)	$2,063,886	$ 495	$(19,139)	$2,045,242
Farmer Mac Guaranteed USDA Securities	28,938	268	29,206	139	—	29,345
Total Farmer Mac Guaranteed Securities	2,093,212	(120)	2,093,092	634	(19,139)	2,074,587
USDA Securities	2,053,219	59,399	2,112,618	—	(78,433)	2,034,185
Total held-to-maturity	$4,146,431	$ 59,279	$4,205,710	$ 634	$(97,572)	$4,108,772
Available-for-sale:						
AgVantage	$6,016,055	$ (167)	$6,015,888	$ 17,446	$(47,528)	$5,985,806
Trading:						
USDA Securities	$10,306	$ 788	$11,094	$ 23	$(369)	$10,748

	As of December 31, 2017					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	$2,096,754	$ (779)	$2,095,975	$ 2,011	$(11,429)	$2,086,557
Farmer Mac Guaranteed USDA Securities	29,980	319	30,299	108	(73)	30,334
Total Farmer Mac Guaranteed Securities	2,126,734	(460)	2,126,274	2,119	(11,502)	2,116,891
USDA Securities	2,055,050	62,800	2,117,850	—	(54,969)	2,062,881
Total held-to-maturity	$4,181,784	$ 62,340	$4,244,124	$ 2,119	$(66,471)	$4,179,772
Available-for-sale:						
AgVantage	$5,496,569	$ (182)	$5,496,387	$ 21,838	$(46,311)	$5,471,914
Trading:						
USDA Securities	$12,966	$ 922	$13,888	$ 28	$(401)	$13,515

As of June 30, 2018 and December 31, 2017, unrealized losses on held-to-maturity and available-for-sale on-balance sheet Farmer Mac Guaranteed Securities and USDA Securities were as follows:

Table 3.2

	As of June 30, 2018 Held-to-Maturity and Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Held-to-maturity:				
AgVantage	$559,980	$(7,944)	$863,805	$(11,195)
Farmer Mac Guaranteed USDA Securities	—	—	—	—
USDA Securities	41,205	(433)	1,992,980	(78,000)
Total held-to-maturity	$601,185	$(8,377)	$2,856,785	$(89,195)
Available-for-sale:				
AgVantage	$1,129,733	$(14,618)	$1,570,177	$(32,910)

	As of December 31, 2017 Held-to-Maturity and Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Held-to-maturity:				
AgVantage	$1,304,160	$(8,094)	$351,664	$(3,335)
Farmer Mac Guaranteed USDA Securities	24,721	(73)	—	—
USDA Securities	451	(2)	2,062,429	(54,967)
Total held-to-maturity	$1,329,332	$(8,169)	$2,414,093	$(58,302)
Available-for-sale:				
AgVantage	$1,273,965	$(8,819)	$1,759,377	$(37,492)

The unrealized losses presented above are principally due to higher interest rates from the date of acquisition to June 30, 2018 and December 31, 2017, as applicable. In addition, the unrealized losses on the held-to-maturity USDA Securities as of both June 30, 2018 and December 31, 2017 reflect their increased cost basis resulting from their transfer to held-to-maturity as of October 1, 2016. The credit exposure related to Farmer Mac's USDA Guarantees line of business is covered by the full faith and credit guarantee of the United States. The unrealized losses from AgVantage securities were on 46 available-for-sale securities as of June 30, 2018. There were 47 held-to-maturity AgVantage securities with an unrealized loss as of June 30, 2018. The unrealized losses from AgVantage securities were on 36 available-for-sale securities as of December 31, 2017. There were unrealized losses from 23 held-to-maturity securities as of December 31, 2017. As of June 30, 2018, 16 available-for-sale AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of $32.9 million.

As of December 31, 2017, 16 available-for-sale AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of $37.5 million. Farmer Mac has concluded that none of the unrealized losses on its held-to-maturity Farmer Mac Guaranteed Securities and USDA Securities and available-for-sale Farmer Mac Guaranteed Securities are other-than-temporary impaired as of either June 30, 2018 or December 31, 2017. Farmer Mac does not intend to sell these securities, and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

During the three and six months ended June 30, 2018 and 2017, Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Securities.

The amortized cost, fair value, and weighted-average yield of available-for-sale and held-to-maturity Farmer Mac Guaranteed Securities and USDA Securities by remaining contractual maturity as of June 30, 2018 are set forth below. The balances presented are based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

Table 3.3

	As of June 30, 2018			
	Available-for-Sale Securities			
	Amortized Cost	Fair Value	Weighted-Average Yield	
	(dollars in thousands)			
Due within one year	$1,389,395	$1,389,339	2.62	%
Due after one year through five years	2,485,919	2,479,556	2.83	%
Due after five years through ten years	826,277	806,385	3.08	%
Due after ten years	1,314,297	1,310,526	3.12	%
Total	$6,015,888	$5,985,806	2.88	%
	As of June 30, 2018			
	Held-to-Maturity Securities			
	Amortized Cost	Fair Value	Weighted-Average Yield	
	(dollars in thousands)			
Due within one year	$769,783	$766,311	2.10	%
Due after one year through five years	1,368,924	1,351,656	2.77	%
Due after five years through ten years	212,947	205,159	3.30	%
Due after ten years	1,854,056	1,785,646	3.50	%
Total	$4,205,710	$4,108,772	2.99	%

As of June 30, 2018, Farmer Mac owned trading USDA Securities with an amortized cost of $11.1 million, a fair value of $10.7 million, and a weighted-average yield of 5.26 percent. As of December 31, 2017, Farmer Mac owned trading USDA Securities with an amortized cost of $13.9 million, a fair value of $13.5 million, and a weighted-average yield of 5.33 percent.

4. FINANCIAL DERIVATIVES

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows, or debt issuance, and not for trading or speculative purposes. Certain financial derivatives are designated as fair value hedges of fixed rate assets, primarily classified as available-for-sale, to protect against fair value changes in the assets related to a benchmark interest rate (e.g., LIBOR). Other financial derivatives are designated as cash flow hedges to mitigate the volatility of future interest rate payments on floating rate debt. Farmer Mac manages the interest rate risk related to loans it has committed to acquire, but has not yet permanently funded, through the use of forward sale contracts on the debt 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 U.S. Treasury rates and spreads on Farmer Mac debt. The notional amounts of these contracts are determined based on a duration-matched hedge ratio between the hedged item and the hedge instrument. Gains or losses generated by these hedge transactions are expected to offset changes in funding costs. All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability.

