

FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
August 12, 2008

As filed with the Securities and Exchange Commission on
August 12, 2008

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, 2008

Commission File Number 001-14951

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

Federally chartered instrumentality
of the United States
(State or other jurisdiction of incorporation or
organization)

52-1578738
(I.R.S. employer identification number)

1133 Twenty-First Street, N.W., Suite 600
Washington, D.C.
(Address of principal executive offices)

20036
(Zip code)

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

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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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 August 1, 2008, the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,499,698 shares of Class C Non-Voting Common Stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The following interim unaudited condensed consolidated financial statements of the Federal Agricultural Mortgage Corporation (“Farmer Mac” or the “Corporation”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These interim unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations and cash flows of Farmer Mac for the interim periods presented. Certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2007 consolidated balance sheet presented in this report has been derived from the Corporation’s audited 2007 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial position, condensed consolidated results of operations and condensed consolidated cash flows as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited 2007 consolidated financial statements of Farmer Mac included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2007. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

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

Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007	3
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007	5
Notes to Condensed Consolidated Financial Statements	6

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2008	December 31, 2007
	(in thousands)	
Assets:		
Cash and cash equivalents	\$ 712,374	\$ 101,445
Investment securities:		
Available-for-sale, at fair value (includes securities pledged to counterparties of \$3.7 million and \$7.2 million, respectively, as of June 30, 2008 and December 31, 2007)	1,503,473	2,616,187
Trading, at fair value	186,514	8,179
Total investment securities	1,689,987	2,624,366
Farmer Mac Guaranteed Securities:		
Held-to-maturity, at amortized cost	518,792	959,865
Available-for-sale, at fair value	1,293,543	338,958
Trading, at fair value	892,247	-
Total Farmer Mac Guaranteed Securities	2,704,582	1,298,823
Loans:		
Loans held for sale, at lower of cost or fair value	142,695	118,629
Loans held for investment, at amortized cost	640,864	649,280
Allowance for loan losses	(1,592)	(1,690)
Total loans, net of allowance	781,967	766,219
Real estate owned, at lower of cost or fair value	590	590
Financial derivatives, at fair value	3,184	2,288
Interest receivable	76,436	91,939
Guarantee and commitment fees receivable	55,623	57,804
Deferred tax asset, net	34,477	30,239
Prepaid expenses and other assets	5,170	3,900
Total Assets	\$ 6,064,390	\$ 4,977,613
Liabilities and Stockholders' Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$ 5,006,317	\$ 3,829,698
Due after one year	651,267	744,649
Total notes payable	5,657,584	4,574,347
Financial derivatives, at fair value	56,420	55,273
Accrued interest payable	47,933	50,004
Guarantee and commitment obligation	50,631	52,130
Accounts payable and accrued expenses	12,134	20,069
Reserve for losses	2,197	2,197
Total Liabilities	5,826,899	4,754,020
Stockholders' Equity:		
Preferred stock:		

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Series A, stated at redemption/liquidation value, \$50 per share, 700,000 shares authorized, issued and outstanding	35,000	35,000
Common stock:		
Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares issued and outstanding	1,031	1,031
Class B Voting, \$1 par value, no maximum authorization 500,301 shares issued and outstanding	500	500
Class C Non-Voting, \$1 par value, no maximum authorization, 8,491,482 and 8,363,580 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	8,491	8,364
Additional paid-in capital	92,669	87,134
Accumulated other comprehensive loss	(17,337)	(2,793)
Retained earnings	117,137	94,357
Total Stockholders' Equity	237,491	223,593
Total Liabilities and Stockholders' Equity	\$ 6,064,390	\$ 4,977,613

