

FEDERAL AGRICULTURAL MORTGAGE CORP

Form 10-Q

May 11, 2015

As filed with the Securities and Exchange Commission on May 11, 2015

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 March 31, 2015

Commission File Number 001-14951

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

(Exact name of registrant as specified in its charter)

Federally chartered instrumentality

52-1578738

of the United States

(State or other jurisdiction of

(I.R.S. employer identification number)

incorporation or organization)

1999 K Street, N.W., 4th Floor,

20006

Washington, D.C.

(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 No

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 No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

As of May 1, 2015, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,441,933 shares of Class C non-voting common stock.

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PART I

Item 1. Financial Statements

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

	As of March 31, 2015 (in thousands)	December 31, 2014
Assets:		
Cash and cash equivalents	\$1,556,246	\$1,363,387
Investment securities:		
Available-for-sale, at fair value	2,139,544	1,938,499
Trading, at fair value	638	689
Total investment securities	2,140,182	1,939,188
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	3,842,209	3,659,281
Held-to-maturity, at amortized cost	1,767,096	1,794,620
Total Farmer Mac Guaranteed Securities	5,609,305	5,453,901
USDA Securities:		
Available-for-sale, at fair value	1,794,844	1,731,222
Trading, at fair value	37,593	40,310
Total USDA Securities	1,832,437	1,771,532
Loans:		
Loans held for investment, at amortized cost	3,082,378	2,833,461
Loans held for investment in consolidated trusts, at amortized cost	457,117	692,478
Allowance for loan losses	(5,940)	(5,864)
Total loans, net of allowance	3,533,555	3,520,075
Real estate owned, at lower of cost or fair value	421	421
Financial derivatives, at fair value	4,808	4,177
Interest receivable (includes \$3,422 and \$9,509, respectively, related to consolidated trusts)	66,312	106,874
Guarantee and commitment fees receivable	38,342	39,462
Deferred tax asset, net	14,750	33,391
Prepaid expenses and other assets	53,327	55,413
Total Assets	\$14,849,685	\$14,287,821
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$7,957,193	\$7,353,953
Due after one year	5,648,752	5,471,186
Total notes payable	13,605,945	12,825,139
Debt securities of consolidated trusts held by third parties	457,903	424,214
Financial derivatives, at fair value	95,493	84,844
Accrued interest payable (includes \$2,740 and \$5,145, respectively, related to consolidated trusts)	36,383	48,355
Guarantee and commitment obligation	36,537	37,925
Accounts payable and accrued expenses	31,433	81,252
Reserve for losses	3,491	4,263
Total Liabilities	14,267,185	13,505,992

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, 9,406,392 shares and 9,406,267 shares outstanding, respectively	9,406	9,406
Additional paid-in capital	114,364	113,559
Accumulated other comprehensive income, net of tax	51,184	15,533
Retained earnings	201,081	201,013
Total Stockholders' Equity	582,325	545,801
Non-controlling interest	175	236,028
Total Equity	582,500	781,829
Total Liabilities and Equity	\$14,849,685	\$14,287,821

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

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

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
	(in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	\$2,865	\$5,237
Farmer Mac Guaranteed Securities and USDA Securities	33,122	32,846
Loans	27,964	14,369
Total interest income	63,951	52,452
Total interest expense	33,162	34,726
Net interest income	30,789	17,726
Provision for loan losses	(76)	(573)
Net interest income after provision for loan losses	30,713	17,153
Non-interest income:		
Guarantee and commitment fees	3,377	3,784
Losses on financial derivatives and hedging activities	(3,882)	(7,578)
Gains on trading securities	362	655
Gains on sale of available-for-sale investment securities	6	15
Losses on sale of real estate owned	(1)	(3)
Other income	613	92
Non-interest income/(loss)	475	(3,035)
Non-interest expense:		
Compensation and employee benefits	5,693	4,456
General and administrative	2,823	2,794
Regulatory fees	600	594
Real estate owned operating costs, net	(1)	2
(Release of)/provision for reserve for losses	(772)	101
Non-interest expense	8,343	7,947
Income before income taxes	22,845	6,171
Income tax expense/(benefit)	4,231	(1,141)
Net income	18,614	7,312
Less: Net income attributable to non-controlling interest	(5,354)	(5,547)
Net income attributable to Farmer Mac	13,260	1,765
Preferred stock dividends	(3,295)	(952)
Loss on retirement of preferred stock	(8,147)	—
Net income attributable to common stockholders	\$1,818	\$813
Earnings per common share and dividends:		
Basic earnings per common share	\$0.17	\$0.07
Diluted earnings per common share	\$0.16	\$0.07
Common stock dividends per common share	\$0.16	\$0.14

