FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
May 10, 2016
As filed with the Securities and Exchange Commission on May 10, 2016

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, 2016
Commission File Number 001-14951

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

Federally chartered instrumentality of the United States	52-1578738
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
1999 K Street, N.W., 4th Floor, Washington, D.C.	20006
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 o Accelerated filer x
Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of May 2, 2016, the registrant had outstanding 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,919,817 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, 2016	December 31, 2015
	(in thousands)	
Assets:		
Cash and cash equivalents	$1,729,563	$1,210,084
Investment securities:		
Available-for-sale, at fair value	2,452,582	2,775,025
Trading, at fair value	383	491
Total investment securities	2,452,965	2,775,516
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	4,565,504	4,152,605
Held-to-maturity, at amortized cost	1,207,349	1,274,016
Total Farmer Mac Guaranteed Securities	5,772,853	5,426,621
USDA Securities:		
Available-for-sale, at fair value	1,908,014	1,888,344
Trading, at fair value	26,869	28,975
Total USDA Securities	1,934,883	1,917,319
Loans:		
Loans held for investment, at amortized cost	3,204,452	3,258,413
Loans held for investment in consolidated trusts, at amortized cost	816,267	708,111
Allowance for loan losses	(4,529)	(4,480)
Total loans, net of allowance	4,016,190	3,962,044
Real estate owned, at lower of cost or fair value	1,330	1,369
Financial derivatives, at fair value	7,034	3,816
Interest receivable (includes $5,270 and $7,938, respectively, related to consolidated trusts)	75,067	112,700
Guarantee and commitment fees receivable	39,389	40,189
Deferred tax asset, net	47,236	42,916
Prepaid expenses and other assets	79,518	47,780
Total Assets	$16,156,028	$15,540,354
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$9,322,682	$9,111,461
Due after one year	5,264,695	4,967,036
Total notes payable	14,587,377	14,078,497
Debt securities of consolidated trusts held by third parties	816,435	713,536
Financial derivatives, at fair value	117,956	77,199
Accrued interest payable (includes $4,244 and $6,705, respectively, related to consolidated trusts)	38,152	47,621
Guarantee and commitment obligation	37,540	38,609
Accounts payable and accrued expenses	12,455	29,089
Reserve for losses	2,097	2,083
Total Liabilities	15,612,012	14,986,634

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, 8,919,730 shares and 9,155,661 shares outstanding, respectively	8,920	9,156
Additional paid-in capital	117,434	117,862
Accumulated other comprehensive loss, net of tax	(18,917)	(11,019)
Retained earnings	230,062	231,228
Total Stockholders' Equity	543,789	553,517
Non-controlling interest	227	203
Total Equity	544,016	553,720
Total Liabilities and Equity	$16,156,028	$15,540,354

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, 2016	March 31, 2015
	(in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	$6,681	$2,865
Farmer Mac Guaranteed Securities and USDA Securities	35,510	33,122
Loans	31,700	27,964
Total interest income	73,891	63,951
Total interest expense	40,251	33,162
Net interest income	33,640	30,789
Provision for loan losses	(49)	(76)
Net interest income after provision for loan losses	33,591	30,713
Non-interest (loss)/income:		
Guarantee and commitment fees	3,626	3,377
Losses on financial derivatives and hedging activities	(6,782)	(3,882)
Gains on trading securities	358	362
(Losses)/gains on sale of available-for-sale investment securities	(9)	6
Losses on sale of real estate owned	—	(1)
Other income	101	613
Non-interest (loss)/income	(2,706)	475
Non-interest expense:		
Compensation and employee benefits	5,774	5,693
General and administrative	3,526	2,823
Regulatory fees	613	600
Real estate owned operating costs, net	39	(1)
Provision for/(release of) reserve for losses	14	(772)
Non-interest expense	9,966	8,343
Income before income taxes	20,919	22,845
Income tax expense	7,335	4,231
Net income	13,584	18,614
Less: Net loss/(income) attributable to non-controlling interest	28	(5,354)
Net income attributable to Farmer Mac	13,612	13,260
Preferred stock dividends	(3,295)	(3,295)
Loss on retirement of preferred stock	—	(8,147)
Net income attributable to common stockholders	$10,317	$1,818
Earnings per common share and dividends:		
Basic earnings per common share	$0.99	$0.17
Diluted earnings per common share	$0.94	$0.16
Common stock dividends per common share	$0.26	$0.16

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, 2016	March 31, 2015
	(in thousands)	
Net income	$13,584	$18,614
Other comprehensive income/(loss) before taxes:		
Net unrealized (losses)/gains on available-for sale securities	(6,377)	58,437
Net changes in held-to-maturity securities	(1,011)	(3,343)
Net unrealized losses on cash flow hedges	(4,763)	(247)
Other comprehensive (loss)/income before tax	(12,151)	54,847
Income tax benefit/(expense) related to other comprehensive income	4,253	(19,196)
Other comprehensive (loss)/income, net of tax	(7,898)	35,651
Comprehensive income	5,686	54,265
Less: comprehensive loss/(income) attributable to non-controlling interest	28	(5,354)
Comprehensive income attributable to Farmer Mac	$5,714	$48,911

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)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Non-controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
	(in thousands)								
Balance as of December 31, 2014	8,400	$204,759	10,937	$10,937	$113,559	$ 15,533	$201,013	$ 236,028	$781,829
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	13,260	—	13,260
Other comprehensive loss, net of tax	—	—	—	—	—	35,651	—	—	35,651
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(3,295)	—	(3,295)
Common stock	—	—	—	—	—	—	(1,750)	—	(1,750)
Issuance of Class C Common Stock	—	—	—	—	4	—	—	—	4
Stock-based compensation cost	—	—	—	—	839	—	—	—	839
Other stock-based award activity	—	—	—	—	(38)	—	—	—	(38)
Redemption of Farmer Mac II LLC preferred stock	—	—	—	—	—	—	(8,147)	(235,853)	(244,000)
Balance as of March 31, 2015	8,400	$204,759	10,937	$10,937	$114,364	$ 51,184	$201,081	$ 175	$582,500
Balance as of December 31, 2015	8,400	$204,759	10,687	$10,687	$117,862	$ (11,019)	$231,228	$ 203	$553,720
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	13,612	—	13,612
Attributable to non-controlling interest	—	—	—	—	—	—	—	(28)	(28)
Other comprehensive loss, net of tax	—	—	—	—	—	(7,898)	—	—	(7,898)
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(3,295)	—	(3,295)
Common stock	—	—	—	—	—	—	(2,702)	—	(2,702)
	—	—	71	71	3	—	—	—	74

Issuance of Class C Common Stock									
Repurchase of Class C Common Stock	—	—	(307)	(307)	—	—	(8,781)	—	(9,088)
Stock-based compensation cost	—	—	—	—	1,027	—	—	—	1,027
Other stock-based award activity	—	—	—	—	(1,458)	—	—	—	(1,458)
Investment in subsidiary - non-controlling interest	—	—	—	—	—	—	—	52	52
Balance as of March 31, 2016	8,400	$204,759	10,451	$10,451	$117,434	$(18,917)	$230,062	$227	$544,016

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, 2016	March 31, 2015
	(in thousands)	
Cash flows from operating activities:		
Net income	$13,584	$18,614
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	501	1,024
Amortization of debt premiums, discounts and issuance costs	7,643	2,832
Net change in fair value of trading securities, hedged assets, and financial derivatives	2,631	532
Losses/(gains) on sale of available-for-sale investment securities	9	(6)
Loss on sale of real estate owned	—	1
Total provision for/(release of) losses	63	(696)
Deferred income taxes	(1,483)	(1,061)
Stock-based compensation expense	1,027	839
Proceeds from repayment of trading investment securities	205	247
Proceeds from repayment of loans purchased as held for sale	28,794	32,140
Net change in:		
Interest receivable	37,633	40,562
Guarantee and commitment fees receivable	800	1,120
Other assets	(31,021)	2,066
Accrued interest payable	(9,469)	(11,972)
Other liabilities	996	2,793
Net cash provided by operating activities	51,913	89,035
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(341,099)	(715,628)
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(1,026,187)	(349,364)
Purchases of loans held for investment	(208,215)	(138,929)
Purchases of defaulted loans	(1,415)	(657)
Proceeds from repayment of available-for-sale investment securities	455,315	427,507
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	676,858	153,095
Proceeds from repayment of loans purchased as held for investment	132,652	95,570
Proceeds from sale of available-for-sale investment securities	186,769	74,998
Proceeds from sale of Farmer Mac Guaranteed Securities	139,561	49,487
Payments from sale of real estate owned	—	(1)
Net cash provided/(used) in investing activities	14,239	(403,922)
Cash flows from financing activities:		
Proceeds from issuance of discount notes	23,089,113	14,784,601
Proceeds from issuance of medium-term notes	1,207,092	1,344,848
Payments to redeem discount notes	(22,873,972)	(14,439,480)
Payments to redeem medium-term notes	(921,000)	(912,000)
Excess tax benefits related to stock-based awards	234	26
Payments to third parties on debt securities of consolidated trusts	(33,010)	(15,793)
Proceeds from common stock issuance	101	4

Common stock repurchased	(9,286)	—
Investment in Contour	52	—
Redemption of Farmer Mac II LLC Preferred Stock	—	(244,000)
Dividends paid - Non-controlling interest - preferred stock	—	(5,415)
Dividends paid on common and preferred stock	(5,997)	(5,045)
Net cash provided by financing activities	453,327	507,746
Net increase in cash and cash equivalents	519,479	192,859
Cash and cash equivalents at beginning of period	1,210,084	1,363,387
Cash and cash equivalents at end of period	$1,729,563	$1,556,246

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac") and subsidiaries have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2015 consolidated balance sheet presented in this report has been derived from Farmer Mac's audited 2015 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 2015 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, 2015 filed with the SEC on March 10, 2016. 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, 2016.

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 appraise agricultural real estate. 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 As of March 31, 2016					
	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	$816,267	$ —	$ —	$ —	$ —	$816,267
Debt securities of consolidated trusts held by third parties (1)	816,435	—	—	—	—	816,435
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value (2)	—	30,694	—	31,222	—	61,916
Maximum exposure to loss (3)	—	31,038	—	30,000	—	61,038
Investment securities:						
Carrying value (4)	—	—	—	—	862,781	862,781
Maximum exposure to loss (3) (4)	—	—	—	—	865,022	865,022
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss (3) (5)	485,302	13,268	—	970,000	—	1,468,570

(1) Includes borrower remittances of $0.2 million. The borrower remittances have not been passed through to third party investors as of March 31, 2016.

(2) Includes $0.3 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 $1.2 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, 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	$708,111	$ —	$ —	$ —	$ —	$708,111
Debt securities of consolidated trusts held by third parties (1)	713,536	—	—	—	—	713,536
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value (2)	—	31,360	—	31,400	—	62,760
Maximum exposure to loss (3)	—	31,553	—	30,000	—	61,553
Investment securities:						
Carrying value (4)	—	—	—	—	917,292	917,292
Maximum exposure to loss (3) (4)	—	—	—	—	918,121	918,121
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss (3) (5)	514,051	10,272	—	970,000	—	1,494,323

(1) Includes borrower remittances of $5.4 million, which have not been passed through to third party investors as of December 31, 2015.