See accompanying notes to condensed consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Interest income:				
Investments and cash equivalents	\$ 35,402	\$ 41,530	\$ 76,910	\$ 80,522
Farmer Mac Guaranteed Securities	19,767	18,782	38,537	38,185
Loans	11,643	11,199	23,474	22,518
Total interest income	66,812	71,511	138,921	141,225
Total interest expense	42,454	63,032	96,625	123,664
Net interest income	24,358	8,479	42,296	17,561
Recovery/(provision) for loan losses	-	-	-	215
Net interest income after recovery/(provision) for loan losses	24,358	8,479	42,296	17,776
Non-interest income/(loss):				
Guarantee and commitment fees	6,659	6,354	13,293	12,212
Gains/(losses) on financial derivatives	31,050	19,892	(10,670)	15,866
Losses on trading assets	(17,268)	(67)	(7,157)	(74)
Impairment losses on available-for-sale investment securities	(5,344)	-	(5,344)	-
Gains on sale of available-for-sale investment securities	150	21	150	21
Gains on the sale of real estate owned	-	32	-	32
Other income	662	42	1,123	451
Non-interest income/(loss)	15,909	26,274	(8,605)	28,508
Non-interest expense:				
Compensation and employee benefits	3,929	3,719	7,579	6,856
General and administrative	2,242	2,237	4,270	4,574
Regulatory fees	512	550	1,025	1,100
Real estate owned operating costs, net	38	-	87	-
Provision/(recovery) for losses	-	100	-	(313)
Non-interest expense	6,721	6,606	12,961	12,217
Income before income taxes	33,546	28,147	20,730	34,067
Income tax expense	11,555	9,218	6,436	10,656
Net income	21,991	18,929	14,294	23,411
Preferred stock dividends	(560)	(560)	(1,120)	(1,120)
Net income available to common stockholders	\$ 21,431	\$ 18,369	\$ 13,174	\$ 22,291
Earnings per common share and dividends:				
Basic earnings per common share	\$ 2.15	\$ 1.79	\$ 1.33	\$ 2.15
Diluted earnings per common share	\$ 2.13	\$ 1.74	\$ 1.31	\$ 2.10

Common stock dividends per common share	\$	0.10	\$	0.10	\$	0.20	\$	0.20
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See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2008	June 30, 2007
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 14,294	\$ 23,411
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on loans and investments	2,752	(803)
Amortization of debt premiums, discounts and issuance costs	47,430	62,956
Proceeds from repayment of trading investment securities	628	5,091
Purchases of loans held for sale	(30,685)	(27,222)
Proceeds from repayment of loans held for sale	5,792	4,201
Net change in fair value of trading securities and financial derivatives	7,408	(14,654)
Amortization of SFAS 133 transition adjustment on financial derivatives	156	209
Impairment losses on available-for-sale investment securities	5,344	-
Gains on sale of available-for-sale investment securities	(150)	(21)
Gains on the sale of real estate owned	-	(32)
Total (recovery)/provision for losses	-	(528)
Deferred income taxes	(3,537)	(2,231)
Stock-based compensation expense	2,284	1,508
Decrease/(increase) in interest receivable	15,503	(9,321)
Decrease/(increase) in guarantee and commitment fees receivable	2,181	(16,283)
Decrease in other assets	131	2,502
(Decrease)/increase in accrued interest payable	(2,071)	18,861
(Decrease)/increase in other liabilities	(8,122)	20,716
Net cash provided by operating activities	59,338	68,360
Cash flows from investing activities:		
Purchases of available-for-sale investment securities (1)	(1,017,845)	(2,238,930)
Purchases of Farmer Mac II Guaranteed Securities and AgVantage Farmer Mac Guaranteed Securities	(221,053)	(122,122)
Purchases of loans held for investment	(60,621)	(34,278)
Purchases of defaulted loans	(1,189)	(1,483)
Proceeds from repayment of investment securities (2)	296,048	1,567,668
Proceeds from repayment of Farmer Mac Guaranteed Securities	152,670	131,609
Proceeds from repayment of loans held for investment	65,262	84,931
Proceeds from sale of available-for-sale investment securities	288,275	32,109
Proceeds from sale of real estate owned	-	230
Proceeds from sale of Farmer Mac Guaranteed Securities	13,876	1,324
Net cash used in investing activities	(484,577)	(578,942)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	74,710,734	56,058,511
Proceeds from issuance of medium-term notes	1,011,944	795,000
Payments to redeem discount notes	(73,636,115)	(56,100,859)
Payments to redeem medium-term notes	(1,050,000)	(537,083)

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Tax benefit from tax deductions in excess of compensation cost recognized	175	346
Proceeds from common stock issuance	3,368	5,589
Purchases of common stock	(830)	(13,186)
Dividends paid on common and preferred stock	(3,108)	(3,189)
Net cash provided by financing activities	1,036,168	205,129
Net increase/(decrease) in cash and cash equivalents	610,929	(305,453)
Cash and cash equivalents at beginning of period	101,445	877,714
Cash and cash equivalents at end of period	\$ 712,374	\$ 572,261

(1) Includes purchases of \$349.0 million and \$1.3 billion related to auction-rate certificates for the six months ended June 30, 2008 and 2007, respectively. See Note 2 to the condensed consolidated financial statements.