Effective first quarter 2018, Farmer Mac adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This ASU reduces the complexity of hedge accounting by eliminating the requirement to separately measure and report hedge ineffectiveness and by requiring the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the income or expense effect from the hedged item. Upon the adoption of the ASU, Farmer Mac elected to retrospectively designate the hedged risk of its fair value hedges as the risk of changes in fair value resulting from changes in the benchmark interest rate component of the contractual coupon cash flows. Farmer Mac made this election for its fair value hedges designated upon the inception of the hedging instruments. For fair value hedges designated subsequent to the inception of the hedging instruments, Farmer Mac continues to designate the hedged risk as the risk of changes in fair value based on total contractual coupon cash flows. The adoption of the new guidance did not have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

The following tables summarize information related to Farmer Mac's financial derivatives on a gross basis without giving consideration to master netting arrangements as of June 30, 2018 and December 31, 2017:

Table 4.1

	As of June 30, 2018						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Term (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$2,432,032	$2,744	$(4,416)	2.13%	2.34%		8.58
Receive fixed non-callable	2,151,700	652	(4,042)	2.20%	1.69%		1.73
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	409,500	3,265	(231)	2.28%	2.42%		5.93
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	323,292	1,407	(9,762)	3.71%	2.33%		6.62
Receive fixed non-callable	3,401,094	17	(1,020)	2.09%	1.81%		0.84
Basis swaps	1,419,000	—	(574)	2.01%	1.88%		1.13
Treasury futures	39,500	—	(123)			119.88	
Credit valuation adjustment		(74)	4				
Total financial derivatives	$10,176,118	$8,011	$(20,164)				
Collateral pledged		—	24,940				
Net amount		$8,011	$4,776				

24

	As of December 31, 2017						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Term (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$2,086,347	$5,240	$(5,990)	1.88%	1.40%		5.46
Receive fixed non-callable	1,559,700	110	(4,033)	1.38%	1.45%		1.68
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	365,500	1,402	(138)	2.16%	1.74%		5.84
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	345,333	339	(16,352)	3.79%	1.40%		6.68
Receive fixed non-callable	3,409,916	—	—	1.25%	1.24%		0.92
Basis swaps	1,053,500	18	(106)	1.33%	1.42%		0.91
Treasury futures	40,000	—	(36)			123.96	
Credit valuation adjustment		(16)	56				
Total financial derivatives	$8,860,296	$7,093	$(26,599)				
Collateral pledged		—	24,926				
Net amount		$7,093	$(1,673)				

Changes in the fair values of financial derivatives not designated as cash flow or fair value hedges are reported in "Gains/(losses) on financial derivatives and hedging activities" in the consolidated statements of operations. For financial derivatives designated in fair value hedge relationships, changes in the fair values of the hedged items, which are primarily fixed rate AgVantage securities and fixed rate medium-term notes, related to the risk being hedged are reported in "Net interest income" in the consolidated statements of operations. Interest accruals on derivatives designated in fair value hedge relationships are also recorded in "Net interest income" in the consolidated statements of operations. For financial derivatives designated in cash flow hedge relationships, the unrealized gain or loss on the derivative is recorded in other comprehensive income. Because the hedging instrument is an interest rate swap and the hedged forecasted transactions are future interest payments on variable rate debt, amounts recorded in accumulated other comprehensive income are reclassified to "Total interest expense" in conjunction with the recognition of interest expense on the debt. As of June 30, 2018, Farmer Mac expects to reclassify $1.6 million after tax, from accumulated other comprehensive income to earnings over the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to June 30, 2018. During the three and six months ended June 30, 2018 and 2017, there were no gains or losses from interest rate swaps designated as cash flow hedges reclassified to earnings because it became probable that the original forecasted transaction would not occur.

The following table summarizes the net income/(expense) recognized in the consolidated statements of operations related to derivatives for the three and six months ended June 30, 2018 and 2017:

Table 4.2

	For the Three Months Ended June 30, 2018 Net Income/(Expense) Recognized in Consolidated Statement of Operations on Derivatives				
	Net Interest Income			Non-Interest Income	
	Interest Income Farmer Mac Guaranteed Securities and USDA Securities	Interest Income Loans	Total Interest Expense	Gains/(losses) on financial derivatives and hedging activities	Total
	(in thousands)				
Total amounts presented in the consolidated statement of operations:	$74,179	$49,396	$(91,737)	$ 2,534	$34,372
Income/(expense) related to interest settlements on fair value hedging relationships:					
Recognized on derivatives	681	(165)	(2,320)	—	(1,804)
Recognized on hedged items	15,923	1,545	(10,074)	—	7,394
Discount amortization recognized on hedged items	—	—	(188)	—	(188)
Income/(expense) related to interest settlements on fair value hedging relationships	$16,604	$1,380	$(12,582)	$ —	$5,402
Gains/(losses) on fair value hedging relationships:					
Recognized on derivatives	12,485	2,235	(2,731)	—	11,989
Recognized on hedged items	(10,849)	(2,472)	3,194	—	(10,127)
Gains/(losses) on fair value hedging relationships	$1,636	$(237)	$463	$ —	$1,862
Expense related to interest settlements on cash flow hedging relationships:					
Interest settlements reclassified from AOCI into net income on derivatives	—	—	57	—	57
Recognized on hedged items	—	—	(2,330)	—	(2,330)
Discount amortization recognized on hedged items	—	—	(2)	—	(2)
Expense recognized on cash flow hedges	$—	$—	$(2,275)	$ —	$(2,275)
Gains/(losses) on financial derivatives not designated in hedge relationships:					
Interest rate swaps	—	—	—	2,396	2,396
Treasury futures	—	—	—	138	138
Gains/(losses) on financial derivatives not designated in hedge relationships	$—	$—	$—	$ 2,534	$2,534