(2) 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 $1.4 million.

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

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

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

(a) Statements of Cash Flows

The following table sets forth information regarding certain non-cash transactions for the three months ended March 31, 2016 and 2015:

Table 1.2

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Non-cash activity:		
Loans acquired and securitized as Farmer Mac Guaranteed Securities	$139,561	$ 49,487
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	135,913	49,487

Purchases of securities - traded, not yet settled	—	14,915
Issuance costs on the retirement of Farmer Mac II LLC Preferred Stock	—	8,147

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(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, 2016 and 2015:

Table 1.3

	For the Three Months Ended					
	March 31, 2016			March 31, 2015		
	Net Income	Weighted-Average Shares	$ per Share	Net Income	Weighted-Average Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	$10,317	10,465	$0.99	$1,818	10,938	$0.17
Effect of dilutive securities[1]						
Stock options, SARs and restricted stock	—	538	(0.05)	—	393	(0.01)
Diluted EPS	$10,317	11,003	$0.94	$1,818	11,331	$0.16

(1) For the three months ended March 31, 2016 and 2015, stock options and SARs of 210,865 and 201,401, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive. For the three months ended March 31, 2016 and 2015, contingent shares of non-vested restricted stock of 37,284 and 30,514, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

(c) Comprehensive Income

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

The following table presents the changes in accumulated other comprehensive income ("AOCI"), net of tax, by component for the three months ended March 31, 2016 and 2015:

Table 1.4

	As of March 31, 2016				As of March 31, 2015			
	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total
	(in thousands)							
For the Three Months Ended:								
Beginning Balance	$(10,035)	$ (476)	$(508)	$(11,019)	$9,716	$ 5,973	$(156)	$15,533
	(1,769)	—	(3,395)	(5,164)	41,343	—	(237)	41,106

Other comprehensive (loss)/income before reclassifications								
Amounts reclassified from AOCI	(2,376)	(657)	299	(2,734)	(3,359)	(2,173)	77	(5,455)
Net other comprehensive (loss)/income	(4,145)	(657)	(3,096)	(7,898)	37,984	(2,173)	(160)	35,651
Ending Balance	$(14,180)	$ (1,133)	$(3,604)	$(18,917)	$47,700	$ 3,800	$(316)	$51,184

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The following table presents other comprehensive income activity, the impact on net income of amounts reclassified from each component of AOCI, and the related tax impact for the three months ended March 31, 2016 and 2015:

Table 1.5

	For the Three Months Ended					
	March 31, 2016			March 31, 2015		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income/(loss):						
Available-for-sale-securities:						
Unrealized holding (losses)/gains on available-for-sale-securities	$(2,722)	$(953)	$(1,769)	$63,604	$22,261	$41,343
Less reclassification adjustments included in:						
Losses on financial derivatives and hedging activities[1]	(3,923)	(1,373)	(2,550)	(4,861)	(1,701)	(3,160)
(Losses)/gains on sale of available-for-sale investment securities[2]	9	3	6	(6)	(2)	(4)
Other income[3]	259	91	168	(300)	(105)	(195)
Total	$(6,377)	$(2,232)	$(4,145)	$58,437	$20,453	$37,984
Held-to-maturity securities:						
Change in fair value	$—	$—	$—	$—	$—	$—
Less reclassification adjustments included in:						
Net interest income[4]	(1,011)	(354)	(657)	(3,343)	(1,170)	(2,173)
Total	$(1,011)	$(354)	$(657)	$(3,343)	$(1,170)	$(2,173)
Cash flow hedges						
Unrealized losses on cash flow hedges	$(5,222)	$(1,827)	$(3,395)	$(366)	$(129)	$(237)
Less reclassification adjustments included in:						
Net interest income[5]	459	160	299	119	42	77
Total	$(4,763)	$(1,667)	$(3,096)	$(247)	$(87)	$(160)
Other comprehensive (loss)/income	$(12,151)	$(4,253)	$(7,898)	$54,847	$19,196	$35,651

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

(2) Represents unrealized gains and losses on sales of available-for-sale investment securities.

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

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

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

(d) New Accounting Standards

In January 2016, the FASB issued Accounting Standards Update ("ASU") 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which amends the guidance in GAAP on the classification and measurement of financial instruments. The ASU significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac’s financial position, results of operations, or cash flows.

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

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which provides new guidance intended to simplify several aspects of accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac’s financial position, results of operations, or cash flows.

(e) Reclassifications

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

2. INVESTMENT SECURITIES

The following tables set forth information about Farmer Mac's investment securities as of March 31, 2016 and December 31, 2015:

Table 2.1

	As of March 31, 2016					
	Amount Outstanding	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$19,700	$ —	$19,700	$ —	$(1,970)	$17,730
Floating rate asset-backed securities	69,715	(249)	69,466	5	(957)	68,514
Floating rate corporate debt securities	10,000	—	10,000	2	—	10,002
Floating rate Government/GSE guaranteed mortgage-backed securities	1,317,245	3,322	1,320,567	2,692	(5,820)	1,317,439
Fixed rate GSE guaranteed mortgage-backed securities(1)	656	2,923	3,579	4,260	—	7,839
Floating rate GSE subordinated debt	70,000	—	70,000	—	(4,535)	65,465
Fixed rate U.S. Treasuries	965,180	(618)	964,562	1,033	(2)	965,593
Total available-for-sale	2,452,496	5,378	2,457,874	7,992	(13,284)	2,452,582
Trading:						
Floating rate asset-backed securities	2,006	—	2,006	—	(1,623)	383
Total investment securities	$2,454,502	$ 5,378	$2,459,880	$ 7,992	$(14,907)	$2,452,965

(1) Fair value includes $7.1 million of an interest-only security with a notional amount of $147.9 million.

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	As of December 31, 2015 Amount Outstanding	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$46,500	$ —	$46,500	$ —	$(1,576)	$44,924
Floating rate asset-backed securities	74,744	(253)	74,491	14	(776)	73,729
Floating rate corporate debt securities	10,000	—	10,000	—	(9)	9,991
Fixed rate corporate debt securities	10,000	(1)	9,999	—	(5)	9,994
Floating rate Government/GSE guaranteed mortgage-backed securities	1,353,495	3,515	1,357,010	2,768	(4,319)	1,355,459
Fixed rate GSE guaranteed mortgage-backed securities[(1)]	692	3,117	3,809	4,095	—	7,904
Floating rate GSE subordinated debt	70,000	—	70,000	—	(3,751)	66,249
Fixed rate senior agency debt	214,000	(25)	213,975	12	—	213,987
Fixed rate U.S. Treasuries	993,680	(417)	993,263	2	(477)	992,788
Total available-for-sale	2,773,111	5,936	2,779,047	6,891	(10,913)	2,775,025
Trading:						
Floating rate asset-backed securities	2,211	—	2,211	—	(1,720)	491
Total investment securities	$2,775,322	$ 5,936	$2,781,258	$ 6,891	$(12,633)	$2,775,516

(1) Fair value includes $7.2 million of an interest-only security with a notional amount of $148.5 million.

During the three months ended March 31, 2016, Farmer Mac received proceeds of $186.8 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.2 million and gross realized losses of $0.2 million, compared to proceeds of $75.0 million for the same period in 2015, resulting in gross realized gains of $6,000.

As of March 31, 2016 and December 31, 2015, unrealized losses on available-for-sale investment securities were as follows:

Table 2.2

	As of March 31, 2016 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	$—	$—	$ 17,730	$ (1,970)
Floating rate asset-backed securities	47,887	(526)	9,432	(431)
Floating rate Government/GSE guaranteed mortgage-backed securities	699,078	(4,083)	136,650	(1,737)
Floating rate GSE subordinated debt	—	—	65,465	(4,535)
Fixed rate U.S. Treasuries	15,002	(2)	—	—

Total	$761,967	$(4,611)	$229,277	$(8,673)

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	As of December 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	$—	$—	$ 18,124	$ (1,576)
Floating rate asset-backed securities	44,552	(464)	9,975	(312)
Floating rate corporate debt securities	4,991	(9)	—	—
Fixed rate corporate debt securities	9,994	(5)	—	—
Floating rate Government/GSE guaranteed mortgage-backed securities	794,959	(3,408)	100,192	(911)
Floating rate GSE subordinated debt	—	—	66,249	(3,751)
Fixed rate U.S. Treasuries	944,842	(477)	—	—
Total	$1,799,338	$ (4,363)	$ 194,540	$ (6,550)

The unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to March 31, 2016 and December 31, 2015, 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, 2016, 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-." As of December 31, 2015, 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 three that were rated "A-." The unrealized losses were on 61 and 69 individual investment securities as of March 31, 2016 and December 31, 2015, respectively.

As of March 31, 2016, 17 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $8.7 million. As of December 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 $6.6 million. Securities in unrealized loss positions for 12 months or longer have a fair value as of March 31, 2016 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 maturity or changes in credit spreads. 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, 2016 and December 31, 2015.

Farmer Mac did not own any held-to-maturity investment securities as of March 31, 2016 and December 31, 2015. As of March 31, 2016, Farmer Mac owned trading investment securities with an amortized cost of $2.0 million, a fair value of $0.4 million, and a weighted average yield of 4.52 percent. As of December 31, 2015, Farmer Mac owned trading investment securities with an amortized cost of $2.2 million, a fair value of $0.5 million, and a weighted average yield of 4.41 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, 2016 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, 2016 Available-for-Sale Securities		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$940,691	$941,643	0.55%
Due after one year through five years	188,476	188,801	1.11%
Due after five years through ten years	545,148	542,273	1.01%
Due after ten years	783,559	779,865	1.12%
Total	$2,457,874	$2,452,582	0.88%

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, 2016 and December 31, 2015:

Table 3.1

	As of March 31, 2016					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	$1,208,802	$ (1,453)	$1,207,349	$ 13,164	$(3)	$1,220,510
Available-for-sale:						
AgVantage	$4,567,953	$ —	$4,567,953	$ 43,444	$(76,587)	$4,534,810
Farmer Mac Guaranteed USDA Securities	31,038	(315)	30,723	33	(62)	30,694
Total Farmer Mac Guaranteed Securities	4,598,991	(315)	4,598,676	43,477	(76,649)	4,565,504
USDA Securities	1,860,348	1,996	1,862,344	45,745	(75)	1,908,014
Total available-for-sale	$6,459,339	$ 1,681	$6,461,020	$ 89,222	$(76,724)	$6,473,518
Trading:						
USDA Securities	$24,928	$ 1,769	$26,697	$ 302	$(130)	$26,869