(2) Includes proceeds, through the normal auction process, of \$268.0 million and \$1.3 billion related to auction-rate certificates for the six months ended June 30, 2008 and 2007, respectively. See Note 2 to the condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Accounting Policies

(a) Cash and Cash Equivalents and Statements of Cash Flows

Farmer Mac considers highly liquid investment securities with original maturities of three months or less at the time of purchase to be cash equivalents. Changes in the balance of cash and cash equivalents are reported in the condensed consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the six months ended June 30, 2008 and 2007.

	Six Months Ended	
	June 30, 2008	June 30, 2007
	(in thousands)	
Cash paid for:		
Interest	\$ 57,410	\$ 49,164
Income taxes	21,500	7,000
Non-cash activity:		
Loans acquired and securitized as Farmer Mac Guaranteed Securities	1,390	1,324
Transfers of investment securities from available-for-sale to trading from the effect of adopting SFAS 159	600,468	-
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting SFAS 159	428,670	-
Transfers of available-for-sale investment securities to available-for-sale Farmer Mac Guaranteed Securities - Rural Utilities	902,420	-
Transfers of trading investment securities to trading Farmer Mac Guaranteed Securities - Rural Utilities	459,026	-

(b) Allowance for Losses

As of June 30, 2008, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held, real estate owned, and loans underlying long-term standby purchase commitments ("LTSPCs") and Farmer Mac I Guaranteed Securities issued after the Farm Credit System Reform Act of 1996 (the "1996 Act") in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5"), and Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended ("SFAS 114").

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

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

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

Management believes that its use of this methodology produces a reliable estimate of probable losses, as of the balance sheet date, for all loans held, real estate owned and loans underlying post-1996 Act Farmer Mac I Guaranteed Securities and LTSPCs in accordance with SFAS 5 and SFAS 114.

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The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three and six months ended June 30, 2008 and 2007:

	June 30, 2008			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	(in thousands)			
Three Months Ended:				
Beginning balance	\$ 1,651	\$ -	\$ 2,197	\$ 3,848
Provision/(recovery) for losses	-	-	-	-
Charge-offs	(69)	-	-	(69)
Recoveries	10	-	-	10
Ending balance	\$ 1,592	\$ -	\$ 2,197	\$ 3,789

Six Months Ended:				
Beginning balance	\$ 1,690	\$ -	\$ 2,197	\$ 3,887
Provision/(recovery) for losses	-	-	-	-
Charge-offs	(108)	-	-	(108)
Recoveries	10	-	-	10
Ending balance	\$ 1,592	\$ -	\$ 2,197	\$ 3,789

	June 30, 2007			
	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
	(in thousands)			
Three Months Ended:				
Beginning balance	\$ 1,730	\$ -	\$ 2,197	\$ 3,927
Provision/(recovery) for losses	-	100	-	100
Charge-offs	(49)	(100)	-	(149)
Recoveries	-	-	-	-
Ending balance	\$ 1,681	\$ -	\$ 2,197	\$ 3,878

Six Months Ended:				
Beginning balance	\$ 1,945	\$ -	\$ 2,610	\$ 4,555
Provision/(recovery) for losses	(215)	100	(413)	(528)
Charge-offs	(49)	(100)	-	(149)
Recoveries	-	-	-	-
Ending balance	\$ 1,681	\$ -	\$ 2,197	\$ 3,878

Prior to third quarter 2007, no allowance for losses had been made for loans underlying Farmer Mac I Guaranteed Securities issued prior to the 1996 Act ("Pre-1996 Act Farmer Mac I Guaranteed Securities"), AgVantage securities or securities issued under the Farmer Mac II program ("Farmer Mac II Guaranteed Securities"). Pre-1996 Act Farmer Mac I Guaranteed Securities are supported by unguaranteed first loss subordinated interests, which are expected to exceed the estimated credit losses on those loans. Through June 30, 2008, Farmer Mac had charged off \$0.4 million

related to one loan underlying Pre-1996 Act Farmer Mac I Guaranteed Securities. The remaining \$2.4 million of Pre-1996 Act Farmer Mac I Guaranteed Securities represent interests in seasoned performing loans with low loan-to-value ratios. Farmer Mac does not expect to incur any further losses on the remaining Pre-1996 Act Farmer Mac I Guaranteed Securities in the future. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible mortgage loans. As of June 30, 2008, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the high credit quality of the obligors, as well as the underlying collateral. As of June 30, 2008, Farmer Mac had not experienced any credit losses on any AgVantage Securities and does not expect to incur any such losses in the future. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the United States Department of Agriculture ("USDA"). Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of June 30, 2008, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities and does not expect to incur any such losses in the future.