26

	For the Three Months Ended June 30, 2017 Net Income/(Expense) Recognized in Consolidated Statement of Operations on Derivatives				
	Net Interest Income			Non-Interest Income	
	Interest Income Farmer Mac Guaranteed Securities and USDA Securities	Interest Income Loans	Total Interest Expense	Gains/(losses) on financial derivatives and hedging activities	Total
	(in thousands)				
Total amounts presented in the consolidated statement of operations	$50,106	$39,573	$(58,316)	$ (617)	$30,746
Income/(expense) related to interest settlements on fair value hedging relationships:					
Recognized on derivatives	(2,826)	(208)	1,257	—	(1,777)
Recognized on hedged items	11,633	583	(5,056)	—	7,160
Discount amortization recognized on hedged items	—	—	(120)	—	(120)
Income/(expense) related to interest settlements on fair value hedging relationships	$8,807	$375	$(3,919)	$ —	$5,263
Gains/(losses) on fair value hedging relationships:					
Recognized on derivatives[(1)]	—	—	—	(8,568)	(8,568)
Recognized on hedged items	—	—	—	9,988	9,988
Gains/(losses) on fair value hedging relationships	$—	$—	$—	$ 1,420	$1,420
Expense related to interest settlements on cash flow hedging relationships:					
Interest settlements reclassified from AOCI into net income on derivatives	$—	$—	$(497)	$ —	$(497)
Recognized on hedged items	—	—	(845)	—	(845)
Discount amortization recognized on hedged items	—	—	(1)	—	(1)
Losses recognized in income for hedge ineffectiveness	—	—	—	(146)	(146)
Expense recognized on cash flow hedges	$—	$—	$(1,343)	$ (146)	$(1,489)
Gains/(losses) on financial derivatives not designated in hedging relationships:					
Interest rate swaps	$—	$—	$—	$ (1,648)	$(1,648)
Agency forwards	—	—	—	(189)	(189)
Treasury futures	—	—	—	(54)	(54)
Gains/(losses) on financial derivatives not designated in hedge relationships	$—	$—	$—	$ (1,891)	$(1,891)

(1) Included in the assessment of hedge effectiveness as of June 30, 2017, but excluded from the amounts in the table, were losses of $1.3 million for the three months ended June 30, 2017, attributable to the fair value of the swaps at the inception of the hedging relationship. Accordingly, the amount recognized as hedge ineffectiveness for the

three months ended June 30, 2017 were gains of $0.1 million.

27

	For the Six Months Ended June 30, 2018				
	Net Income/(Expense) Recognized in Consolidated Statement of Operations on Derivatives				
	Net Interest Income			Non-Interest Income	
	Interest Income Farmer Mac Guaranteed Securities and USDA Securities	Interest Income Loans	Total Interest Expense	Gains/(losses) on financial derivatives and hedging activities	Total
	(in thousands)				
Total amounts presented in the consolidated statement of operations:	$136,609	$95,049	$(168,054)	$ (1,316)	$62,288
Income/(expense) related to interest settlements on fair value hedging relationships:					
Recognized on derivatives	(807)	(463)	(2,614)	—	(3,884)
Recognized on hedged items	29,409	2,959	(18,628)	—	13,740
Discount amortization recognized on hedged items	—	—	(353)	—	(353)
Income/(expense) related to interest settlements on fair value hedging relationships	$28,602	$2,496	$(21,595)	$ —	$9,503
Gains/(losses) on fair value hedging relationships:					
Recognized on derivatives	32,934	8,655	(12,377)	—	29,212
Recognized on hedged items	(29,797)	(9,045)	14,331	—	(24,511)
Gains/(losses) on fair value hedging relationships	$3,137	$(390)	$1,954	$ —	$4,701
Expense related to interest settlements on cash flow hedging relationships:					
Interest settlements reclassified from AOCI into net income on derivatives	—	—	(210)	—	(210)
Recognized on hedged items	—	—	(4,110)	—	(4,110)
Discount amortization recognized on hedged items	—	—	(4)	—	(4)
Expense recognized on cash flow hedges	$—	$—	$(4,324)	$ —	$(4,324)
(Losses)/gains on financial derivatives not designated in hedge relationships:					
Interest rate swaps	—	—	—	(1,679)	(1,679)
Treasury futures	—	—	—	363	363
(Losses)/gains on financial derivatives not designated in hedge relationships	$—	$—	$—	$ (1,316)	$(1,316)

	For the Six Months Ended June 30, 2017 Net Income/(Expense) Recognized in Consolidated Statement of Operations on Derivatives				
	Net Interest Income			Non-Interest Income	
	Interest Income Farmer Mac Guaranteed Securities and USDA Securities	Interest Income Loans	Total Interest Expense	Gains/(losses) on financial derivatives and hedging activities	Total
	(in thousands)				
Total amounts presented in the consolidated statement of operations	$92,628	$76,425	$(107,862)	$ 1,869	$63,060
Income/(expense) related to interest settlements on fair value hedging relationships:					
Recognized on derivatives	(5,984)	(425)	1,440	—	(4,969)
Recognized on hedged items	22,226	1,099	(7,764)	—	15,561
Discount amortization recognized on hedged items	—	—	(190)	—	(190)
Income/(expense) related to interest settlements on fair value hedging relationships	$16,242	$674	$(6,514)	$ —	$10,402
Gains/(losses) on fair value hedging relationships:					
Recognized on derivatives[1]	—	—	—	(7,041)	(7,041)
Recognized on hedged items	—	—	—	4,584	4,584
Gains/(losses) on fair value hedging relationships	$—	$—	$—	$ (2,457)	$(2,457)
Expense related to interest settlements on cash flow hedging relationships:					
Interest settlements reclassified from AOCI into net income on derivatives	$—	$—	$(1,040)	$ —	$(1,040)
Recognized on hedged items	—	—	(1,496)	—	(1,496)
Discount amortization recognized on hedged items	—	—	(2)	—	(2)
Losses recognized in income for hedge ineffectiveness	—	—	—	(175)	(175)
Expense recognized on cash flow hedges	$—	$—	$(2,538)	$ (175)	$(2,713)
Gains/(losses) on financial derivatives not designated in hedging relationships:					
Interest rate swaps	$—	$—	$—	$ 5,036	$5,036
Agency forwards	—	—	—	(588)	(588)
Treasury futures	—	—	—	53	53
Gains/(losses) on financial derivatives not designated in hedge relationships	$—	$—	$—	$ 4,501	$4,501

(1) Included in the assessment of hedge effectiveness as of June 30, 2017, but excluded from the amounts in the table, were gains of $2.3 million for the six months ended June 30, 2017, attributable to the fair value of the swaps at the inception of the hedging relationship. Accordingly, the amounts recognized as hedge ineffectiveness for the six

months ended June 30, 2017 were losses of $0.1 million.

The following table shows the carrying amount and associated cumulative basis adjustment related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilities in fair value hedging relationships as of June 30, 2018 and December 31, 2017:

Table 4.3

	Hedged Items in Fair Value Relationship			
	Carrying Amount of Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustments included in the Carrying Amount of the Hedged Assets/(Liabilities)	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
	(in thousands)			
Farmer Mac Guaranteed Securities, Available-for-Sale, at fair value	$2,223,750	$1,928,220	$(52,164)	$(22,853)
Loans held for investment, at amortized cost	162,884	149,304	(9,088)	(189)
Notes Payable, due after one year[(1)(2)]	(2,345,273)	(1,552,935)	20,072	5,836

(1) Carrying amount represents amortized cost.
(2) Includes $0.4 million of hedging adjustments on a discontinued hedging relationship.

