

FEDERAL AGRICULTURAL MORTGAGE CORP

Form 10-Q

August 10, 2015

As filed with the Securities and Exchange Commission on August 10, 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 June 30, 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 August 3, 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 9,508,091 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 June 30, 2015 (in thousands)	December 31, 2014
Assets:		
Cash and cash equivalents	\$ 1,683,156	\$ 1,363,387
Investment securities:		
Available-for-sale, at fair value	1,851,899	1,938,499
Trading, at fair value	606	689
Total investment securities	1,852,505	1,939,188
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	4,051,208	3,659,281
Held-to-maturity, at amortized cost	1,822,027	1,794,620
Total Farmer Mac Guaranteed Securities	5,873,235	5,453,901
USDA Securities:		
Available-for-sale, at fair value	1,825,406	1,731,222
Trading, at fair value	33,770	40,310
Total USDA Securities	1,859,176	1,771,532
Loans:		
Loans held for investment, at amortized cost	3,153,012	2,833,461
Loans held for investment in consolidated trusts, at amortized cost	512,559	692,478
Allowance for loan losses	(5,939)	(5,864)
Total loans, net of allowance	3,659,632	3,520,075
Real estate owned, at lower of cost or fair value	750	421
Financial derivatives, at fair value	7,455	4,177
Interest receivable (includes \$6,338 and \$9,509, respectively, related to consolidated trusts)	101,127	106,874
Guarantee and commitment fees receivable	37,847	39,462
Deferred tax asset, net	23,130	33,391
Prepaid expenses and other assets	46,584	55,413
Total Assets	\$ 15,144,597	\$ 14,287,821
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$ 7,632,668	\$ 7,353,953
Due after one year	6,013,237	5,471,186
Total notes payable	13,645,905	12,825,139
Debt securities of consolidated trusts held by third parties	516,004	424,214
Financial derivatives, at fair value	69,373	84,844
Accrued interest payable (includes \$5,302 and \$5,145, respectively, related to consolidated trusts)	50,183	48,355
Guarantee and commitment obligation	36,417	37,925
Accounts payable and accrued expenses	245,785	81,252
Reserve for losses	4,637	4,263
Total Liabilities	14,568,304	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, 9,508,000 shares and 9,406,267 shares outstanding, respectively	9,508	9,406
Additional paid-in capital	116,098	113,559
Accumulated other comprehensive income, net of tax	22,733	15,533
Retained earnings	221,477	201,013
Total Stockholders' Equity	576,106	545,801
Non-controlling interest	187	236,028
Total Equity	576,293	781,829
Total Liabilities and Equity	\$ 15,144,597	\$ 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		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(in thousands, except per share amounts)			
Interest income:				
Investments and cash equivalents	\$3,094	\$5,101	\$5,959	\$10,338
Farmer Mac Guaranteed Securities and USDA Securities	34,484	32,957	67,606	65,803
Loans	28,814	26,417	56,778	40,786
Total interest income	66,392	64,475	130,343	116,927
Total interest expense	34,528	42,502	67,690	77,228
Net interest income	31,864	21,973	62,653	39,699
(Provision for)/release of allowance for loan losses	(110	) 1,583	(186	) 1,010
Net interest income after (provision for)/release of allowance for loan losses	31,754	23,556	62,467	40,709
Non-interest income:				
Guarantee and commitment fees	3,388	3,703	6,765	7,487
Gains/(losses) on financial derivatives and hedging activities	14,389	(5,698	) 10,507	(13,276
Gains on trading securities	170	7,748	532	8,403
Gains on sale of available-for-sale investment securities	—	143	6	158
Gains/(losses) on sale of real estate owned	—	168	(1	) 165
Other income	260	200	873	292
Non-interest income	18,207	6,264	18,682	3,229
Non-interest expense:				
Compensation and employee benefits	5,733	4,889	11,426	9,345
General and administrative	3,374	3,288	6,197	6,082
Regulatory fees	600	594	1,200	1,188
Real estate owned operating costs, net	—	59	(1	) 61
Provision for/(release of) reserve for losses	1,146	(974	) 374	(873
Non-interest expense	10,853	7,856	19,196	15,803
Income before income taxes	39,108	21,964	61,953	28,135
Income tax expense/(benefit)	13,769	(6,368	) 18,000	(7,509
Net income	25,339	28,332	43,953	35,644
Less: Net loss/(income) attributable to non-controlling interest	119	(5,819	) (5,235	) (11,366
Net income attributable to Farmer Mac	25,458	22,513	38,718	24,278
Preferred stock dividends	(3,296	) (2,308	) (6,591	) (3,260
Loss on retirement of preferred stock	—	—	(8,147) —
Net income attributable to common stockholders	\$22,162	\$20,205	\$23,980	\$21,018
Earnings per common share and dividends:				
Basic earnings per common share	\$2.01	\$1.85	\$2.19	\$1.93
Diluted earnings per common share	\$1.94	\$1.78	\$2.11	\$1.85
Common stock dividends per common share	\$0.16	\$0.14	\$0.32	\$0.28