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	As of December 31, 2015					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	$1,274,431	$ (415)	$1,274,016	$ 7,801	$—	$1,281,817
Available-for-sale:						
AgVantage	$4,164,952	$ —	$4,164,952	$ 26,831	$(70,539)	$4,121,244
Farmer Mac Guaranteed USDA Securities	31,554	(333)	31,221	140	—	31,361
Total Farmer Mac Guaranteed Securities	4,196,506	(333)	4,196,173	26,971	(70,539)	4,152,605
USDA Securities	1,849,322	1,890	1,851,212	37,160	(28)	1,888,344
Total available-for-sale	$6,045,828	$ 1,557	$6,047,385	$ 64,131	$(70,567)	$6,040,949
Trading:						
USDA Securities	$27,129	$ 1,934	$29,063	$ 125	$(213)	$28,975

As of March 31, 2016 and December 31, 2015, 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, 2016 Held-to-Maturity and Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Held-to-maturity:				
AgVantage	$1,996	$(3)	$—	$—
Available-for-sale:				
AgVantage	$1,706,226	$(33,774)	$1,277,127	$(42,813)
Farmer Mac Guaranteed USDA Securities	29,172	(62)	—	—
USDA Securities			103,609	(75)
Total available-for-sale	$1,735,398	$(33,836)	$1,380,736	$(42,888)

As of December 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)			

Available-for-sale:				
AgVantage	$1,193,866	$(41,835)	$1,104,981	$(28,704)
USDA Securities	—	—	103,010	(28)
Total available-for-sale	$1,193,866	$(41,835)	$1,207,991	$(28,732)

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The unrealized losses presented above are principally due to higher interest rates from the date of acquisition to March 31, 2016 and December 31, 2015, as applicable. The credit exposure related to Farmer Mac's USDA Guarantees line of business is covered by the full faith and credit guarantee of the United States. The unrealized losses from AgVantage securities were on 27 available-for-sale securities as of March 31, 2016. There was one held-to-maturity AgVantage security with an unrealized loss as of March 31, 2016. The unrealized losses from AgVantage securities were on 22 available-for-sale securities as of December 31, 2015. There were no unrealized losses from held-to-maturity securities as of December 31, 2015. As of March 31, 2016, 9 available-for-sale AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of $42.8 million. As of December 31, 2015, 8 available-for-sale AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of $28.7 million. Farmer Mac has concluded that none of the unrealized losses on its held-to-maturity Farmer Mac Guaranteed Securities and available-for-sale Farmer Mac Guaranteed Securities and USDA Securities are other-than-temporary impairment as of either March 31, 2016 or December 31, 2015. Farmer Mac does not intend to sell these securities, and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

During the three months ended March 31, 2016 and 2015, Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Securities.

The amortized cost, fair value, and weighted average yield of available-for-sale and held-to-maturity Farmer Mac Guaranteed Securities and USDA Securities by remaining contractual maturity as of March 31, 2016 are set forth below. The balances presented are based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

Table 3.3

	As of March 31, 2016 Available-for-Sale Securities			
	Amortized Cost	Fair Value	Weighted-Average Yield	
	(dollars in thousands)			
Due within one year	$216,251	$216,688	1.33	%
Due after one year through five years	2,168,433	2,176,746	1.56	%
Due after five years through ten years	1,584,652	1,606,289	2.04	%
Due after ten years	2,491,684	2,473,795	2.57	%
Total	$6,461,020	$6,473,518	2.06	%

	As of March 31, 2016 Held-to-Maturity Securities			
	Amortized Cost	Fair Value	Weighted-Average Yield	
	(dollars in thousands)			
Due within one year	$703,005	$704,257	2.32	%
Due after one year through five years	494,656	505,844	2.35	%
Due after five years through ten years	9,688	10,409	3.43	%
Total	$1,207,349	$1,220,510	2.34	%

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As of March 31, 2016, Farmer Mac owned trading USDA Securities with an amortized cost of $26.7 million, a fair value of $26.9 million, and a weighted average yield of 5.47 percent. As of December 31, 2015, Farmer Mac owned trading USDA Securities with an amortized cost of $29.1 million, a fair value of $29.0 million, and a weighted average yield of 5.53 percent.

4. FINANCIAL DERIVATIVES

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows, or debt issuance, and not for trading or speculative purposes. Certain financial derivatives are designated as fair value hedges of fixed rate assets, primarily classified as available-for-sale, to protect against fair value changes in the assets related to a benchmark interest rate (i.e., LIBOR). Other financial derivatives are designated as cash flow hedges to mitigate the volatility of future interest rate payments on floating rate debt.

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability. Changes in the fair values of financial derivatives not designated as cash flow hedges are reported in "Losses on financial derivatives and hedging activities" in the consolidated statements of operations. For financial derivatives designated in fair value hedging relationships, changes in the fair values of the hedged items, which are primarily fixed rate AgVantage securities, related to the risk being hedged are also reported in "Losses on financial derivatives and hedging activities" in the consolidated statements of operations. Interest accruals on derivatives designated in fair value hedging relationships are recorded in "Total interest income" in the consolidated statements of operations. For the three months ended March 31, 2016 and 2015, the amount of interest expense recognized on those derivatives was $4.5 million and $5.5 million, respectively. For financial derivatives designated in cash flow hedging relationships, the effective portion of the derivative gain/loss is recorded in other comprehensive income and any ineffective portion is recognized immediately in"Losses on financial derivatives and hedging activities" in the consolidated statements of operations. Because the hedging instrument is an interest rate swap and the hedged forecasted transactions are future interest payments on variable-rate debt, amounts recorded in other comprehensive income are reclassified to "Total interest expense" in conjunction with the recognition of interest expense on the debt. During the three months ended March 31, 2016, $0.5 million was reclassified out of other comprehensive income into interest expense. The amount for the three months ended March 31, 2015 was immaterial. As of March 31, 2016, Farmer Mac expects to reclassify $1.8 million pretax, or $1.1 million after-tax, from accumulated other comprehensive income, net of tax, to earnings over the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to March 31, 2016. The maximum term over which Farmer Mac is hedging exposure to the variability of future cash flows for all forecasted transactions is 10 years. During the three months ended March 31, 2016 and 2015, there were no gains or losses from interest rate swaps designated as cash flow hedges reclassified to earnings because it became probable the original forecasted transaction would not occur.

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The following tables summarize information related to Farmer Mac's financial derivatives on a gross basis without giving consideration to master netting arrangements as of March 31, 2016 and December 31, 2015 and the effects of financial derivatives on the consolidated statements of operations for the three months ended March 31, 2016 and 2015:

Table 4.1

	As of March 31, 2016						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$1,391,816	$207	$(52,859)	1.83%	0.62%		5.49
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	144,000	—	(6,282)	2.25%	0.81%		7.05
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	445,041	—	(57,430)	4.10%	0.62%		6.53
Receive fixed non-callable	6,156,403	6,629	(1,332)	0.50%	0.56%		0.61
Receive fixed callable	115,000	135	(47)	0.56%	1.30%		3.00
Basis swaps	675,000	63	(130)	0.48%	0.57%		1.93
Agency forwards	16,603	—	(134)			102.22	
Treasury futures	5,800	—	(45)			129.62	
Credit valuation adjustment		—	303				
Total financial derivatives	$8,949,663	$7,034	$(117,956)				
Collateral pledged		—	73,659				
Net amount		$7,034	$(44,297)				

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	As of December 31, 2015						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$1,276,285	$949	$(26,703)	2.35%	0.37%		4.16
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	119,000	8	(1,381)	2.25%	0.64%		7.03
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	454,041	229	(44,528)	3.73%	0.33%		6.02
Receive fixed non-callable	5,590,638	2,384	(4,205)	0.31%	0.47%		0.57
Receive fixed callable	230,000	—	(421)	0.41%	0.91%		2.26
Basis swaps	725,000	232	(131)	0.22%	0.38%		2.33
Treasury futures	35,000	19	—			125.96	
Credit valuation adjustment		(5)	170				
Total financial derivatives	$8,429,964	$3,816	$(77,199)				
Collateral pledged		—	37,986				
Net amount		$3,816	$(39,213)				

Table 4.2

	Losses on financial derivatives and hedging activities For the Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Fair value hedges:		
Interest rate swaps[(1)]	$(26,898)	$(5,760)
Hedged items	29,787	8,876
Gains on fair value hedges	2,889	3,116
Cash flow hedges:		
Loss recognized (ineffective portion)	(149)	(216)
Losses on cash flow hedges	(149)	(216)
No hedge designation:		
Interest rate swaps	(8,142)	(5,740)
Agency forwards	(877)	(786)
Treasury futures	(503)	(256)
(Losses)/gains on financial derivatives not designated in hedging relationships	(9,522)	(6,782)

Losses on financial derivatives and hedging activities	$(6,782)	$(3,882)

(1) Included in the assessment of hedge effectiveness as of March 31, 2016, but excluded from the amounts in the table, were losses of $1.5 million, for the year ended March 31, 2016, attributable to the fair value of the swaps at the inception of the hedging relationship. Accordingly, the amounts recognized as hedge ineffectiveness for the year ended March 31, 2016 were gains of $1.4 million. The comparable amounts as of March 31, 2015 were losses of $2.9 million for the three months ended March 31, 2015, attributable to the fair value of the swaps at the inception of the hedging relationship and, accordingly, gains of $0.2 million for the three months ended March 31, 2015, attributable to hedge ineffectiveness.

As of March 31, 2016 and December 31, 2015, Farmer Mac's credit exposure to interest rate swap counterparties, excluding netting arrangements and any adjustment for nonperformance risk, but including accrued interest, was $12.6 million and $6.4 million, respectively; however, including netting arrangements and accrued interest, Farmer Mac's credit exposure was $0.2 million and $47,000 as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016 and December 31, 2015, Farmer Mac held no cash as collateral for its derivatives in net asset positions, resulting in uncollateralized net asset positions of $0.2 million and $47,000, respectively.

As of March 31, 2016 and December 31, 2015, the fair value of Farmer Mac's derivatives in a net liability position including accrued interest but excluding netting arrangements and any adjustment for nonperformance risk, was $126.7 million and $90.1 million, respectively; however, including netting arrangements and accrued interest, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level, was $113.2 million and $83.2 million as of March 31, 2016 and December 31, 2015, respectively. Farmer Mac posted cash of $73.7 million and no investment securities as of March 31, 2016 and posted cash of $38.0 million and no investment securities as of December 31, 2015. Farmer Mac records posted cash as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of prepaid expenses and other assets. Any investment securities posted as collateral are included in the investment securities balances on the consolidated balance sheets. If Farmer Mac had breached certain provisions of the derivative contracts as of March 31, 2016 and December 31, 2015, it could have been required to settle its obligations under the agreements or post additional collateral of $39.5 million and $45.2 million, respectively. As of March 31, 2016 and December 31, 2015, there were no financial derivatives in a net payable position where Farmer Mac was required to pledge collateral which the counterparty had the right to sell or repledge.