As of June 30, 2018 and December 31, 2017, Farmer Mac's credit exposure to interest rate swap counterparties, excluding netting arrangements and any adjustment for nonperformance risk, but including accrued interest, was $71.5 million and $28.5 million, respectively; however, including netting arrangements and accrued interest, Farmer Mac's credit exposure was $2.0 million and $0.5 million as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, Farmer Mac held no cash as collateral for its derivatives in net asset positions resulting in uncollateralized net asset positions of $2.0 million. As of December 31, 2017, Farmer Mac held no cash collateral for its derivatives in net asset positions, resulting in uncollateralized net asset positions of $0.5 million.

As of June 30, 2018 and December 31, 2017, the fair value of Farmer Mac's derivatives in a net liability position including accrued interest but excluding netting arrangements and any adjustment for nonperformance risk, was $55.3 million and $58.2 million, respectively; however, including netting arrangements and accrued interest, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level was $0.7 million and $28.0 million as of June 30, 2018 and December 31, 2017, respectively. Farmer Mac posted cash of $20,000 and $24.9 million of investment securities as of June 30, 2018 and posted cash of $0.1 million and $24.8 million investment securities as of December 31, 2017. Farmer Mac records posted cash as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of prepaid expenses and other assets. Any investment securities posted as collateral are included in the investment securities balances on the consolidated balance sheets. If Farmer Mac had breached certain provisions of the derivative contracts as of June 30, 2018 and December 31, 2017, it could have been required to settle its obligations under the agreements or post additional collateral of none and $3.1 million, respectively. As of June 30, 2018 and December 31, 2017, there were no financial derivatives in a net payable position where Farmer Mac was required to pledge collateral which the counterparty had the right to sell or repledge.

For certain derivatives, Farmer Mac clears interest rate swaps through a clearinghouse, the Chicago Mercantile Exchange ("CME"). Farmer Mac posts initial and variation margin to this clearinghouse through which centrally-cleared derivatives and futures contracts are traded. These collateral postings expose Farmer Mac to institutional credit risk in the event that either the clearinghouse or the futures commission merchant that Farmer Mac uses to post collateral to the clearinghouse fails to meet its

30

obligations. Conversely, the use of centrally-cleared derivatives mitigates Farmer Mac's credit risk to individual counterparties because clearinghouses assume the credit risk among counterparties in centrally-cleared derivatives transactions. Of Farmer Mac's $10.1 billion notional amount of interest rate swaps outstanding as of June 30, 2018, $8.8 billion were cleared through the swap clearinghouse. Of Farmer Mac's $8.8 billion notional amount of interest rate swaps outstanding as of December 31, 2017, $7.9 billion were cleared through the swap clearinghouse.

5.LOANS AND ALLOWANCE FOR LOSSES

Loans

Farmer Mac classifies loans as either held for investment or held for sale. Loans held for investment are recorded at the unpaid principal balance, net of unamortized premium or discount and other cost adjustments. Loans held for sale are reported at the lower of cost or fair value determined on a pooled basis. As of June 30, 2018 and December 31, 2017, Farmer Mac had no loans held for sale. The following table displays the composition of the loan balances as of June 30, 2018 and December 31, 2017:

Table 5.1

	As of June 30, 2018			As of December 31, 2017		
	Unsecuritized	In Consolidated Trusts	Total	Unsecuritized	In Consolidated Trusts	Total
	(in thousands)					
Farm & Ranch	$2,935,712	$1,443,246	$4,378,958	$2,798,906	$1,399,827	$4,198,733
Rural Utilities	991,819	—	991,819	1,076,291	—	1,076,291
Total unpaid principal balance[1]	3,927,531	1,443,246	5,370,777	3,875,197	1,399,827	5,275,024
Unamortized premiums, discounts, and other cost basis adjustments	(11,404)	—	(11,404)	(1,442)	—	(1,442)
Total loans	3,916,127	1,443,246	5,359,373	3,873,755	1,399,827	5,273,582
Allowance for loan losses	(5,339)	(1,450)	(6,789)	(5,493)	(1,303)	(6,796)
Total loans, net of allowance	$3,910,788	$1,441,796	$5,352,584	$3,868,262	$1,398,524	$5,266,786

(1) Unpaid principal balance is the basis of presentation in disclosures of outstanding balances for Farmer Mac's lines of business.

Allowance for Losses

Farm & Ranch

Farmer Mac maintains an allowance for losses presented in two components on its consolidated balance sheets: (1) an allowance for loan losses to account for estimated probable losses on loans held, and (2) a reserve for losses to account for estimated probable losses on loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities (excluding AgVantage securities). Farmer Mac's total allowance for losses was $9.0 million as of June 30, 2018 and $8.9 million as of December 31, 2017. See Note 6 for more information about off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs.

The following is a summary of the changes in the total allowance for losses for the three and six months ended June 30, 2018 and 2017:

Table 5.2

	As of June 30, 2018			As of June 30, 2017		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
For the Three Months Ended						
Beginning Balance	$6,365	$ 2,091	$ 8,456	$5,811	$ 1,827	$ 7,638
Provision for losses	424	158	582	327	139	466
Ending Balance	$6,789	$ 2,249	$ 9,038	$6,138	$ 1,966	$ 8,104
For the Six Months Ended						
Beginning Balance	6,796	2,070	8,866	5,415	2,020	7,435
(Release of)/provision for losses	(7)	179	172	964	(54)	910
Charge-offs	$—	$ —	$ —	$(241)	$ —	$ (241)
Ending Balance	$6,789	$ 2,249	$ 9,038	$6,138	$ 1,966	$ 8,104

During second quarter 2018, Farmer Mac recorded a provision to both its allowance for loan losses and reserve for losses of $0.4 million and $0.2 million, respectively. The net provisions to the total allowance for loan losses recorded during second quarter 2018 were attributable to (1) a modest decline in overall portfolio credit quality, and (2) an increase in the general allowance due to net volume growth in both on and off-balance sheet Farm & Ranch loans, primarily related to new agricultural storage and processing loans purchased during second quarter 2018. Farmer Mac recorded no charge-offs to its allowance for loan losses during second quarter 2018.