On May 22, 2008, Congress enacted into law the Food, Conservation and Energy Act of 2008 (the “Farm Bill”), which expanded Farmer Mac’s authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders. During second quarter 2008, Farmer Mac placed its guarantee on \$430.7 million of securities representing interests in rural electric cooperative loans and \$900.0 million principal amount of obligations collateralized by rural electric cooperative loans previously held as mission-related investments under authority granted by the Farm Credit Administration (“FCA”). Farmer Mac evaluated these \$1.3 billion of Farmer Mac Guaranteed Securities – Rural Utilities and determined that there were no probable losses inherent in the securities or the underlying rural utilities loans. Accordingly, no allowance for losses was recorded as of June 30, 2008 with respect to those securities.

The table below summarizes the components of Farmer Mac’s allowance for losses as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
	(in thousands)	
Allowance for loan losses	\$ 1,592	\$ 1,690
Real estate owned valuation allowance	-	-
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	857	857
Off-balance sheet Farmer Mac I Guaranteed Securities	645	655
LTSPCs	695	685
Farmer Mac Guaranteed Securities - Rural Utilities	-	-
Total	\$ 3,789	\$ 3,887

As of June 30, 2008, Farmer Mac individually analyzed \$10.1 million of its \$46.0 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining \$35.9 million of impaired assets, for which updated valuations were not available, in the aggregate in consideration of their similar risk characteristics and historical statistics. All of the \$10.1 million of assets analyzed individually were adequately collateralized. Accordingly, Farmer Mac did not record any specific allowances for any of its impaired assets as of June 30, 2008. Similarly, as of December 31, 2007, Farmer Mac did not record any specific allowances related to its \$36.6 million of impaired assets as of that date.

Farmer Mac recognized interest income of approximately \$0.9 million and \$2.1 million on impaired loans during the three and six months ended June 30, 2008, respectively, compared to \$0.8 million and \$1.7 million, respectively, during the same periods in 2007. During the three and six months ended June 30, 2008, Farmer Mac's average investment in impaired loans was \$43.6 million and \$41.3 million, respectively, compared to \$50.4 million and \$51.3 million, respectively, for the same periods in 2007.

(c) Adoption of Fair Value Accounting Standards

Effective January 1, 2008, Farmer Mac adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") and Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 ("SFAS 159"). These standards require disclosures about financial assets and liabilities that are measured at fair value and provide an election option to report financial instruments at fair value with changes in fair value recorded in earnings as they occur.

Fair Value Measurements

SFAS 157 defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on the extent to which fair value is used to measure assets and liabilities, the inputs used to develop measurements and the effects of certain of the measurements on earnings or changes in net assets.

The principal impact of SFAS 157 to Farmer Mac is to require expanded disclosures regarding fair value measurements. SFAS 157 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Farmer Mac's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS 157. The levels of fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Farmer Mac has classified exchange-traded Treasury futures as Level 1 measurements.

Level 2 Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly. Level 2 inputs include inputs other than quoted prices that are observable for the financial instrument, such as interest rates and yield curves that are observable at commonly quoted intervals. Farmer Mac has classified financial instruments for which there are continuous and verifiable pricing sources as Level 2 inputs, including certificates of deposit, commercial paper, asset-backed securities, corporate debt securities, mortgage-backed securities, preferred stock, and most financial derivatives.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument. For financial instruments that are thinly traded, Farmer Mac uses as its primary fair value source analytical models that project cash flows based on internal and external inputs, including transaction terms, yield curves, benchmark data, volatility data, prepayment assumptions and default assumptions. Financial instruments requiring Level 3 inputs include available-for-sale Farmer Mac I Guaranteed Securities, trading Farmer Mac II Guaranteed Securities, available-for-sale and trading Farmer Mac Guaranteed Securities – Rural Utilities, auction-rate certificates, basis swaps and loans held for sale.

In some cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Farmer Mac's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial instrument.

Both observable and unobservable inputs may be used to determine the fair value of positions that Farmer Mac has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the following tables may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in long-dated volatilities) inputs.

The following table presents information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by Farmer Mac to determine such fair value.

Assets and Liabilities Measured at Fair Value as of June 30, 2008

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Fixed rate certificates of deposit	\$ -	\$ 142,086	\$ -	\$ 142,086
Fixed rate commercial paper	-	9,939	-	9,939
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	209,360	209,360
Floating rate asset-backed securities	-	97,935	-	97,935
Floating rate corporate debt securities	-	537,110	-	537,110
Floating rate Government/GSE guaranteed mortgage-backed securities	-	396,805	-	396,805
Fixed rate GSE guaranteed mortgage-backed securities	-	7,577	-	7,577
Floating rate GSE subordinated debt	-			