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		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(in thousands)			
Net income	\$25,339	\$28,332	\$43,953	\$35,644
Other comprehensive income, net of tax:				
Unrealized holding (losses)/gains on available-for-sale securities ⁽¹⁾	(26,114)	10,301	13,056	44,542
Unrealized gains/(losses) on cash flow hedges ⁽²⁾	930	(61)	769	(129)
Less reclassification adjustments included in:				
Gains/(losses) on financial derivatives and hedging activities ⁽³⁾	(3,219)	(3,106)	(6,379)	(6,207)
Gains on sale of available-for-sale investment securities ⁽⁴⁾	—	(93)	(4)	(103)
Other income ⁽⁵⁾	(47)	(72)	(242)	22
Other comprehensive (loss)/income	(28,450)	6,969	7,200	38,125
Comprehensive (loss)/income	(3,111)	35,301	51,153	73,769
Less: Comprehensive loss/(income) attributable to non-controlling interest	119	(5,819)	(5,235)	(11,366)
Comprehensive (loss)/income attributable to Farmer Mac	\$(2,992)	\$29,482	\$45,918	\$62,403

Presented net of income tax benefit of \$14.1 million and expense of \$5.5 million, for the three months ended

(1) June 30, 2015 and 2014, respectively, and income tax expense of \$7.0 million and \$24.0 million for the six months ended June 30, 2015 and 2014, respectively.

Presented net of income tax expense of \$0.5 million and benefit of \$33,000 for the three months ended June 30,

(2) 2015 and 2014, respectively, and income tax expense of \$0.4 million and benefit of \$69,000 for the six months ended June 30, 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 June 30, 2015 and 2014, respectively, and tax benefit of \$3.4 million and \$3.3 million for the six months ended June 30, 2015 and 2014, respectively.

Represents realized gains on sales of available-for-sale investment securities. There were no sales of

(4) available-for-sale investment securities for the three months ended June 30, 2015. Presented net of income tax benefit of \$50,000 for the three months ended June 30, 2014, and income tax benefit of \$2,000 and \$55,000 for the six months ended June 30, 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 \$25,000 and \$39,000 for the three months ended June 30, 2015 and 2014, respectively, and income tax benefit of \$0.1 million and expense of \$12,000 for the six months ended June 30, 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 Six Months Ended			
	June 30, 2015		June 30, 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	73,061
Issuance of Series C preferred stock	—	—	3,000	\$73,380
Balance, end of period	8,400	\$204,759	8,400	\$204,774
Common stock:				
Balance, beginning of period	10,937	\$10,937	10,886	\$10,886
Issuance of Class C common stock	102	102	38	38
Balance, end of period	11,039	\$11,039	10,924	\$10,924
Additional paid-in capital:				
Balance, beginning of period		\$113,559		\$110,722
Stock-based compensation expense		1,644		1,426
Issuance of Class C common stock		7		12
Tax effect of stock-based awards		888		(202)
Balance, end of period		\$116,098		\$111,958
Retained earnings:				
Balance, beginning of period		\$201,013		\$168,877
Net income attributable to Farmer Mac		38,718		24,278
Cash dividends:				
Preferred stock, Series A (\$0.7344 per share in 2015 and 2014)		(1,763)		(1,762)
Preferred stock, Series B (\$0.8594 per share in 2015 and \$0.5347 per share in 2014)		(2,578)		(1,360)
Preferred stock, Series C (\$0.7500 per share in 2015 and \$0.0458 per share in 2014)		(2,250)		(138)
Common stock (\$0.32 per share in 2015 and \$0.28 per share in 2014)		(3,516)		(3,053)
Loss on retirement of preferred stock, Farmer Mac II LLC		(8,147)		—
Balance, end of period		\$221,477		\$186,842
Accumulated other comprehensive income:				
Balance, beginning of period		\$15,533		\$(16,202)
Other comprehensive income, net of tax		7,200		38,125
Balance, end of period		\$22,733		\$21,923
Total Stockholders' Equity		\$576,106		\$536,421
Non-controlling interest:				
Balance, beginning of period		\$236,028		\$241,853
Redemption of Farmer Mac II LLC preferred stock		(235,853)		(6,000)
Investment in Contour - non-controlling interest		131		—
Net loss attributable to non-controlling interest		(119)		—
Balance, end of period		\$187		\$235,853
Total Equity		\$576,293		\$772,274