During second quarter 2017, Farmer Mac recorded provisions to its allowance for loan losses and reserve for losses of $0.3 million and $0.1 million, respectively. The provisions to the allowance for loan losses recorded during the second quarter 2017 were primarily attributable to an increase in the general allowance due to overall net volume growth in on-balance sheet Farm & Ranch loans. The provision to the reserve for losses recorded during the second quarter 2017 was primarily attributable to an increase in the general reserve due to downgrades in risk ratings on certain unimpaired crop and permanent planting loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities. Farmer Mac recorded no charge-offs to its allowance for loan losses during the second quarter 2017.

The following tables present the changes in the total allowance for losses for the three and six months ended June 30, 2018 and 2017 by commodity type:

Table 5.3

	June 30, 2018						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	$3,793	$ 2,479	$ 1,236	$ 413	$ 522	$ 13	$8,456
Provision for/(release of) losses	332	(111)	86	35	198	42	582
Ending Balance	$4,125	$ 2,368	$ 1,322	$ 448	$ 720	$ 55	$9,038
For the Six Months Ended:							
Beginning Balance	$4,081	$ 2,469	$ 1,211	$ 481	$ 606	$ 18	$8,866
Provision for/(release of) losses	44	(101)	111	(33)	114	37	172
Ending Balance	$4,125	$ 2,368	$ 1,322	$ 448	$ 720	$ 55	$9,038

	June 30, 2017						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	$3,562	$ 1,870	$ 1,379	$ 324	$ 472	$ 31	$7,638
Provision for/(release of) losses	173	294	(145)	73	86	(15)	466
Ending Balance	$3,735	$ 2,164	$ 1,234	$ 397	$ 558	$ 16	$8,104
For the Six Months Ended:							
Beginning Balance	$3,365	$ 1,723	$ 1,375	$ 405	$ 533	$ 34	$7,435
Provision for/(release of) losses	598	441	(128)	(8)	25	(18)	910
Charge-offs	(228)	—	(13)	—	—	—	(241)
Ending Balance	$3,735	$ 2,164	$ 1,234	$ 397	$ 558	$ 16	$8,104

The following tables present the unpaid principal balances of loans held and loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities (excluding AgVantage securities) and the related total allowance for losses by impairment method and commodity type as of June 30, 2018 and December 31, 2017:

Table 5.4

	As of June 30, 2018						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	$2,424,914	$837,083	$677,830	$292,445	$ 10,496	$4,567	$4,247,335
Off-balance sheet	1,256,165	501,328	654,115	162,146	58,062	3,604	2,635,420
Total	$3,681,079	$1,338,411	$1,331,945	$454,591	$ 68,558	$8,171	$6,882,755
Individually evaluated for impairment:							
On-balance sheet	$65,878	$40,694	$16,558	$8,493	$ —	$—	$131,623
Off-balance sheet	10,946	12,736	6,360	904	—	73	31,019
Total	$76,824	$53,430	$22,918	$9,397	$ —	$73	$162,642
Total Farm & Ranch loans:							
On-balance sheet	$2,490,792	$877,777	$694,388	$300,938	$ 10,496	$4,567	$4,378,958
Off-balance sheet	1,267,111	514,064	660,475	163,050	58,062	3,677	2,666,439
Total	$3,757,903	$1,391,841	$1,354,863	$463,988	$ 68,558	$8,244	$7,045,397
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	$2,260	$918	$741	$271	$ 10	$24	$4,224
Off-balance sheet	622	182	212	54	710	5	1,785
Total	$2,882	$1,100	$953	$325	$ 720	$29	$6,009
Individually evaluated for impairment:							
On-balance sheet	$987	$1,211	$241	$101	$ —	$25	$2,565
Off-balance sheet	256	57	128	22	—	1	464
Total	$1,243	$1,268	$369	$123	$ —	$26	$3,029
Total Farm & Ranch loans:							
On-balance sheet	$3,247	$2,129	$982	$372	$ 10	$49	$6,789
Off-balance sheet	878	239	340	76	710	6	2,249
Total	$4,125	$2,368	$1,322	$448	$ 720	$55	$9,038

	As of December 31, 2017						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	$2,344,821	$794,478	$635,768	$269,337	$ 13,023	$9,030	$4,066,457
Off-balance sheet	1,236,392	532,666	678,642	155,627	45,738	4,981	2,654,046
Total	$3,581,213	$1,327,144	$1,314,410	$424,964	$ 58,761	$14,011	$6,720,503
Individually evaluated for impairment:							
On-balance sheet	$67,828	$38,180	$17,766	$7,858	$ —	$644	$132,276
Off-balance sheet	8,904	2,239	2,782	806	—	76	14,807
Total	$76,732	$40,419	$20,548	$8,664	$ —	$720	$147,083
Total Farm & Ranch loans:							
On-balance sheet	$2,412,649	$832,658	$653,534	$277,195	$ 13,023	$9,674	$4,198,733
Off-balance sheet	1,245,296	534,905	681,424	156,433	45,738	5,057	2,668,853
Total	$3,657,945	$1,367,563	$1,334,958	$433,628	$ 58,761	$14,731	$6,867,586
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	$2,104	$1,101	$738	$287	$ 44	$11	$4,285
Off-balance sheet	546	305	231	48	562	5	1,697
Total	$2,650	$1,406	$969	$335	$ 606	$16	$5,982
Individually evaluated for impairment:							
On-balance sheet	$1,207	$1,006	$172	$126	$ —	$—	$2,511
Off-balance sheet	224	57	70	20	—	2	373
Total	$1,431	$1,063	$242	$146	$ —	$2	$2,884
Total Farm & Ranch loans:							
On-balance sheet	$3,311	$2,107	$910	$413	$ 44	$11	$6,796
Off-balance sheet	770	362	301	68	562	7	2,070
Total	$4,081	$2,469	$1,211	$481	$ 606	$18	$8,866

The following tables present by commodity type the unpaid principal balances, recorded investment, and specific allowance for losses related to impaired loans and the recorded investment in loans on nonaccrual status as of June 30, 2018 and December 31, 2017:

Table 5.5

	As of June 30, 2018						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$13,239	$ 12,564	$ 7,816	$ 3,060	$ —	$ —	$36,679
Unpaid principal balance	13,249	12,565	7,822	3,062	—	—	36,698
With a specific allowance:							
Recorded investment[(1)]	63,535	40,835	15,089	6,331	—	73	125,863
Unpaid principal balance	63,575	40,865	15,096	6,335	—	73	125,944
Associated allowance	1,243	1,268	369	123	—	26	3,029
Total:							
Recorded investment	76,774	53,399	22,905	9,391	—	73	162,542
Unpaid principal balance	76,824	53,430	22,918	9,397	—	73	162,642
Associated allowance	1,243	1,268	369	123	—	26	3,029
Recorded investment of loans on nonaccrual status[(2)]	$27,442	$ 26,066	$ 5,142	$ 4,453	$ —	$ —	$63,103

(1) Impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets and historical statistics on $123.5 million (76 percent) of impaired loans as of June 30, 2018, which resulted in a specific allowance of $2.6 million.