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

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

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
	(in thousands)	
Net income	\$18,614	\$7,312
Other comprehensive income, net of tax:		
Unrealized holding gains losses on available-for-sale securities ⁽¹⁾	39,170	34,241
Unrealized losses on cash flow hedges ⁽²⁾	(160	) (68
Less reclassification adjustments included in:		
Losses on financial derivatives and hedging activities ⁽³⁾	(3,160	) (3,101
Gains on sale of available-for-sale investment securities ⁽⁴⁾	(4	) (10
Other income ⁽⁵⁾	(195	) 94
Other comprehensive income	35,651	31,156
Comprehensive income	54,265	38,468
Less: Comprehensive income attributable to noncontrolling interest	(5,354	) (5,547
Comprehensive income attributable to Farmer Mac	\$48,911	\$32,921

(1) Presented net of income tax expense of \$21.1 million and \$18.4 million, for the three months ended March 31, 2015 and 2014, respectively.

(2) Presented net of income tax benefit of \$0.1 million and \$37,000 for the three months ended March 31, 2015 and 2014, respectively.

Relates to the amortization of the unrealized gains on the hedged items prior to application of hedge accounting.

(3) Presented net of income tax benefit of \$1.7 million for both the three months ended March 31, 2015 and 2014, respectively.

(4) Represents realized gains on sales of available-for-sale investment securities. Presented net of income tax benefit of \$2,000 and \$5,000 for the three months ended March 31, 2015 and 2014, respectively.

Represents amortization of deferred gains related to certain available-for-sale USDA Securities and Farmer Mac

(5) Guaranteed USDA Securities. Presented net of income tax benefit of \$0.1 million and income tax expense of \$0.1 million for the three months ended March 31, 2015 and 2014, respectively.

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

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

	For the Three Months Ended			
	March 31, 2015		March 31, 2014	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	8,400	\$204,759	2,400	\$58,333
Issuance of Series B preferred stock	—	—	3,000	73,306
Balance, end of period	8,400	\$204,759	5,400	\$131,639
Common stock:				
Balance, beginning of period	10,937	\$10,937	10,886	\$10,886
Balance, end of period	10,937	\$10,937	10,886	\$10,886
Additional paid-in capital:				
Balance, beginning of period		\$113,559		\$110,722
Stock-based compensation expense		839		713
Issuance of Class C common stock		4		6
Tax effect of stock-based awards		(38)		36
Balance, end of period		\$114,364		\$111,477
Retained earnings:				
Balance, beginning of period		\$201,013		\$168,877
Net income attributable to Farmer Mac		13,260		1,765
Cash dividends:				
Preferred stock, Series A (\$0.3672 per share in 2015 and 2014)		(881)		(881)
Preferred stock, Series B (\$0.4297 per share in 2015 and \$0.105 per share in 2014)		(1,289)		(71)
Preferred stock, Series C (\$0.3750 per share)		(1,125)		—
Common stock (\$0.16 per share in 2015, \$0.14 per share in 2014)		(1,750)		(1,524)
Loss on retirement of preferred stock, Farmer Mac II LLC		(8,147)		—
Balance, end of period		\$201,081		\$168,166
Accumulated other comprehensive income:				
Balance, beginning of period		\$15,533		\$(16,202)
Other comprehensive income, net of tax		35,651		31,156
Balance, end of period		\$51,184		\$14,954
Total Stockholders' Equity		\$582,325		\$437,122
Non-controlling interest:				
Balance, beginning of period		\$236,028		\$241,853
Redemption of preferred stock, Farmer Mac II LLC		(235,853)		—
Balance, end of period		\$175		\$241,853
Total Equity		\$582,500		\$678,975