For certain derivatives, Farmer Mac clears interest rate swaps through a clearinghouse. Farmer Mac posts initial and variation margin to the clearinghouses through which centrally-cleared derivatives and futures contracts are traded. These collateral postings expose Farmer Mac to institutional credit risk in the event that either the clearinghouse or the futures commission merchant that Farmer Mac uses to post collateral to the clearinghouse fails to meet its obligations. Conversely, the use of centrally-cleared derivatives mitigates Farmer Mac's credit risk to individual counterparties because clearinghouses assume the credit risk among counterparties in centrally-cleared derivatives transactions. Of Farmer Mac's $8.9 billion notional amount of interest rate swaps outstanding as of March 31, 2016, $7.4 billion were cleared through swap clearinghouses. Of Farmer Mac's $8.4 billion notional amount of interest rate swaps outstanding as of December 31, 2015, $6.2 billion were cleared through swap clearinghouses.

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5. LOANS AND ALLOWANCE FOR LOSSES

Loans

Farmer Mac classifies loans as either held for investment or held for sale. Loans held for investment are recorded at the unpaid principal balance, net of unamortized premium or discount and other cost adjustments. Loans held for sale are reported at the lower of cost or fair value determined on a pooled basis. As of March 31, 2016 and December 31, 2015, Farmer Mac had no loans held for sale. The following table displays the composition of the loan balances as of March 31, 2016 and December 31, 2015:

Table 5.1

	As of March 31, 2016			As of December 31, 2015		
	Unsecuritized	In Consolidated Trusts	Total	Unsecuritized	In Consolidated Trusts	Total
	(in thousands)					
Farm & Ranch	$2,206,191	$ 816,267	$3,022,458	$2,249,864	$ 708,111	$2,957,975
Rural Utilities	991,851	—	991,851	1,008,126	—	1,008,126
Total unpaid principal balance[1]	3,198,042	816,267	4,014,309	3,257,990	708,111	3,966,101
Unamortized premiums, discounts and other cost basis adjustments	6,410	—	6,410	423	—	423
Total loans	3,204,452	816,267	4,020,719	3,258,413	708,111	3,966,524
Allowance for loan losses	(3,779)	(750)	(4,529)	(3,736)	(744)	(4,480)
Total loans, net of allowance	$3,200,673	$ 815,517	$4,016,190	$3,254,677	$ 707,367	$3,962,044

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

Allowance for Losses

Farmer Mac maintains an allowance for losses presented in two components on its consolidated balance sheets: (1) an allowance for loan losses to account for estimated probable losses on loans held, and (2) a reserve for losses to account for estimated probable losses on loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities. As of both March 31, 2016 and December 31, 2015, Farmer Mac's total allowances for losses were $6.6 million. See Note 6 for more information about off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs.

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The following is a summary of the changes in the total allowance for losses for the three months ended March 31, 2016 and 2015:

Table 5.2

	For the Three Months Ended					
	March 31, 2016			March 31, 2015		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
Beginning Balance	$4,480	$ 2,083	$ 6,563	$5,864	$ 4,263	$ 10,127
Provision for/(release of) losses	49	14	63	76	(772)	(696)
Ending Balance	$4,529	$ 2,097	$ 6,626	$5,940	$ 3,491	$ 9,431

During first quarter 2016, Farmer Mac recorded provisions to its allowance for loan losses of $49,000 and provisions to its reserve for losses of $14,000. The provisions to the allowance for loan losses recorded during first quarter 2016 were attributable to to an increase in the specific allowance for on-balance sheet impaired loans due to a modest increase in the balance of such loans. The provisions were partially offset by releases from the general allowance due to repayments of on-balance sheet Agricultural Storage and Processing loans. Farmer Mac recorded no charge-offs to its allowance for loan losses during first quarter 2016.

During first quarter 2015, Farmer Mac recorded provisions for its allowance for loan losses of $0.1 million and releases from its reserve for losses of $0.8 million, primarily related to repayments of Agricultural Storage and Processing loans underlying LTSPCS. Farmer Mac recorded no charge-offs to its allowance for loan losses during first quarter 2015.

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The following tables present the changes in the total allowance for losses for the three months ended March 31, 2016 and 2015 by commodity type:

Table 5.3

	March 31, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	$2,791	$ 931	$ 1,781	$ 408	$ 649	$ 3	$6,563
Provision for/(release of) losses	101	6	(18)	36	(62)	—	63
Ending Balance	$2,892	$ 937	$ 1,763	$ 444	$ 587	$ 3	$6,626

	March 31, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	$2,519	$ 2,159	$ 1,423	$ 467	$ 3,552	$ 7	$10,127
Provision for/(release of) losses	121	125	(80)	(8)	(854)	—	(696)
Ending Balance	$2,640	$ 2,284	$ 1,343	$ 459	$ 2,698	$ 7	$9,431

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The following tables present the unpaid principal balances of loans held and loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities and the related total allowance for losses by impairment method and commodity type as of March 31, 2016 and December 31, 2015:

Table 5.4

	As of March 31, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	$1,938,160	$441,233	$450,524	$116,093	$ 15,501	$3,661	$2,965,172
Off-balance sheet	1,291,650	472,190	745,414	113,624	44,369	5,178	2,672,425
Total	$3,229,810	$913,423	$1,195,938	$229,717	$ 59,870	$8,839	$5,637,597
Individually evaluated for impairment:							
On-balance sheet	$21,078	$19,896	$8,700	$7,612	$ —	$—	$57,286
Off-balance sheet	6,249	2,971	8,543	1,143	—	—	18,906
Total	$27,327	$22,867	$17,243	$8,755	$ —	$—	$76,192
Total Farm & Ranch loans:							
On-balance sheet	$1,959,238	$461,129	$459,224	$123,705	$ 15,501	$3,661	$3,022,458
Off-balance sheet	1,297,899	475,161	753,957	114,767	44,369	5,178	2,691,331
Total	$3,257,137	$936,290	$1,213,181	$238,472	$ 59,870	$8,839	$5,713,789
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	$1,930	$450	$654	$144	$ 61	$—	$3,239
Off-balance sheet	318	176	269	60	526	3	1,352
Total	$2,248	$626	$923	$204	$ 587	$3	$4,591
Individually evaluated for impairment:							
On-balance sheet	$449	$216	$421	$204	$ —	$—	$1,290
Off-balance sheet	195	95	419	36	—	—	745
Total	$644	$311	$840	$240	$ —	$—	$2,035
Total Farm & Ranch loans:							
On-balance sheet	$2,379	$666	$1,075	$348	$ 61	$—	$4,529
Off-balance sheet	513	271	688	96	526	3	2,097
Total	$2,892	$937	$1,763	$444	$ 587	$3	$6,626

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	As of December 31, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	$1,911,039	$433,654	$444,320	$92,712	$ 15,944	$3,199	$2,900,868
Off-balance sheet	1,313,872	483,473	777,663	110,378	56,208	7,142	2,748,736
Total	$3,224,911	$917,127	$1,221,983	$203,090	$ 72,152	$10,341	$5,649,604
Individually evaluated for impairment:							
On-balance sheet	$12,803	$21,247	$5,958	$7,261	$ 9,838	$—	$57,107
Off-balance sheet	5,937	3,037	8,840	774	—	—	18,588
Total	$18,740	$24,284	$14,798	$8,035	$ 9,838	$—	$75,695
Total Farm & Ranch loans:							
On-balance sheet	$1,923,842	$454,901	$450,278	$99,973	$ 25,782	$3,199	$2,957,975
Off-balance sheet	1,319,809	486,510	786,503	111,152	56,208	7,142	2,767,324
Total	$3,243,651	$941,411	$1,236,781	$211,125	$ 81,990	$10,341	$5,725,299
Allowance for Losses:							
Collectively evaluated for impairment:							
On-balance sheet	$1,968	$434	$702	$116	$ 167	$—	$3,387
Off-balance sheet	347	137	292	65	482	3	1,326
Total	$2,315	$571	$994	$181	$ 649	$3	$4,713
Individually evaluated for impairment:							
On-balance sheet	$290	$218	$384	$201	$ —	$—	$1,093
Off-balance sheet	186	142	403	26	—	—	757
Total	$476	$360	$787	$227	$ —	$—	$1,850
Total Farm & Ranch loans:							
On-balance sheet	$2,258	$652	$1,086	$317	$ 167	$—	$4,480
Off-balance sheet	533	279	695	91	482	3	2,083
Total	$2,791	$931	$1,781	$408	$ 649	$3	$6,563

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The following tables present by commodity type the unpaid principal balances, recorded investment, and specific allowance for losses related to impaired loans and the recorded investment in loans on nonaccrual status as of March 31, 2016 and December 31, 2015:

Table 5.5

	As of March 31, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$3,982	$ 12,556	$ 5,042	$ 2,126	$ —	$ —	$23,706
Unpaid principal balance	3,540	12,463	4,327	1,832	—	—	22,162
With a specific allowance:							
Recorded investment[(1)]	24,255	10,460	12,900	6,971	—	—	54,586
Unpaid principal balance	23,787	10,404	12,916	6,923	—	—	54,030
Associated allowance	644	311	840	240	—	—	2,035
Total:							
Recorded investment	28,237	23,016	17,942	9,097	—	—	78,292
Unpaid principal balance	27,327	22,867	17,243	8,755	—	—	76,192
Associated allowance	644	311	840	240	—	—	2,035
Recorded investment of loans on nonaccrual status[(2)]	$5,514	$ 15,331	$ 4,510	$ 5,985	$ —	$ —	$31,340

(1) Impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets and historical statistics on $48.8 million (62 percent) of impaired loans as of March 31, 2016, which resulted in a specific reserve of $1.1 million.

(2) Includes $2.2 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

	As of December 31, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$3,772	$ 12,340	$ 5,644	$ 1,851	$ —	$ —	$23,607
Unpaid principal balance	3,720	12,346	5,645	1,851	—	—	23,562
With a specific allowance:							
Recorded investment[(1)]	15,103	11,939	9,050	6,185	9,838	—	52,115
Unpaid principal balance	15,020	11,938	9,153	6,184	9,838	—	52,133
Associated allowance	476	360	787	227	—	—	1,850
Total:							
Recorded investment	18,875	24,279	14,694	8,036	9,838	—	75,722
Unpaid principal balance	18,740	24,284	14,798	8,035	9,838	—	75,695
Associated allowance	476	360	787	227	—	—	1,850
	$5,105	$ 16,546	$ 4,313	$ 5,870	$ 9,838	$ —	$41,672

Recorded investment of loans on nonaccrual status(2)

(1) Impairment analysis was performed in the aggregate in consideration of similar risk characteristics of the assets and historical statistics on $46.4 million (61 percent) of impaired loans as of December 31, 2015, which resulted in a specific reserve of $1.0 million.

(2) Includes $14.7 million of loans that are less than 90 days delinquent but which have not met Farmer Mac's performance criteria for returning to accrual status.