(2) Includes $27.4 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

	As of December 31, 2017						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$14,417	$ 3,272	$ 11,171	$ 1,953	$ —	$ 644	$31,457
Unpaid principal balance	14,418	3,273	11,172	1,953	—	644	31,460
With a specific allowance:							
Recorded investment[(1)]	62,309	37,143	9,376	6,710	—	76	115,614
Unpaid principal balance	62,314	37,146	9,376	6,711	—	76	115,623
Associated allowance	1,431	1,063	242	146	—	2	2,884
Total:							
Recorded investment	76,726	40,415	20,547	8,663	—	720	147,071
Unpaid principal balance	76,732	40,419	20,548	8,664	—	720	147,083
Associated allowance	1,431	1,063	242	146	—	2	2,884
	$27,630	$ 25,701	$ 5,333	$ 4,929	$ —	$ —	$63,593

Recorded investment of loans on nonaccrual status[(2)]

(1) Impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets and historical statistics on $113.2 million (77 percent) of impaired loans as of December 31, 2017, which resulted in a specific allowance of $2.7 million.

(2) Includes $15.7 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

The following table presents by commodity type the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2018 and 2017:

Table 5.6

	June 30, 2018						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	$72,041	$ 49,919	$ 23,453	$ 9,214	$ —	$ 392	$ 155,019
Income recognized on impaired loans	327	492	60	62	—	—	941
For the Six Months Ended:							
Average recorded investment in impaired loans	$74,527	$ 45,945	$ 21,361	$ 8,780	$ —	$ 557	$ 151,170
Income recognized on impaired loans	719	664	139	117	—	—	1,639

	June 30, 2017						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	$65,295	$ 33,222	$ 12,557	$ 7,926	$ —	$ 40	$ 119,040
Income recognized on impaired loans	160	68	22	71	—	—	321
For the Six Months Ended:							
Average recorded investment in impaired loans	$61,226	$ 32,292	$ 13,497	$ 8,119	$ —	$ 27	$ 115,161
Income recognized on impaired loans	462	220	199	174	—	—	1,055

For the three and six months ended June 30, 2018, there were no troubled debt restructurings ("TDRs"). For the three and six months ended June 30, 2017, the recorded investment of loans determined to be TDRs was $0.2 million both before and after restructuring. As of June 30, 2018 and 2017, there were no TDRs identified during the previous 12 months that were in default under the modified terms. The impact of TDRs on Farmer Mac's allowance for loan losses was immaterial for the three and six months ended June 30, 2018 and 2017.

In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days delinquent (depending on the provisions of the applicable agreement) upon the request of the counterparty. Subsequent to the purchase, these defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment.

The following tables present information related to Farmer Mac's acquisition of defaulted loans for the three and six months ended June 30, 2018 and 2017 and the outstanding balances and carrying amounts of all such loans as of

June 30, 2018 and December 31, 2017:

Table 5.7

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	($ in thousands)			
Unpaid principal balance at acquisition date:				
Loans underlying LTSPCs	$ —	$ —	$ —	$ 311
Loans underlying off-balance sheet Farmer Mac Guaranteed Securities (excluding AgVantage securities)	—	104	721	104
Total unpaid principal balance at acquisition date	—	104	721	415
Contractually required payments receivable	—	105	730	416
Impairment recognized subsequent to acquisition	—	—	—	—
Release of allowance for all outstanding acquired defaulted loans	—	128	—	142
Number of defaulted loans purchased	—	1	4	4

	As of June 30, 2018	December 31, 2017
	(in thousands)	
Outstanding balance	$ 19,131	$ 18,866
Carrying amount	17,776	17,691

Net credit losses and 90-day delinquencies as of and for the periods indicated for loans held and loans underlying off-balance sheet securities representing interests in pools of eligible Farm & Ranch loans ("Farm & Ranch Guaranteed Securities") and LTSPCs are presented in the table below. As of June 30, 2018, there were no delinquencies and no probable losses inherent in Farmer Mac's Rural Utilities loan portfolio and Farmer Mac had not experienced credit losses on any Rural Utilities loans.

Table 5.8

	90-Day Delinquencies[1]		Net Credit (Recoveries)/Losses	
	As of		For the Six Months Ended	
	June 30, 2018	December 31, 2017	June 30, 2018	June 30, 2017
	(in thousands)			
On-balance sheet assets:				
Farm & Ranch:				
Loans	$35,744	$47,881	$(18)	$(488)
Total on-balance sheet	$35,744	$47,881	$(18)	$(488)
Off-balance sheet assets:				
Farm & Ranch:				
LTSPCs	$7,332	$563	$—	$—
Total off-balance sheet	$7,332	$563	$—	$—
Total	$43,076	$48,444	$(18)	$(488)

(1) Includes loans and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, or in bankruptcy with at least one missed payment, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

Of the $35.7 million of on-balance sheet loans reported as 90-day delinquencies as of June 30, 2018, $0.7 million were loans subject to "removal-of-account" provisions. Of the $47.9 million of on-balance sheet loans reported as 90-day delinquencies as of December 31, 2017, $0.3 million were loans subject to "removal-of-account" provisions.

Credit Quality Indicators

The following tables present credit quality indicators related to Farm & Ranch loans held and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities as of June 30, 2018 and December 31, 2017:

Table 5.9

	As of June 30, 2018						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade[1]							
On-balance sheet:							
Acceptable	$2,315,593	$829,733	$651,584	$287,055	$ 10,496	$4,567	$4,099,028
Special mention[2]	109,471	7,350	26,248	5,847	—	—	148,916
Substandard[3]	65,728	40,694	16,556	8,036	—	—	131,014
Total on-balance sheet	$2,490,792	$877,777	$694,388	$300,938	$ 10,496	$4,567	$4,378,958
Off-Balance Sheet:							
Acceptable	$1,146,495	$463,043	$610,263	$156,667	$ 56,698	$2,945	$2,436,111
Special mention[2]	76,110	24,774	32,839	921	—	158	134,802
Substandard[3]	44,506	26,247	17,373	5,462	1,364	574	95,526
Total off-balance sheet	$1,267,111	$514,064	$660,475	$163,050	$ 58,062	$3,677	$2,666,439
Total Ending Balance:							
Acceptable	$3,462,088	$1,292,776	$1,261,847	$443,722	$ 67,194	$7,512	$6,535,139
Special mention[2]	185,581	32,124	59,087	6,768	—	158	283,718
Substandard[3]	110,234	66,941	33,929	13,498	1,364	574	226,540
Total	$3,757,903	$1,391,841	$1,354,863	$463,988	$ 68,558	$8,244	$7,045,397
Commodity analysis of past due loans[1]							
On-balance sheet	$17,290	$8,363	$6,654	$3,437	$ —	$—	$35,744
Off-balance sheet	5,747	—	1,085	500	—	—	7,332
90 days or more past due	$23,037	$8,363	$7,739	$3,937	$ —	$—	$43,076

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans.