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

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

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
	(in thousands)	
Cash flows from operating activities:		
Net income	\$18,614	\$7,312
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	1,024	13,983
Amortization of debt premiums, discounts and issuance costs	2,832	2,658
Net change in fair value of trading securities, hedged assets, and financial derivatives	532	3,029
Gains on sale of available-for-sale investment securities	(6	) (15
Loss on sale of real estate owned	1	3
Total (release of)/provision for losses	(696	) 674
Deferred income taxes	(1,061	) (6,009
Stock-based compensation expense	839	713
Proceeds from repayment of trading investment securities	247	283
Proceeds from repayment of loans purchased as held for sale	32,140	42,713
Net change in:		
Interest receivable	40,562	43,327
Guarantee and commitment fees receivable	1,120	(1,318
Other assets	2,066	(2,827
Accrued interest payable	(11,972	) (16,668
Other liabilities	2,793	4,793
Net cash provided by operating activities	89,035	92,651
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(715,628	) (369,120
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(349,364	) (289,484
Purchases of loans held for investment	(138,929	) (246,310
Purchases of defaulted loans	(657	) (440
Proceeds from repayment of available-for-sale investment securities	427,507	370,084
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	153,095	244,014
Proceeds from repayment of loans purchased as held for investment	95,570	141,534
Proceeds from sale of available-for-sale investment securities	74,998	10,015
Proceeds from sale of Farmer Mac Guaranteed Securities	49,487	62,751
(Payments)/proceeds from sale of real estate owned	(1	) 11
Net cash used in investing activities	(403,922	) (76,945
Cash flows from financing activities:		
Proceeds from issuance of discount notes	14,784,601	15,566,728
Proceeds from issuance of medium-term notes	1,344,848	750,354
Payments to redeem discount notes	(14,439,480	) (15,582,044
Payments to redeem medium-term notes	(912,000	) (687,000
Excess tax benefits related to stock-based awards	26	36
Payments to third parties on debt securities of consolidated trusts	(15,793	) (11,868
Proceeds from common stock issuance	4	6
Proceeds from Series B Preferred stock issuance	—	73,306

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Redemption of Farmer Mac II LLC Preferred Stock	(244,000)	—
Dividends paid - Non-controlling interest - preferred stock	(5,415)	(5,547)
Dividends paid on common and preferred stock	(5,045	)	(2,405)
Net cash provided by financing activities	507,746		101,566
Net increase in cash and cash equivalents	192,859		117,272
Cash and cash equivalents at beginning of period	1,363,387		749,313
Cash and cash equivalents at end of period	\$1,556,246		\$866,585

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

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

1. 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, 2014 consolidated balance sheet presented in this report has been derived from Farmer Mac's audited 2014 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 2014 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, 2014 filed with the SEC on March 16, 2015. That Form 10-K describes Farmer Mac's significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents and Statements of Cash Flows; Transfers of Financial Assets and Liabilities; Investment Securities, Farmer Mac Guaranteed Securities, and USDA Securities; Loans; Securitization of Loans; Real Estate Owned; Financial Derivatives; Notes Payable; Allowance for Loan Losses and Reserve for Losses; Earnings Per Common Share; Income Taxes; Stock-Based Compensation; Comprehensive Income; Long-Term Standby Purchase Commitments; Fair Value Measurement; and Consolidation of Variable Interest Entities ("VIEs"). 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 March 31, 2015.

Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its three subsidiaries: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities; (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; and (3) Contour Valuation Services, LLC, whose principal activity is to provide appraisal services related to agricultural real estate. All inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements also include the accounts of VIEs in which Farmer Mac determined itself to be the primary beneficiary.

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

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Table 1.1

Consolidation of Variable Interest Entities						
As of March 31, 2015						
	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	\$457,117	\$—	\$—	\$—	\$—	\$457,117
Debt securities of consolidated trusts held by third parties ⁽¹⁾	457,903	—	—	—	—	457,903
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value ⁽²⁾	—	23,505	—	32,367	—	55,872
Maximum exposure to loss ⁽³⁾	—	23,098	—	30,000	—	53,098
Investment securities:						
Carrying value ⁽⁴⁾	—	—	—	—	479,548	479,548
Maximum exposure to loss ⁽³⁾⁽⁴⁾	—	—	—	—	482,757	482,757
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss ⁽³⁾⁽⁵⁾	598,236	12,847	—	970,000	—	1,581,083

(1) Includes borrower remittances of \$0.8 million. The borrower remittances have not been passed through to third party investors as of March 31, 2015.