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The following table presents by commodity type the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2016 and 2015:

Table 5.6

	March 31, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	$23,555	$ 23,648	$ 16,318	$ 8,567	$ 4,919	$ —	$77,007
Income recognized on impaired loans	2	44	15	72	—	—	133

	March 31, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Average recorded investment in impaired loans	$19,218	$ 40,764	$ 15,311	$ 12,507	$ —	$ —	$87,800
Income recognized on impaired loans	282	83	148	58	—	—	571

For the three months ended March 31, 2016 and 2015, there were no troubled debt restructurings ("TDRs"). As of March 31, 2016 and 2015, there were no TDRs identified during the previous 12 months that were in default under the modified terms. The impact of TDRs on Farmer Mac's allowance for loan losses was immaterial for the three months ended March 31, 2016 and 2015.

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days delinquent (depending on the provisions of the applicable agreement) upon the request of the counterparty. Subsequent to the purchase, these defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment.

During first quarter 2016, Farmer Mac purchased five defaulted loans having an unpaid principal balance of $1.4 million from pools underlying Farm & Ranch Guaranteed Securities and LTSPCs. During first quarter 2015, Farmer Mac purchased one defaulted loan having an unpaid principal balance of $0.7 million from a pool underlying a Farm & Ranch Guaranteed Security.

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The following tables present information related to Farmer Mac's acquisition of defaulted loans for the three months ended March 31, 2016 and 2015 and the outstanding balances and carrying amounts of all such loans as of March 31, 2016 and December 31, 2015:

Table 5.7

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Unpaid principal balance at acquisition date:		
Loans underlying LTSPCs	$ 1,267	$ —
Loans underlying off-balance sheet Farmer Mac Guaranteed Securities	148	657
Total unpaid principal balance at acquisition date	1,415	657
Contractually required payments receivable	1,435	—
Impairment recognized subsequent to acquisition	—	52
Recovery/release of allowance for defaulted loans	4	121

	As of March 31, 2016	December 31, 2015
	(in thousands)	
Outstanding balance	$25,893	$ 36,195
Carrying amount	23,766	34,015

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Net credit losses and 90-day delinquencies as of and for the periods indicated for loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs are presented in the table below. As of March 31, 2016, there were no delinquencies and no probable losses inherent in Farmer Mac's Rural Utilities loan portfolio and Farmer Mac had not experienced credit losses on any Rural Utilities loans.

Table 5.8

	90-Day Delinquencies[1]		Net Credit Losses	
	As of		For the Three Months Ended	
	March 31, 2016	December 31, 2015	March 31, 2016	March 31, 2015
	(in thousands)			
On-balance sheet assets:				
Farm & Ranch:				
Loans	$29,184	$ 26,935	$ 39	$ —
Total on-balance sheet	$29,184	$ 26,935	$ 39	$ —
Off-balance sheet assets:				
Farm & Ranch:				
LTSPCs	$5,496	$ 5,201	$ —	$ —
Total off-balance sheet	$5,496	$ 5,201	$ —	$ —
Total	$34,680	$ 32,136	$ 39	$ —

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

Of the $29.2 million and $26.9 million of on-balance sheet loans reported as 90-day delinquencies as of March 31, 2016 and December 31, 2015, respectively, none were loans subject to "removal-of-account" provisions.

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Credit Quality Indicators

The following tables present credit quality indicators related to Farm & Ranch loans held and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities as of March 31, 2016 and December 31, 2015:

Table 5.9

	As of March 31, 2016						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade(1)							
On-balance sheet:							
Acceptable	$1,928,285	$440,033	$425,346	$113,197	$ 15,501	$3,661	$2,926,023
Special mention(2)	9,875	1,200	25,178	2,896	—	—	39,149
Substandard(3)	21,078	19,896	8,700	7,612	—	—	57,286
Total on-balance sheet	$1,959,238	$461,129	$459,224	$123,705	$ 15,501	$3,661	$3,022,458
Off-Balance Sheet:							
Acceptable	$1,248,018	$439,781	$712,410	$107,708	$ 42,169	$4,525	$2,554,611
Special mention(2)	34,114	28,933	21,202	1,268	2,200	552	88,269
Substandard(3)	15,767	6,447	20,345	5,791	—	101	48,451
Total off-balance sheet	$1,297,899	$475,161	$753,957	$114,767	$ 44,369	$5,178	$2,691,331
Total Ending Balance:							
Acceptable	$3,176,303	$879,814	$1,137,756	$220,905	$ 57,670	$8,186	$5,480,634
Special mention(2)	43,989	30,133	46,380	4,164	2,200	552	127,418
Substandard(3)	36,845	26,343	29,045	13,403	—	101	105,737
Total	$3,257,137	$936,290	$1,213,181	$238,472	$ 59,870	$8,839	$5,713,789
Commodity analysis of past due loans(1)							
On-balance sheet	$11,785	$10,867	$3,873	$2,659	$ —	$—	$29,184
Off-balance sheet	692	—	4,322	482	—	—	5,496
90 days or more past due	$12,477	$10,867	$8,195	$3,141	$ —	$—	$34,680

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

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

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

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	As of December 31, 2015						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade[1]							
On-balance sheet:							
Acceptable	$1,888,762	$431,038	$409,003	$89,541	$ 15,944	$3,199	$2,837,487
Special mention[2]	22,255	2,616	35,317	2,918	—	—	63,106
Substandard[3]	12,825	21,247	5,958	7,514	9,838	—	57,382
Total on-balance sheet	$1,923,842	$454,901	$450,278	$99,973	$ 25,782	$3,199	$2,957,975
Off-Balance Sheet							
Acceptable	$1,279,454	$473,335	$753,472	$102,990	$ 56,208	$6,517	$2,671,976
Special mention[2]	24,422	7,226	13,121	2,938	—	523	48,230
Substandard[3]	15,933	5,949	19,910	5,224	—	102	47,118
Total off-balance sheet	$1,319,809	$486,510	$786,503	$111,152	$ 56,208	$7,142	$2,767,324
Total Ending Balance:							
Acceptable	$3,168,216	$904,373	$1,162,475	$192,531	$ 72,152	$9,716	$5,509,463
Special mention[2]	46,677	9,842	48,438	5,856	—	523	111,336
Substandard[3]	28,758	27,196	25,868	12,738	9,838	102	104,500
Total	$3,243,651	$941,411	$1,236,781	$211,125	$ 81,990	$10,341	$5,725,299
Commodity analysis of past due loans[1]							
On-balance sheet	$4,656	$7,405	$2,517	$2,519	$ 9,838	$—	$26,935
Off-balance sheet	511	—	4,542	148	—	—	5,201
90 days or more past due	$5,167	$7,405	$7,059	$2,667	$ 9,838	$—	$32,136

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

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

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

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Concentrations of Credit Risk

The following table sets forth the geographic and commodity/collateral diversification, as well as the range of original loan-to-value ratios, for all Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs as of March 31, 2016 and December 31, 2015:

Table 5.10

	As of March 31, 2016	December 31, 2015
	(in thousands)	
By commodity/collateral type:		
Crops	$3,257,137	$3,243,651
Permanent plantings	936,290	941,411
Livestock	1,213,181	1,236,781
Part-time farm	238,472	211,125
Ag. Storage and Processing	59,870	81,990
Other	8,839	10,341
Total	$5,713,789	$5,725,299
By geographic region(1):		
Northwest	$589,786	$582,127
Southwest	1,692,783	1,726,927
Mid-North	2,013,333	2,009,654
Mid-South	764,476	769,831
Northeast	213,848	215,883
Southeast	439,563	420,877
Total	$5,713,789	$5,725,299
By original loan-to-value ratio:		
0.00% to 40.00%	$1,567,093	$1,594,818
40.01% to 50.00%	1,313,479	1,279,321
50.01% to 60.00%	1,582,340	1,593,025
60.01% to 70.00%	1,087,370	1,107,710
70.01% to 80.00%	141,288	126,860
80.01% to 90.00%	22,219	23,565
Total	$5,713,789	$5,725,299

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

The original loan-to-value ratio is calculated by dividing the loan principal balance at the time of guarantee, purchase, or commitment by the appraised value at the date of loan origination or, when available, the updated appraised value at the time of guarantee, purchase, or commitment. Current loan-to-value ratios may be higher or lower than the original loan-to-value ratios.

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6. OFF-BALANCE SHEET GUARANTEES AND LONG-TERM STANDBY PURCHASE COMMITMENTS

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

The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of March 31, 2016 and December 31, 2015, not including offsets provided by any recourse provisions, recoveries from third parties, or collateral for the underlying loans:

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

	As of March 31, 2016	As of December 31, 2015
	(in thousands)	
Farm & Ranch:		
Guaranteed Securities	$485,302	$514,051
USDA Guarantees:		
Farmer Mac Guaranteed USDA Securities	13,268	10,272
Institutional Credit:		
AgVantage Securities	984,871	984,871
Revolving floating rate AgVantage facility[1]	300,000	300,000
Total off-balance sheet Farmer Mac Guaranteed Securities	$1,783,441	$1,809,194

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

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

Table 6.2

	For the Three Months Ended March 31, 2016	March 31, 2015
	(in thousands)	
Proceeds from new securitizations	$139,561	$49,487
Guarantee fees received	561	692
Purchases of assets from the trusts	(1,267)	(657)

Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated $7.6 million as of March 31, 2016 and $8.3 million as of December 31, 2015. As of March 31, 2016 and December 31, 2015, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 11.2 years and 11.3 years, respectively. As of

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March 31, 2016 and December 31, 2015, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 1.4 years and 1.7 years, respectively.

Long-Term Standby Purchase Commitments

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

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties, or collateral for the underlying loans, was $2.7 billion as of March 31, 2016 and $2.8 billion as of December 31, 2015.

As of both March 31, 2016 and December 31, 2015, the weighted-average remaining maturity of all loans underlying LTSPCs was 14.6 years. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated $29.9 million as of March 31, 2016 and $30.3 million as of December 31, 2015.

7. EQUITY

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of $250.0 million of securities issued by a newly formed Delaware statutory trust. The trust securities, called Farm Asset-Linked Capital Securities or "FALConS," represented undivided beneficial ownership interests in 250,000 shares of non-cumulative perpetual preferred stock (the "Farmer Mac II LLC Preferred Stock") of Farmer Mac's subsidiary, Farmer Mac II LLC, a Delaware limited liability company. The Farmer Mac II LLC Preferred Stock had a liquidation preference of $1,000 per share. On May 14, 2014, Farmer Mac purchased $6.0 million of FALConS from certain holders. On March 30, 2015, Farmer Mac II LLC redeemed all of the outstanding shares of Farmer Mac II LLC Preferred Stock which, in turn, triggered the redemption of all of the outstanding FALConS on that same day. Farmer Mac recognized an expense of $8.1 million in deferred issuance costs upon the retirement of the Farmer Mac II LLC Preferred Stock.

Common Stock

On September 8, 2015, Farmer Mac's board of directors approved a share repurchase program authorizing Farmer Mac to repurchase up to $25 million of its outstanding Class C non-voting common stock over the next two years. As of March 31, 2016, Farmer Mac had repurchased approximately 668,000 shares of Class C non-voting common stock at a cost of approximately $19.6 million pursuant to the share repurchase program.