(2) Assets in the "Special mention" category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured.

(3) Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

	As of December 31, 2017						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade[1]							
On-balance sheet:							
Acceptable	$2,274,912	$771,600	$617,527	$260,854	$ 13,023	$9,030	$3,946,946
Special mention[2]	70,063	22,878	18,405	8,483	—	—	119,829
Substandard[3]	67,674	38,180	17,602	7,858	—	644	131,958
Total on-balance sheet	$2,412,649	$832,658	$653,534	$277,195	$ 13,023	$9,674	$4,198,733
Off-Balance Sheet							
Acceptable	$1,132,196	$478,573	$634,633	$150,906	$ 42,723	$4,294	$2,443,325
Special mention[2]	76,778	26,134	31,451	1,647	—	169	136,179
Substandard[3]	36,322	30,198	15,340	3,880	3,015	594	89,349
Total off-balance sheet	$1,245,296	$534,905	$681,424	$156,433	$ 45,738	$5,057	$2,668,853
Total Ending Balance:							
Acceptable	$3,407,108	$1,250,173	$1,252,160	$411,760	$ 55,746	$13,324	$6,390,271
Special mention[2]	146,841	49,012	49,856	10,130	—	169	256,008
Substandard[3]	103,996	68,378	32,942	11,738	3,015	1,238	221,307
Total	$3,657,945	$1,367,563	$1,334,958	$433,628	$ 58,761	$14,731	$6,867,586
Commodity analysis of past due loans[1]							
On-balance sheet	$21,702	$18,833	$3,835	$3,511	$ —	$—	$47,881
Off-balance sheet	151	—	—	412	—	—	563
90 days or more past due	$21,853	$18,833	$3,835	$3,923	$ —	$—	$48,444

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans.

(2) Assets in the "Special mention" category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured.

(3) Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

Concentrations of Credit Risk

The following table sets forth the geographic and commodity/collateral diversification, the range of original loan-to-value ratios, and the range in the size of borrower exposure for all Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs as of June 30, 2018 and December 31, 2017:

Table 5.10

	As of June 30, 2018	December 31, 2017
	(in thousands)	
By commodity/collateral type:		
Crops	$3,757,903	$3,657,945
Permanent plantings	1,391,841	1,367,563
Livestock	1,354,863	1,334,958
Part-time farm	463,988	433,628
Ag. Storage and Processing	68,558	58,761
Other	8,244	14,731
Total	$7,045,397	$6,867,586
By geographic region(1):		
Northwest	$819,607	$740,991
Southwest	2,170,739	2,093,213
Mid-North	2,279,960	2,244,094
Mid-South	879,945	908,603
Northeast	305,288	296,264
Southeast	589,858	584,421
Total	$7,045,397	$6,867,586
By original loan-to-value ratio(2):		
0.00% to 40.00%	$1,314,094	$1,322,422
40.01% to 50.00%	1,762,371	1,733,671
50.01% to 60.00%	2,440,299	2,385,605
60.01% to 70.00%	1,235,630	1,150,914
70.01% to 80.00%	268,002	248,799
80.01% to 90.00%	25,001	26,175
Total	$7,045,397	$6,867,586
By size of borrower exposure(3):		
Less than $1,000,000	$2,427,187	$2,379,596
$1,000,000 to $4,999,999	2,729,196	2,627,617
$5,000,000 to $9,999,999	908,347	867,574
$10,000,000 to $24,999,999	565,184	584,896
$25,000,000 to $50,000,000	415,483	407,903
Total	$7,045,397	$6,867,586

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

(2) As of second quarter 2017, Farmer Mac revised its calculation of the original loan-to-value ratio of a loan to combine for any cross-collateralized loans: (i) the original loan principal balance amounts in the numerator and (ii) the original appraised property values in the denominator. In previous periods, the ratio was calculated on a

loan-by-loan basis without considering the effects of any cross-collateralization. Prior period information has been reclassified to conform to the current period calculation and presentation.

(3) Includes multiple loans to the same borrower or borrower-related entities.

The original loan-to-value ratio is 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, the updated appraised value at the time of guarantee, purchase, or commitment. Current loan-to-value ratios may be higher or lower than the original loan-to-value ratios.

6. GUARANTEES AND LONG-TERM STANDBY PURCHASE COMMITMENTS

Farmer Mac offers two credit enhancement alternatives to direct loan purchases that allow approved lenders the ability to retain the cash flow benefits of their loans and increase their liquidity and lending capacity: (1) Farmer Mac Guaranteed Securities, which are available through each of the Farm & Ranch, USDA Guarantees, Rural Utilities, and Institutional Credit lines of business, and (2) LTSPCs, which are available through the Farm & Ranch or the Rural Utilities lines of business.

The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of June 30, 2018 and December 31, 2017, not including offsets provided by any recourse provisions, recoveries from third parties, or collateral for the underlying loans:

Table 6.1
Outstanding Balance of Off-Balance Sheet Farmer Mac Guaranteed Securities

	As of June 30, 2018	As of December 31, 2017
	(in thousands)	
Farm & Ranch:		
Guaranteed Securities	$297,833	$333,511
USDA Guarantees:		
Farmer Mac Guaranteed USDA Securities	325,652	254,217
Institutional Credit:		
AgVantage Securities	11,556	11,556
Revolving floating rate AgVantage facility[1]	300,000	300,000
Total off-balance sheet Farmer Mac Guaranteed Securities	$935,041	$899,284

(1) Relates to a revolving floating rate AgVantage facility subject to specified contractual terms. Farmer Mac receives a fixed fee based on the full dollar amount of the facility.