(2) Includes \$0.4 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of \$2.4 million.

(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.

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Consolidation of Variable Interest Entities						
As of December 31, 2014						
	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⁾	\$421,355	\$—	\$271,123	\$—	\$—	\$692,478
Debt securities of consolidated trusts held by third parties ⁽²⁾	424,214	—	—	—	—	424,214
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value ⁽³⁾	—	27,620	—	32,415	—	60,035
Maximum exposure to loss ⁽⁴⁾	—	27,832	—	30,000	—	57,832
Investment securities:						
Carrying value ⁽⁵⁾	—	—	—	—	409,657	409,657
Maximum exposure to loss ⁽⁴⁾⁽⁵⁾	—	—	—	—	412,690	412,690
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss ⁽⁴⁾⁽⁶⁾	636,086	13,978	—	970,000	—	1,620,064

(1) Includes unamortized premiums related to the Rural Utilities line of business of \$3.7 million.

(2) Includes borrower remittances of \$2.9 million, which have not been passed through to third party investors as of December 31, 2014.

Includes \$0.2 million of unamortized premiums and discounts and fair value adjustments related to the USDA

(3) Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of \$2.4 million.

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

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

(6) 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 non-cash transactions for the three months ended March 31, 2015 and 2014:

Table 1.2

For the Three Months Ended
March 31, 2015 March 31, 2014
(in thousands)

Non-cash activity:

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Loans acquired and securitized as Farmer Mac Guaranteed Securities	\$49,487	\$62,751
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	49,487	62,751
Purchases of securities - traded, not yet settled	14,915	—
Issuance costs on the retirement of Farmer Mac II LLC Preferred Stock	8,147	—
Transfers of available-for-sale Farmer Mac Guaranteed Securities to held-to-maturity	—	1,612,086

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On January 1, 2014, Farmer Mac transferred \$1.6 billion of Farmer Mac Guaranteed Securities from available-for-sale to held-to-maturity because Farmer Mac determined it has the ability and intent to hold these securities until maturity or payoff. Farmer Mac transferred these securities at fair value which reflected an unrealized holding gain of \$22.3 million. Farmer Mac accounts for held-to-maturity securities at amortized cost. The unrealized holding gain is being amortized out of accumulated other comprehensive income over the remaining life of the transferred securities.

(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 months ended March 31, 2015 and 2014:

Table 1.3

	For the Three Months Ended			March 31, 2014		
	March 31, 2015			March 31, 2014		
	Net	Weighted-Average	per	Net	Weighted-Average	per
	Income	Shares	Share	Income	Shares	Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	\$1,818	10,938	\$0.17	\$813	10,887	\$0.07
Effect of dilutive securities ⁽¹⁾ :						
Stock options, SARs and restricted stock	—	393	(0.01)	—	459	—
Diluted EPS	\$1,818	11,331	\$0.16	\$813	11,346	\$0.07

For the three months ended March 31, 2015 and 2014, stock options and SARs of 201,401 and 32,983, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock ⁽¹⁾ because they were anti-dilutive. For the three months ended March 31, 2015 and 2014, contingent shares of non-vested restricted stock of 30,514 and 31,594, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions have not yet been met.

(c) New Accounting Standards

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis." This update modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities and eliminates the presumption that a general partner should consolidate a limited partnership. It also affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. The adoption of the new guidance will not have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

(d) Reclassifications

Beginning January 1, 2015, Farmer Mac classified all of the income from Farmer Mac Guaranteed Securities that it holds in its portfolio as interest income. Prior to January 1, 2015, Farmer Mac classified a portion of the income from those securities, \$2.7 million in first quarter 2014, as guarantee and commitment fees. This change in classification

does not affect the timing or amount of income recognized from these securities. The corresponding guarantee and commitment fee receivable balance as

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of December 31, 2014 also was reclassified to accrued interest receivable. Certain reclassifications of prior period information, including the aforementioned change, 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 March 31, 2015 and December 31, 2014:

Table 2.1

	As of March 31, 2015		Amortized	Unrealized	Unrealized	Fair Value
	Amount	Unamortized	Cost	Gains	Losses	
	Outstanding	Premium/(Discount)				
	(in thousands)					
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$46,600	\$ —	\$46,600	\$—	\$(6,221)	\$40,379
Floating rate asset-backed securities	100,377	(352)	100,025	153	(46)	100,132
Floating rate corporate debt securities	10,000	—	10,000	85	—	10,085
Fixed rate corporate debt securities	20,000	(5)	19,995	35	—	20,030
Floating rate Government/GSE guaranteed mortgage-backed securities	727,430	3,438	730,868	4,373	(669)	734,572
Fixed rate GSE guaranteed mortgage-backed securities ⁽¹⁾	811	3,436	4,247	3,882	—	8,129
Floating rate GSE subordinated debt	70,000	—	70,000	—	(4,159)	65,841
Fixed rate senior agency debt	297,806	(34)	297,772	23	(68)	297,727
Fixed rate U.S. Treasuries	862,194	483	862,677	55	(83)	862,649
Total available-for-sale	2,135,218	6,966	2,142,184	8,606	(11,246)	2,139,544
Trading:						
Floating rate asset-backed securities	2,621	—	2,621	—	(1,983)	638
Total investment securities	\$2,137,839	\$ 6,966	\$2,144,805	\$8,606	\$(13,229)	\$2,140,182

⁽¹⁾ Fair value includes \$7.2 million of an interest-only security with a notional amount of \$152.4 million.

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	As of December 31, 2014					
	Amount Outstanding (in thousands)	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	\$46,600	\$ —	\$46,600	\$—	\$(6,024)	\$40,576
Floating rate asset-backed securities	100,730	(74)	100,656	283	(37)	100,902
Floating rate corporate debt securities	10,000	—	10,000	91	—	10,091
Fixed rate corporate debt securities	30,000	(10)	29,990	35	—	30,025
Floating rate Government/GSE guaranteed mortgage-backed securities	605,053	3,431	608,484	4,712	(443)	612,753
Fixed rate GSE guaranteed mortgage-backed securities ⁽¹⁾	853	3,542	4,395	3,807	—	8,202
Floating rate GSE subordinated debt	70,000	—	70,000	—	(3,680)	66,320
Fixed rate senior agency debt	18,806	130	18,936	3	—	18,939
Floating rate U.S. Treasuries	75,000	(10)	74,990	—	(11)	74,979
Fixed rate U.S. Treasuries	975,194	462	975,656	72	(16)	975,712
Total available-for-sale	1,932,236	7,471	1,939,707	9,003	(10,211)	1,938,499
Trading:						
Floating rate asset-backed securities	2,868	—	2,868	—	(2,179)	689
Total investment securities	\$1,935,104	\$ 7,471	\$1,942,575	\$9,003	\$(12,390)	\$1,939,188

⁽¹⁾ Fair value includes \$7.3 million of an interest-only security with a notional amount of \$152.4 million.

During the three months ended March 31, 2015, Farmer Mac received proceeds of \$75.0 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of \$6,000, compared to proceeds of \$10.0 million for the same period in 2014, resulting in gross realized gains of \$15,000.

As of March 31, 2015 and December 31, 2014, unrealized losses on available-for-sale investment securities were as follows:

Table 2.2

	As of March 31, 2015			
	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	\$—	\$—	\$40,379	\$(6,221)
Floating rate asset-backed securities	22,971	(46)	640	—
Floating rate Government/GSE guaranteed mortgage-backed securities	121,071	(244)	125,546	(425)
Floating rate GSE subordinated debt	—	—	65,841	(4,159)

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Fixed rate senior agency debt	121,950	(68)	—	—
Fixed rate U.S. Treasuries	662,276	(83)	—	—
Total	\$928,268	\$(441)	\$232,406	\$(10,805)

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	As of December 31, 2014			
	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	\$—	\$—	\$40,576	\$(6,024)
Floating rate asset-backed securities	19,388	(37)	—	—
Floating rate Government/GSE guaranteed mortgage-backed securities	76,100	(164)	76,867	(279)
Floating rate GSE subordinated debt	—	—	66,320	(3,680)
Floating rate U.S. Treasuries	74,980	(11)	—	—
Fixed rate U.S. Treasuries	325,033	(16)	—	—
Total	\$495,501	\$(228)	\$183,763	\$(9,983)

The unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014, 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+," except one that was rated "A-." The unrealized losses were on 44 and 35 individual investment securities as of March 31, 2015 and December 31, 2014, respectively.