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Capital Requirements

Farmer Mac is subject to the following capital requirements:

- Statutory minimum capital requirement – Farmer Mac's statutory minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income) equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, specifically including:
  - the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
  - instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
  - other off-balance sheet obligations of Farmer Mac.
- Statutory critical capital requirement – Farmer Mac's critical capital level is an amount of core capital equal to 50 percent of the total minimum capital requirement at that time.
- Risk-based capital requirement – Farmer Mac's charter directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters.

Farmer Mac is required to comply with the higher of the minimum capital requirement and the risk-based capital requirement. As of March 31, 2016 and December 31, 2015, the minimum capital requirement was greater than the risk-based capital requirement. Farmer Mac's ability to declare and pay dividends could be restricted if it fails to comply with applicable capital requirements.

As of March 31, 2016, Farmer Mac's minimum capital requirement was $477.8 million and its core capital level was $562.7 million, which was $84.9 million above the minimum capital requirement as of that date. As of December 31, 2015, Farmer Mac's minimum capital requirement was $462.1 million and its core capital level was $564.5 million, which was $102.4 million above the minimum capital requirement as of that date.

In accordance with FCA's rule on Farmer Mac's capital planning, and as part of Farmer Mac's capital plan, Farmer Mac has adopted a policy for maintaining a sufficient level of Tier 1 capital (consisting of retained earnings, paid-in-capital, common stock, qualifying preferred stock, and accumulated other comprehensive income allocable to investments not included in one of the four operating lines of business) and imposing restrictions on Tier 1-eligible dividends and any discretionary bonus payments in the event that this capital falls below specified thresholds.

8. FAIR VALUE DISCLOSURES

As of March 31, 2016, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.5 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 40 percent of total assets and 72 percent of financial instruments measured at fair value as of March 31, 2016. As of December 31, 2015, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.1 billion whose fair values were estimated by management in the absence of readily determinable fair values. These financial instruments measured as level 3 represented 39 percent of total assets and 69 percent of financial instruments measured at fair value as of December 31, 2015.

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Net transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets and liabilities as of the beginning of the reporting period. There were no transfers within the fair value hierarchy for fair value measurements of Farmer Mac's investment securities, Farmer Mac Guaranteed Securities, USDA Securities, and financial derivatives during the first three months of 2016 and 2015.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of March 31, 2016 and December 31, 2015, respectively, and indicate the fair value hierarchy of the valuation techniques used by Farmer Mac to determine such fair value:

Table 8.1
Assets and Liabilities Measured at Fair Value as of March 31, 2016

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$17,730	$17,730
Floating rate asset-backed securities	—	68,514	—	68,514
Floating rate corporate debt securities	—	10,002	—	10,002
Floating rate Government/GSE guaranteed mortgage-backed securities	—	1,317,439	—	1,317,439
Fixed rate GSE guaranteed mortgage-backed securities	—	7,839	—	7,839
Floating rate GSE subordinated debt	—	65,465	—	65,465
Fixed rate U.S. Treasuries	965,593	—	—	965,593
Total available-for-sale	965,593	1,469,259	17,730	2,452,582
Trading:				
Floating rate asset-backed securities	—	—	383	383
Total trading	—	—	383	383
Total Investment Securities	965,593	1,469,259	18,113	2,452,965
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
AgVantage	—	—	4,534,810	4,534,810
Farmer Mac Guaranteed USDA Securities	—	—	30,694	30,694
Total Farmer Mac Guaranteed Securities	—	—	4,565,504	4,565,504
USDA Securities:				
Available-for-sale	—	—	1,908,014	1,908,014
Trading	—	—	26,869	26,869
Total USDA Securities	—	—	1,934,883	1,934,883
Financial derivatives	—	7,034	—	7,034
Total Assets at fair value	$965,593	$1,476,293	$6,518,500	$8,960,386
Liabilities:				
Financial derivatives	$45	$117,911	$—	$117,956
Total Liabilities at fair value	$45	$117,911	$—	$117,956
Nonrecurring:				
Assets:				
Loans held for investment	$—	$—	$1,853	$1,853
REO	—	—	663	663
Total Nonrecurring Assets at fair value	$—	$—	$2,516	$2,516

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Assets and Liabilities Measured at Fair Value as of December 31, 2015

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$44,924	$44,924
Floating rate asset-backed securities	—	73,729	—	73,729
Floating rate corporate debt securities	—	9,991	—	9,991
Fixed rate corporate debt	—	9,994	—	9,994
Floating rate Government/GSE guaranteed mortgage-backed securities	—	1,355,459	—	1,355,459
Fixed rate GSE guaranteed mortgage-backed securities	—	7,904	—	7,904
Floating rate GSE subordinated debt	—	66,249	—	66,249
Fixed rate senior agency debt	—	213,987	—	213,987
Fixed rate U.S. Treasuries	992,788	—	—	992,788
Total available-for-sale	992,788	1,737,313	44,924	2,775,025
Trading:				
Floating rate asset-backed securities	—	—	491	491
Total trading	—	—	491	491
Total Investment Securities	992,788	1,737,313	45,415	2,775,516
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
AgVantage	—	—	4,121,244	4,121,244
Farmer Mac Guaranteed USDA Securities	—	—	31,361	31,361
Total Farmer Mac Guaranteed Securities	—	—	4,152,605	4,152,605
USDA Securities:				
Available-for-sale	—	—	1,888,344	1,888,344
Trading	—	—	28,975	28,975
Total USDA Guaranteed Securities	—	—	1,917,319	1,917,319
Financial derivatives	19	3,797	—	3,816
Total Assets at fair value	$992,807	$1,741,110	$6,115,339	$8,849,256
Liabilities:				
Financial derivatives	$—	$77,199	$—	$77,199
Total Liabilities at fair value	$—	$77,199	$—	$77,199
Nonrecurring:				
Assets:				
Loans held for investment	$—	$—	$11,443	$11,443
REO	$—	$—	$388	$388
Total Nonrecurring Assets at fair value	$—	$—	$11,831	$11,831

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The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which Farmer Mac has used significant unobservable inputs to determine fair value. Net transfers in and/or out of level 3 are based on the fair values of the assets and liabilities as of the beginning of the reporting period. There were no liabilities measured at fair value using significant unobservable inputs during the three months ended March 31, 2016 and 2015.

Table 8.2

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended March 31, 2016

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$44,924	$—	$(26,806)	$—	$6	$(394)	$17,730
Total available-for-sale	44,924	—	(26,806)	—	6	(394)	17,730
Trading:							
Floating rate asset-backed securities[(1)]	491	—	—	(206)	98	—	383
Total trading	491	—	—	(206)	98	—	383
Total Investment Securities	45,415	—	(26,806)	(206)	104	(394)	18,113
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	4,121,244	915,531	—	(512,530)	24,298	(13,733)	4,534,810
Farmer Mac Guaranteed USDA Securities	31,361	—	—	(498)	—	(169)	30,694
Total Farmer Mac Guaranteed Securities	4,152,605	915,531	—	(513,028)	24,298	(13,902)	4,565,504
USDA Securities:							
Available-for-sale	1,888,344	98,974	(3,648)	(84,193)	—	8,537	1,908,014
Trading[(2)]	28,975	—	—	(2,365)	259	—	26,869
Total USDA Securities	1,917,319	98,974	(3,648)	(86,558)	259	8,537	1,934,883
Total Assets at fair value	$6,115,339	$1,014,505	$(30,454)	$(599,792)	$24,661	$(5,759)	$6,518,500

(1) Unrealized gains are attributable to assets still held as of March 31, 2016 and are recorded in "Gains on trading securities."

(2) Includes unrealized gains of $0.2 million attributable to assets still held as of March 31, 2016 that are recorded in "Gains on trading securities."

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Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended March 31, 2015

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains included in Income	Unrealized Gains/(Losses) included in Other Comprehen-sive Income	Ending Balance
	(in thousands)						
Recurring:							
Assets:							
Investment Securities:							
Available-for-sale:							
Floating rate auction-rate certificates backed by Government guaranteed student loans	$40,576	$—	$ —	$—	$ —	$ (197)	$40,379
Total available-for-sale	40,576	—	—	—	—	(197)	40,379
Trading:							
Floating rate asset-backed securities[1]	689	—	—	(247)	196	—	638
Total trading	689	—	—	(247)	196	—	638
Total Investment Securities	41,265	—	—	(247)	196	(197)	41,017
Farmer Mac Guaranteed Securities:							
Available-for-sale:							
AgVantage	3,631,662	214,915	—	(57,753)	8,877	21,003	3,818,704
Farmer Mac Guaranteed USDA Securities	27,619	—	—	(4,652)	—	538	23,505
Total Farmer Mac Guaranteed Securities	3,659,281	214,915	—	(62,405)	8,877	21,541	3,842,209
USDA Securities:							
Available-for-sale	1,731,222	89,186	—	(64,191)	—	38,627	1,794,844
Trading[2]	40,310	—	—	(2,883)	166	—	37,593
Total USDA Securities	1,771,532	89,186	—	(67,074)	166	38,627	1,832,437
Total Assets at fair value	$5,472,078	$304,101	$ —	$(129,726)	$ 9,239	$ 59,971	$5,715,663

(1) Unrealized gains are attributable to assets still held as of March 31, 2015 and are recorded in "Gains on trading securities."

(2) Includes unrealized gains of $0.2 million attributable to assets still held as of March 31, 2015 that are recorded in "Gains on trading securities."

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The following tables present additional information about the significant unobservable inputs, such as discount rates and constant prepayment rates ("CPR"), used in the fair value measurements categorized in level 3 of the fair value hierarchy as of March 31, 2016 and December 31, 2015.

Table 8.3

	As of March 31, 2016			
Financial Instruments	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted-Average)
	(in thousands)			
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$17,730	Indicative bids	Range of broker quotes	90.0% - 90.0% (90.0%)
Floating rate asset-backed securities	$383	Discounted cash flow	Discount rate	22.5% - 26.5% (24.9%)
			CPR	10.0%
Farmer Mac Guaranteed Securities:				
AgVantage	$4,534,810	Discounted cash flow	Discount rate	1.3% - 2.8% (1.7%)
Farmer Mac Guaranteed USDA Securities	$30,694	Discounted cash flow	Discount rate	1.3% - 4.2% (2.0%)
			CPR	9% - 22% (11%)
USDA Securities	$1,934,883	Discounted cash flow	Discount rate	1.6% - 5.1% (3.1%)
			CPR	0% - 21% (9%)

	As of December 31, 2015			
Financial Instruments	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted-Average)
	(in thousands)			
Assets:				
Investment securities:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$44,924	Indicative bids	Range of broker quotes	92.0% - 99.6% (96.6%)
Floating rate asset-backed securities	$491	Discounted cash flow	Discount rate	18.3% - 23.9% (21.5%)
			CPR	10.0%
Farmer Mac Guaranteed Securities:				
AgVantage	$4,121,244	Discounted cash flow	Discount rate	1.1% - 3.3% (1.8%)
Farmer Mac Guaranteed USDA Securities	$31,361	Discounted cash flow	Discount rate	1.0% - 3.9% (1.8%)
			CPR	9% - 20% (10.0%)
USDA Securities	$1,917,319	Discounted cash flow	Discount rate	1.3% - 5.1% (3.1%)
			CPR	0% - 19% (7.0%)

The significant unobservable inputs used in the fair value measurements of Farmer Mac Guaranteed Securities and USDA Securities are prepayment rates and discount rates commensurate with the risks involved. Typically, significant increases (decreases) in any of these inputs in isolation may result in materially lower (higher) fair value measurements. Generally, in a rising interest rate environment, Farmer Mac would expect average discount rates to increase and would likely expect a corresponding decrease in forecasted prepayment rates. Conversely, in a declining interest rate environment, Farmer Mac would expect average discount rates to decrease and would likely expect a corresponding increase in forecasted prepayment rates. Prepayment rates are not presented in the table above for AgVantage securities because they generally do not pay down principal based on amortization schedules but instead typically have fixed maturity dates when the secured general obligations are due.