Eligible loans and other eligible assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. The following table summarizes the significant cash flows received from and paid to trusts used for Farmer Mac securitizations:

Table 6.2

	For the Six Months Ended	
	June 30, 2018	June 30, 2017
	(in thousands)	
Proceeds from new securitizations	$196,290	$247,975
Guarantee fees received	1,063	1,701
Purchases of assets from the trusts	(721)	(104)

Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated $3.2 million

43

as of June 30, 2018 and $3.6 million as of December 31, 2017. As of June 30, 2018 and December 31, 2017, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 9.7 years and 10.0 years, respectively. As of June 30, 2018 and December 31, 2017, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 0.3 years and 0.8 years, respectively.

Long-Term Standby Purchase Commitments

An LTSPC is a commitment by Farmer Mac to purchase eligible loans from an identified pool of loans under specified circumstances set forth in the applicable agreement, either for cash or in exchange for Farmer Mac Guaranteed Securities, on one or more undetermined future dates. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives a commitment fee payable monthly in arrears.

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties, or collateral for the underlying loans, was $3.0 billion and $3.1 billion as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018 and December 31, 2017, the weighted-average remaining maturity of all loans underlying LTSPCs was 15.5 years and 15.3 years, respectively. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated $35.2 million as of June 30, 2018 and $34.8 million as of December 31, 2017.

7. EQUITY

Common Stock

For the first and second quarter 2018, Farmer Mac paid a quarterly dividend of $0.58 per share on all classes of its common stock. For each quarter in 2017, Farmer Mac paid a quarterly dividend of $0.36 per share on all classes of its common stock.

In August 2017, Farmer Mac's board of directors approved the continuation of the share repurchase program on its existing terms through August 2019 for the repurchase of up to $5.4 million of Farmer Mac's outstanding Class C non-voting common stock, which is the amount that was remaining under the share repurchase program originally authorized in third quarter 2015.

Capital Requirements

Farmer Mac is subject to the following capital requirements:

- Statutory minimum capital requirement – Farmer Mac's statutory minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income) equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, 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 requirement – Farmer Mac's charter directs the Farm Credit Administration ("FCA"), an independent agency in the executive branch of the United States government that regulates Farmer Mac, 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 and the risk-based capital requirement. As of both June 30, 2018 and December 31, 2017, the minimum capital requirement was greater than the risk-based capital requirement. Farmer Mac's ability to declare and pay dividends could be restricted if it fails to comply with applicable capital requirements.

As of June 30, 2018, Farmer Mac's minimum capital requirement was $543.2 million and its core capital level was $692.8 million, which was $149.6 million above the minimum capital requirement as of that date. As of December 31, 2017, Farmer Mac's minimum capital requirement was $520.3 million and its core capital level was $657.1 million, which was $136.8 million above the minimum capital requirement as of that date.

In accordance with FCA's rule on Farmer Mac's capital planning, and as part of Farmer Mac's capital plan, Farmer Mac has adopted a policy for maintaining a sufficient level of Tier 1 capital (consisting of retained earnings, paid-in-capital, common stock, and qualifying preferred stock) and imposing restrictions on Tier 1-eligible dividends and any discretionary bonus payments in the event that this capital falls below specified thresholds.

8. FAIR VALUE DISCLOSURES

As of June 30, 2018, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.0 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 32 percent of total assets and 72 percent of financial instruments measured at fair value as of June 30, 2018. As of December 31, 2017, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $5.5 billion whose fair values were estimated by management in the absence of readily determinable fair values. These financial instruments measured as level 3 represented 31 percent of total assets and 71 percent of financial instruments measured at fair value as of December 31, 2017.

Transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets and liabilities as of the beginning of the reporting period. During the first half of 2018 there were no transfers within fair value hierarchy for fair value measurements of Farmer Mac's investment securities, Farmer Mac Guaranteed Securities, USDA Securities, and financial derivatives. During the first half of 2017 there was one transfer within the fair value hierarchy from Level 2 to Level 3 for the fair value measurement of a fixed-rate GSE guaranteed mortgage-backed security (interest-only security). The transfer to Level 3 was because unobservable inputs became significant to the overall estimate of the fair value of the security as of March 31, 2017. During second quarter 2018 the remaining premium of this interest-only security held in that portfolio was fully amortized because the issuer called the security upon full prepayment of the underlying mortgage loan that collateralized the security.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and non-recurring basis as of June 30, 2018 and December 31, 2017, respectively, and indicate the fair value hierarchy of the valuation techniques used by Farmer Mac to determine such fair value:

Table 8.1
Assets and Liabilities Measured at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$19,010	$19,010
Floating rate asset-backed securities	—	31,321	—	31,321
Floating rate Government/GSE guaranteed mortgage-backed securities	—	1,368,125	—	1,368,125
Fixed rate GSE guaranteed mortgage-backed securities	—	439	—	439
Fixed rate U.S. Treasuries	905,703	—	—	905,703
Total Investment Securities	905,703	1,399,885	19,010	2,324,598
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
AgVantage	—	—	5,985,806	5,985,806
Total Farmer Mac Guaranteed Securities	—	—	5,985,806	5,985,806
USDA Securities:				
Trading	—	—	10,748	10,748
Total USDA Securities	—	—	10,748	10,748
Financial derivatives	—	8,011	—	8,011
Total Assets at fair value	$905,703	$1,407,896	$6,015,564	$8,329,163
Liabilities:				
Financial derivatives	$123	$20,041	$—	$20,164
Total Liabilities at fair value	$123	$20,041	$—	$20,164
Non-recurring:				
Assets:				
Loans held for investment	$—	$—	$343	$343
Total Non-recurring Assets at fair value	$—	$—	$343	$343

Assets and Liabilities Measured at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$18,814	$18,814
Floating rate asset-backed securities	—	34,210	—	34,210
Floating rate Government/GSE guaranteed mortgage-backed securities	—	1,290,187	—	1,290,187
Fixed rate GSE guaranteed mortgage-backed securities	—	486	4,333	4,819
Fixed rate senior agency debt	—	99,951	—	99,951
Fixed rate U.S. Treasuries	767,424	—	—	767,424
Total available-for-sale	767,424	1,424,834	23,147	2,215,405
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
AgVantage	—	—	5,471,914	5,471,914
Total Farmer Mac Guaranteed Securities	—	—	5,471,914	5,471,914
USDA Securities:				
Trading	—	—	13,515	13,515
Total USDA Securities	—	—	13,515	13,515
Financial derivatives	—	7,093	—	7,093
Total Assets at fair value	$767,424	$1,431,927	$5,508,576	$7,707,927
Liabilities:				
Financial derivatives	$36	$26,563	$—	$26,599
Total Liabilities at fair value	$36	$26,563	$—	$26,599
Non-recurring:				
Assets:				
Loans held for investment	$—	$—	$508	$508
Total Non-recurring Assets at fair value	$—	$—	$508	$508