As of March 31, 2015, 17 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of \$10.8 million. As of December 31, 2014, 15 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of \$10.0 million. Securities in unrealized loss positions for 12 months or longer have a fair value as of March 31, 2015 that is, on average, approximately 96 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 changes in credit spreads or maturity. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities represents other-than-temporary impairment as of March 31, 2015 and December 31, 2014. 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.

Farmer Mac did not own any held-to-maturity investment securities as of March 31, 2015 and December 31, 2014. As of March 31, 2015, Farmer Mac owned trading investment securities with an amortized cost of \$2.6 million, a fair value of \$0.6 million, and a weighted average yield of 4.26 percent. As of December 31, 2014, Farmer Mac owned trading investment securities with an amortized cost of \$2.9 million, a fair value of \$0.7 million, and a weighted average yield of 4.24 percent.

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The amortized cost, fair value, and weighted average yield of available-for-sale investment securities by remaining contractual maturity as of March 31, 2015 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 March 31, 2015		Weighted-Average Yield
	Amortized Cost	Fair Value	
Available-for-Sale Securities			
(dollars in thousands)			
Due within one year	\$1,170,447	\$1,170,389	0.29%
Due after one year through five years	114,708	115,551	1.19%
Due after five years through ten years	252,261	252,759	0.86%
Due after ten years	604,768	600,845	0.93%
Total	\$2,142,184	\$2,139,544	0.58%

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 March 31, 2015 and December 31, 2014:

Table 3.1

	As of March 31, 2015					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(in thousands)						
Held-to-maturity:						
AgVantage	\$1,761,169	\$ 5,927	\$1,767,096	\$15,980	\$—	\$1,783,076
Available-for-sale:						
AgVantage	\$3,782,235	\$ —	\$3,782,235	\$54,813	\$(18,344)	\$3,818,704
Farmer Mac Guaranteed USDA Securities	23,098	(361)	22,737	768	—	23,505
Total Farmer Mac Guaranteed Securities	3,805,333	(361)	3,804,972	55,581	(18,344)	3,842,209
USDA Securities	1,743,274	2,696	1,745,970	48,929	(55)	1,794,844
Total available-for-sale	\$5,548,607	\$ 2,335	\$5,550,942	\$104,510	\$(18,399)	\$5,637,053
Trading:						
USDA Securities	\$35,699	\$ 2,578	\$38,277	\$120	\$(804)	\$37,593

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	As of December 31, 2014					
	Unpaid Principal Balance (in thousands)	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Held-to-maturity:						
AgVantage	\$1,785,340	\$ 9,280	\$1,794,620	\$6,211	\$(255)	\$1,800,576
Available-for-sale:						
AgVantage	\$3,625,073	\$ —	\$3,625,073	\$36,442	\$(29,853)	\$3,631,662
Farmer Mac Guaranteed USDA Securities	27,831	(442)	27,389	237	(7)	27,619
Total Farmer Mac Guaranteed Securities	3,652,904	(442)	3,652,462	36,679	(29,860)	3,659,281
USDA Securities	1,717,813	3,162	1,720,975	11,850	(1,603)	1,731,222
Total available-for-sale	\$5,370,717	\$ 2,720	\$5,373,437	\$48,529	\$(31,463)	\$5,390,503
Trading:						
USDA Securities	\$38,412	\$ 2,748	\$41,160	\$114	\$(964)	\$40,310

As of March 31, 2015 and December 31, 2014, 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 March 31, 2015			
	Available-for-Sale Securities		Unrealized loss position for more than 12 months	
	Unrealized loss position for less than 12 months	Unrealized loss position for more than 12 months	Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Available-for-sale:				
AgVantage	\$690,567	\$(11,400)	648,409	\$(6,944)
USDA Securities	—	—	101,882	(55)
Total available-for-sale	\$690,567	\$(11,400)	\$750,291	\$(6,999)
	December 31, 2014			
	Held-to-Maturity and Available-for-Sale Securities		Unrealized loss position for more than 12 months	
	Unrealized loss position for less than 12 months	Unrealized loss position for more than 12 months	Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Held-to-maturity:				
AgVantage	\$547	\$(1)	\$49,745	\$(254)
Available-for-sale:				
AgVantage	\$685,131	\$(13,115)	\$1,460,089	\$(16,738)
Farmer Mac Guaranteed USDA Securities				