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Disclosures on Fair Value of Financial Instruments

The following table sets forth the estimated fair values and carrying values for financial assets, liabilities, and guarantees and commitments as of March 31, 2016 and December 31, 2015:

Table 8.4

	As of March 31, 2016		As of December 31, 2015	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$1,729,563	$1,729,563	$1,210,084	$1,210,084
Investment securities	2,452,965	2,452,965	2,775,516	2,775,516
Farmer Mac Guaranteed Securities	5,786,014	5,772,853	5,434,422	5,426,621
USDA Securities	1,934,883	1,934,883	1,917,319	1,917,319
Loans	4,076,366	4,016,190	4,027,660	3,962,044
Financial derivatives	7,034	7,034	3,816	3,816
Guarantee and commitment fees receivable:				
LTSPCs	29,450	30,790	31,953	31,240
Farmer Mac Guaranteed Securities	8,259	8,599	8,872	8,949
Financial liabilities:				
Notes payable:				
Due within one year	9,326,082	9,322,682	9,108,468	9,111,461
Due after one year	5,385,606	5,264,695	5,009,310	4,967,036
Debt securities of consolidated trusts held by third parties	823,798	816,435	713,316	713,536
Financial derivatives	117,956	117,956	77,199	77,199
Guarantee and commitment obligations:				
LTSPCs	28,593	29,932	31,015	30,301
Farmer Mac Guaranteed Securities	7,268	7,608	8,230	8,308

The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value and is classified as level 1 within the fair value hierarchy. Investment securities primarily are valued based on unadjusted quoted prices in active markets and are classified as level 2 within the fair value hierarchy. Farmer Mac internally models the fair value of its loan portfolio, including loans held for sale, loans held for investment and loans held for investment in consolidated trusts, Farmer Mac Guaranteed Securities, and USDA Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. These fair value measurements do not take into consideration the fair value of the underlying property and are classified as level 3 within the fair value hierarchy. Financial derivatives primarily are valued using unadjusted counterparty valuations and are classified as level 2 within the fair value hierarchy. The fair value of the guarantee fees receivable/obligation and debt securities of consolidated trusts are estimated based on the present value of expected future cash flows of the underlying mortgage assets using management's best estimate of certain key assumptions, which include prepayments speeds, forward yield curves, and discount rates commensurate with the risks involved and are classified as level 3 within the fair value hierarchy. Notes payable are valued by discounting the expected cash flows of these instruments using a yield curve derived from market prices observed for similar agency securities and are

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also classified as level 3 within the fair value hierarchy. Because the cash flows of Farmer Mac's financial instruments may be interest rate path dependent, estimated fair values and projected discount rates for level 3 financial instruments are derived using a Monte Carlo simulation model. Different market assumptions and estimation methodologies could significantly affect estimated fair value amounts.

9. BUSINESS SEGMENT REPORTING

The following tables present core earnings for Farmer Mac's reportable operating segments and a reconciliation to consolidated net income for the three months ended March 31, 2016 and 2015:

Table 9.1

Core Earnings by Business Segment
For the Three Months Ended March 31, 2016

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
	(in thousands)						
Interest income(1)	$24,852	$15,282	$6,829	$20,268	$6,681	$(21)	$73,891
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(1,043)	—	—	—	—	1,043	—
Interest expense(2)	(14,348)	(10,974)	(4,291)	(9,178)	(4,129)	2,669	(40,251)
Net effective spread	9,461	4,308	2,538	11,090	2,552	3,691	33,640
Guarantee and commitment fees	3,909	7	295	458	—	(1,043)	3,626
Other income/(expense)(3)	97	58	—	—	(672)	(5,815)	(6,332)
Non-interest income/(loss)	4,006	65	295	458	(672)	(6,858)	(2,706)
Provision for loan losses	(49)	—	—	—	—	—	(49)
Provision for losses	(14)	—	—	—	—	—	(14)
Other non-interest expense	(4,161)	(1,093)	(831)	(539)	(3,328)	—	(9,952)
Non-interest expense(4)	(4,175)	(1,093)	(831)	(539)	(3,328)	—	(9,966)
Core earnings before income taxes	9,243	3,280	2,002	11,009	(1,448)	(3,167) (5)	20,919
Income tax (expense)/benefit	(3,236)	(1,148)	(701)	(3,852)	493	1,109	(7,335)
Core earnings before preferred stock dividends and	6,007	2,132	1,301	7,157	(955)	(2,058) (5)	13,584

attribution of income to non-controlling interest							
Preferred stock dividends	—	—	—	—	(3,295)	—	(3,295)
Non-controlling interest	—	—	—	—	28	—	28
Segment core earnings/(losses)	$6,007	$2,132	$1,301	$7,157	$(4,222)	$(2,058) (5)	$10,317
Total assets at carrying value	$3,115,749	$1,987,855	$1,002,691	$5,731,346	$4,318,387	$—	$16,156,028
Total on- and off-balance sheet program assets at principal balance	5,713,789	1,929,582	1,510,575	7,061,626		—	16,215,572

(1) Includes reconciling adjustments for the amortization of premiums and discounts on assets consolidated at fair value to reflect core earnings amounts.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps not designated as hedges, which are included in "Losses on financial derivatives and hedging activities" on the consolidated financial statements.

(3) Includes reconciling adjustments for the reclassification of expenses related to interest rate swaps not designated as hedges and fair value adjustments on financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Core Earnings by Business Segment
For the Three Months Ended March 31, 2015

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Reconciling Adjustments	Consolidated Net Income
	(in thousands)						
Interest income[1]	$21,968	$14,348	$6,585	$19,299	$2,865	$(1,114)	$63,951
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(635)	—	—	—	—	635	—
Interest expense[2]	(11,219)	(10,123)	(3,781)	(8,874)	(1,176)	2,011	(33,162)
Net effective spread	10,114	4,225	2,804	10,425	1,689	1,532	30,789
Guarantee and commitment fees	3,633	(6)	—	385	—	(635)	3,377
Other income/(expense)[3]	87	59	—	—	(552)	(2,496)	(2,902)
Non-interest income/(loss)	3,720	53	—	385	(552)	(3,131)	475
Provision for loan losses	(76)	—	—	—	—	—	(76)
Release of reserve for losses	772	—	—	—	—	—	772
Other non-interest expense	(4,326)	(385)	(866)	(535)	(3,003)	—	(9,115)
Non-interest expense[4]	(3,554)	(385)	(866)	(535)	(3,003)	—	(8,343)
Core earnings before income taxes	10,204	3,893	1,938	10,275	(1,866)	(1,599) [5]	22,845
Income tax (expense)/benefit	(3,571)	(1,363)	(678)	(3,596)	2,516	2,461	(4,231)
Core earnings before preferred stock dividends and attribution of income to non-controlling interest - preferred stock dividends	6,633	2,530	1,260	6,679	650	862 [5]	18,614
Preferred stock dividends	—	—	—	—	(3,295)	—	(3,295)
Non-controlling interest - preferred stock dividends	—	—	—	—	(5,354)	—	(5,354)
Loss on retirement of preferred stock	—	—	—	—	—	(8,147)	(8,147)
Segment core earnings/(losses)	$6,633	$2,530	$1,260	$6,679	$(7,999)	$(7,285) [5]	$1,818

Total assets at carrying value	$2,637,743	$1,876,337	$970,020	$5,594,736	$3,770,849	$ —	$14,849,685
Total on- and off-balance sheet program assets at principal balance	5,347,248	1,814,918	968,117	6,529,934		—	14,660,217

(1) Includes reconciling adjustments for the amortization of premiums and discounts on assets consolidated at fair value to reflect core earnings amounts.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps not designated as hedges, which are included in "Losses on financial derivatives and hedging activities" on the consolidated financial statements.

(3) Includes reconciling adjustments for the reclassification of expenses related to interest rate swaps not designated as hedges and fair value adjustments on financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest; and segment core earnings to corresponding income measures: income before income taxes, net income, and net income attributable to common stockholders, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information included in this report is consolidated to include the accounts of Farmer Mac and its three subsidiaries – Farmer Mac Mortgage Securities Corporation, Farmer Mac II LLC, and Contour Valuation Services, LLC (which began doing business as AgVisory during first quarter 2016). This discussion and analysis of financial condition and results of operations should be read together with: (1) the interim unaudited consolidated financial statements and the related notes that appear elsewhere in this report; and (2) Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 10, 2016.

FORWARD-LOOKING STATEMENTS

Some statements made in this report, and in particular in the "Management's Discussion & Analysis of Financial Condition and Results of Operations" section, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 pertaining to management's current expectations as to Farmer Mac's future financial results, business prospects, and business developments. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements. These statements typically are accompanied by, and identified with, terms such as "anticipates," "believes," "expects," "intends," "plans," "potential," "may," "should," and similar phrases. This report includes forward-looking statements addressing Farmer Mac's:

- prospects for earnings;
- prospects for growth in business volume;
- trends in net interest income and net effective spread;
- trends in portfolio credit quality, delinquencies, and provisions for losses;
- trends in expenses;
- trends in investment securities;
- prospects for asset impairments and allowance for losses;
- changes in capital position; and
- other business and financial matters.

Management's expectations for Farmer Mac's future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events, both known and unknown, could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under "Risk Factors" in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K for the fiscal period ended December 31, 2015 filed with the SEC on March 10, 2016, and uncertainties regarding:

- the availability to Farmer Mac of debt and equity financing and, if available, the reasonableness of rates and terms;
- legislative or regulatory developments that could affect Farmer Mac, its sources of business, or the agricultural sector or the rural utilities industry;
- fluctuations in the fair value of assets held by Farmer Mac and its subsidiaries;

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- the rate and direction of development of the secondary market for agricultural mortgage and rural utilities loans, including lender interest in Farmer Mac credit products and the secondary market provided by Farmer Mac;
- the general rate of growth in agricultural mortgage and rural utilities indebtedness;
- the impact of economic conditions, including the effects of drought and other weather-related conditions and fluctuations in agricultural real estate values, on agricultural mortgage lending and borrower repayment capacity;
- developments in the financial markets, including possible investor, analyst, and rating agency reactions to events involving government-sponsored enterprises, including Farmer Mac;
- changes in the level and direction of interest rates, which could, among other things, affect the value of collateral securing Farmer Mac's agricultural mortgage loan assets;
- the degree to which Farmer Mac is exposed to basis risk, which results from fluctuations in Farmer Mac's borrowing costs relative to market indexes such as LIBOR; and
- volatility in commodity prices relative to costs of production and/or export demand for U.S. agricultural products.