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 Six Months Ended	
	June 30, 2015	June 30, 2014
	(in thousands)	
Cash flows from operating activities:		
Net income	\$43,953	\$35,644
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	1,604	15,029
Amortization of debt premiums, discounts and issuance costs	5,870	5,144
Net change in fair value of trading securities, hedged assets, and financial derivatives	(15,619)	) 7,636
Gains on sale of available-for-sale investment securities	(6)	) (158)
Losses/(gains) on sale of real estate owned	1	) (165)
Total provision for/(release of) losses	560	) (1,883)
Deferred income taxes	5,657	) (17,496)
Stock-based compensation expense	1,644	1,427
Proceeds from repayment of trading investment securities	437	414
Proceeds from repayment of loans purchased as held for sale	54,728	58,930
Net change in:		
Interest receivable	5,747	13,125
Guarantee and commitment fees receivable	1,615	215
Other assets	9,182	) (14,473)
Securities sold, not yet purchased	—	1,673,532
Accrued interest payable	1,828	) (4,185)
Other liabilities	(3,838)	) (3,955)
Net cash provided by operating activities	113,363	1,768,781
Cash flows from investing activities:		
Net change in securities purchased under agreements to resell	—	) (1,640,686)
Purchases of available-for-sale investment securities	(915,614)	) (1,138,711)
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(559,162)	) (681,044)
Purchases of loans held for investment	(323,401)	) (407,595)
Purchases of defaulted loans	(1,981)	) (440)
Proceeds from repayment of available-for-sale investment securities	914,988	575,393
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	236,801	670,079
Proceeds from repayment of loans purchased as held for investment	143,804	199,774
Proceeds from sale of available-for-sale investment securities	74,998	730,527
Proceeds from sale of Farmer Mac Guaranteed Securities	99,477	126,857
(Payments)/proceeds from sale of real estate owned	(1)	) 461
Net cash used in investing activities	(330,091)	) (1,565,385)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	38,965,462	27,163,649
Proceeds from issuance of medium-term notes	2,690,604	1,759,012
Payments to redeem discount notes	(38,734,464)	) (28,161,623)
Payments to redeem medium-term notes	(2,106,715)	) (1,440,000)
Excess tax benefits related to stock-based awards	154	35
Payments to third parties on debt securities of consolidated trusts	(20,641)) (13,615)
Proceeds from common stock issuance	1,488	12

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Proceeds from Series B Preferred stock issuance	—	73,061
Proceeds from Series C Preferred stock issuance	—	73,380
Investment in Contour	131	—
Redemption of Farmer Mac II LLC Preferred Stock	(244,000	) (6,000)
Dividends paid - Non-controlling interest - preferred stock	(5,415	) (11,366)
Dividends paid on common and preferred stock	(10,107	) (5,131)
Net cash provided by/(used in) financing activities	536,497	(568,586)
Net increase/(decrease) in cash and cash equivalents	319,769	(365,190)
Cash and cash equivalents at beginning of period	1,363,387	749,313
Cash and cash equivalents at end of period	\$1,683,156	\$384,123

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 and six month periods ended June 30, 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.

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

Table 1.1

	Consolidation of Variable Interest Entities					Total
	As of June 30, 2015					
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	\$512,559	\$—	\$—	\$—	\$—	\$512,559
Debt securities of consolidated trusts held by third parties ⁽¹⁾	516,004	—	—	—	—	516,004
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value ⁽²⁾	—	35,008	—	32,065	—	67,073
Maximum exposure to loss ⁽³⁾	—	33,822	—	30,000	—	63,822
Investment securities:						
Carrying value ⁽⁴⁾	—	—	—	—	455,251	455,251
Maximum exposure to loss ⁽³⁾⁽⁴⁾	—	—	—	—	458,566	458,566
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss ⁽³⁾⁽⁵⁾	575,811	10,888	—	970,000	—	1,556,699

(1) Includes borrower remittances of \$3.4 million. The borrower remittances have not been passed through to third party investors as of June 30, 2015.

Includes \$1.2 million of unamortized premiums and discounts and fair value adjustments related to the USDA

(2) Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of \$2.1 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.

(3) Includes \$0.2 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.

(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 six months ended June 30, 2015 and 2014:

Table 1.2

For the Six Months Ended
June 30, 2015 June 30, 2014
(in thousands)

Non-cash activity:

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Loans acquired and securitized as Farmer Mac Guaranteed Securities	\$99,477	\$126,857
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	112,440	129,305
Purchases of securities - traded, not yet settled	236,600	—
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 and six months ended June 30, 2015 and 2014:

Table 1.3

	For the Three Months Ended			June 30, 2014		
	June 30, 2015			June 30, 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	\$22,162	11,010	\$2.01	\$20,205	10,924	\$1.85
Effect of dilutive securities ⁽¹⁾ :						
Stock options, SARs and restricted stock	—	428	(0.07)	—	437	(0.07)
Diluted EPS	\$22,162	11,438	\$1.94	\$20,205	11,361	\$1.78

For the three months ended June 30, 2015 and 2014, stock options and SARs of 229,693 and 121,468, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they (1) were anti-dilutive. For the three months ended June 30, 2015 and 2014, contingent shares of non-vested restricted stock of 45,034 and 42,514, 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.

	For the Six Months Ended			June 30, 2014	
	June 30, 2015			Net	Weighted-Ave
	Net	Weighted-Average	\$ per	Income	
	Income	Shares	Share	Income	Weighted-Ave