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this report. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC. The information contained in this report is not necessarily indicative of future results.

Overview

In first quarter 2016, Farmer Mac increased its outstanding business volume by $0.3 billion, to $16.2 billion, driven primarily by portfolio growth of $0.3 billion in the Institutional Credit line of business. Farmer Mac also modestly grew its Farm & Ranch loan portfolio despite the large amount of repayments during the first quarter, which is consistent with the seasonal trend resulting from the January 1 payment date on almost all loans in the portfolio. Farmer Mac's net effective spread in percentage terms reflected a moderate decrease compared to fourth quarter 2015, and Farmer Mac continued to maintain stable credit quality metrics during the first quarter. As noted in Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, during first quarter 2016 Farmer Mac adopted a new common stock dividend policy and increased the quarterly dividend on all three classes of Farmer Mac common stock to $0.26 per share in first quarter 2016, which was a 63 percent increase over the quarterly dividend amount paid during 2015.

Net Income and Core Earnings

Farmer Mac's net income attributable to common stockholders for first quarter 2016 was $10.3 million, compared to $1.8 million for first quarter 2015. The increase was primarily attributable to the absence in first quarter 2016 of (1) an $8.1 million ($6.2 million after-tax) loss recorded in first quarter 2015 resulting from the write-off of deferred issuance costs upon the redemption of the Farmer Mac II LLC Preferred Stock on March 30, 2015; and (2) $3.5 million after-tax in dividend expense recorded during first quarter 2015 on that preferred stock. The increase was offset in part by the effects of unrealized fair value changes on financial derivatives and hedged assets, which was a $1.9 million after-tax loss in first quarter 2016, compared to a $0.6 million after-tax loss in first quarter 2015. For more information about changes in net income attributable to common stockholders, see "—Results of Operations."

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Farmer Mac's non-GAAP core earnings for first quarter 2016 were $12.4 million, compared to $13.1 million in fourth quarter 2015 and $9.1 million in in first quarter 2015. The $0.7 million sequential quarterly decrease in core earnings was primarily attributable to a $0.4 million after-tax increase in operating expenses. The increase in operating expenses was driven by higher stock compensation expense in first quarter 2016 resulting primarily from the annual vesting of stock-based awards and higher payroll taxes as well as higher general and administrative expenses driven by higher legal and consulting fees related to corporate strategic initiatives and general corporate matters. Farmer Mac also realized an increase in credit-related expenses of $0.1 million after-tax due to provisions to the allowance for losses in first quarter 2016 compared to releases in fourth quarter 2015.

The year-over-year $3.3 million increase in core earnings was primarily attributable to a $3.5 million after-tax decrease in preferred dividend expense resulting from the redemption of all outstanding shares of Farmer Mac II LLC Preferred Stock in first quarter 2015, an increase in net effective spread of $0.4 million after-tax, and an increase in guarantee fee income of $0.4 million after-tax. The increase was offset in part by (1) a $0.5 million after-tax increase in credit-related expenses due to provisions to the allowance for losses in first quarter 2016 compared to releases in first quarter 2015; and (2) a $0.5 million after-tax increase in operating expenses primarily due to higher legal fees, consulting fees, and information services expenses related to corporate strategic initiatives and general corporate matters.

Fair value changes on derivatives do not affect core earnings. For more information about the composition of core earnings, see "—Results of Operations."

Net Effective Spread

Net effective spread was $29.9 million in first quarter 2016 compared to $29.9 million in fourth quarter 2015 and $29.3 million in first quarter 2015. In percentage terms, net effective spread for first quarter 2016 was 0.82 percent, compared to 0.85 percent in fourth quarter 2015 and 0.86 percent in first quarter 2015.

For first quarter 2016 compared to fourth quarter 2015, the contraction in net effective spread in percentage terms was primarily due to market increases in short-term LIBOR-based funding costs and a tighter spread on a large AgVantage security that was refinanced at a shorter maturity than the original security. In addition to the reasons noted above, the year-over-year contraction in percentage terms also was due to a decrease in cash basis interest income received on Farm & Ranch loans. The year-over-year increase in dollars was primarily attributable to growth in outstanding business volume.

Business Volume

Farmer Mac added $1.3 billion of new business volume during first quarter 2016. The new business volume included purchases of $927.2 million of AgVantage securities, purchases of $198.5 million of newly originated Farm & Ranch loans, purchases of $95.3 million of USDA Securities, Farm & Ranch loans added under LTSPCs of $68.0 million, Rural Utilities loan purchases of $9.7 million, and the issuance of $3.6 million of Farmer Mac Guaranteed USDA Securities. Taking into account maturities and paydowns on existing assets, Farmer Mac's outstanding business volume was $16.2 billion as of March 31, 2016, an increase of $0.3 billion from December 31, 2015, and an increase of $1.6 billion compared to March 31, 2015.

Capital

As of March 31, 2016, Farmer Mac's core capital level was $562.7 million, $84.9 million above the minimum capital level required by Farmer Mac's statutory charter. As of December 31, 2015, Farmer Mac's core capital level was $564.5 million, which was $102.4 million above the minimum capital requirement. The decrease in capital in excess of the minimum capital level was due primarily to an increase in minimum capital required to support the growth of on-balance sheet assets during the quarter.

On September 8, 2015, Farmer Mac's board of directors approved a share repurchase program authorizing Farmer Mac to repurchase up to $25 million of its outstanding Class C non-voting common stock over the next two years. As of March 31, 2016, Farmer Mac had repurchased approximately 668,000 shares of Class C non-voting common stock at a cost of approximately $19.6 million under the share repurchase program.

Credit Quality

Farmer Mac continued to maintain stable credit quality, as substandard assets and the total allowance for losses in terms of both dollars and percentage of the Farm & Ranch portfolio were consistent with their respective levels at year-end 2015. As of March 31, 2016, Farmer Mac's 90-day delinquencies were $34.7 million (0.61 percent of the Farm & Ranch portfolio), compared to $32.1 million (0.56 percent of the Farm & Ranch portfolio) as of December 31, 2015, and $32.1 million (0.60 percent of the Farm & Ranch portfolio) as of March 31, 2015. The increase in 90-day delinquencies from year-end is consistent with the historical trend of Farmer Mac's 90-day delinquencies fluctuating from quarter to quarter, both in dollars and as a percentage of the outstanding Farm & Ranch portfolio, with higher levels generally observed at the end of the first and third quarters of each year, which corresponds with the annual (January 1st) and semi-annual (January 1st and July 1st) payment characteristics of most Farm & Ranch loans. For more information about Farmer Mac's credit metrics, including 90-day delinquencies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees."

Results of Operations

Farmer Mac's net income attributable to common stockholders for first quarter 2016 was $10.3 million, or $0.94 per diluted common share, compared to $1.8 million, or $0.16 per diluted common share, for first quarter 2015. Farmer Mac's non-GAAP core earnings for first quarter 2016 were $12.4 million, or $1.12 per diluted common share, compared to $9.1 million, or $0.80 per diluted common share for first quarter 2015.

Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings is a useful alternative measure in understanding Farmer Mac's economic performance, transaction economics, and business trends. Core earnings principally differs from net income attributable to common stockholders by excluding the effects of fair value fluctuations, which are not expected to have a cumulative net impact on financial condition or results of operations reported in accordance with GAAP if the related financial instruments are held to maturity, as is generally expected. Core earnings also differs from net income attributable to common stockholders by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of Farmer Mac's core business. Accordingly, the loss from retirement of the Farmer Mac II

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LLC Preferred Stock in first quarter 2015 has been excluded from core earnings because it is not a frequently occurring transaction and not indicative of future operating results. This is also consistent with Farmer Mac's previous treatment of these types of origination costs associated with securities underwriting that are capitalized and deferred during the life of the security.

The non-GAAP financial measure of core earnings used by Farmer Mac may not be comparable to similarly labeled non-GAAP financial measures disclosed by other companies. Farmer Mac's disclosure of this non-GAAP measure is intended to be supplemental in nature, and is not meant to be considered in isolation from, as a substitute for, or as more important than, the related financial information prepared in accordance with GAAP.

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A reconciliation of Farmer Mac's net income attributable to common stockholders to core earnings is presented in the following table along with a breakdown of the composition of core earnings:

Table 1
Reconciliation of Net Income Attributable to Common Stockholders to Core Earnings

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands, except per share amounts)	
Net income attributable to common stockholders	$10,317	$1,818
Less the after-tax effects of:		
Unrealized losses on financial derivatives and hedging activities	(1,943)	(582)
Unrealized gains on trading securities	233	236
Amortization of premiums/discounts and deferred gains on assets consolidated at fair value	(183)	(529)
Net effects of settlements on agency forward contracts	(165)	(164)
Loss on retirement of Farmer Mac II LLC Preferred Stock[1]	—	(6,246)
Sub-total	(2,058)	(7,285)
Core earnings	$12,375	$9,103
Composition of Core Earnings:		
Revenues:		
Net effective spread[2]	$29,949	$29,257
Guarantee and commitment fees[3]	4,669	4,012
Other[4]	(517)	(405)
Total revenues	34,101	32,864
Credit related expense/(income) (GAAP):		
Provision for/(release of) losses	63	(696)
REO operating expenses	39	(1)
Losses on sale of REO	—	1
Total credit related expense/(income)	102	(696)
Operating expenses (GAAP):		
Compensation and employee benefits	5,774	5,693
General and administrative	3,526	2,823
Regulatory fees	613	600
Total operating expenses	9,913	9,116
Net earnings	24,086	24,444
Income tax expense[5]	8,444	6,692
Net (loss)/income attributable to non-controlling interest (GAAP)	(28)	5,354
Preferred stock dividends (GAAP)	3,295	3,295
Core earnings	$12,375	$9,103
Core earnings per share:		
Basic	$1.18	$0.83

Diluted	1.12	0.80
Weighted-average shares:		
Basic	10,465	10,938
Diluted	11,003	11,331

(1) Relates to the write-off of deferred issuance costs as a result of the retirement of Farmer Mac II LLC Preferred Stock.

(2) Includes reconciling adjustments to exclude amortization of premiums and discounts on assets consolidated at fair value to reflect core earnings amounts. Also includes reconciling adjustments to include the reclassification of expenses related to interest rate swaps not designated as hedges.

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(3) Includes interest income and interest expense related to consolidated trusts owned by third parties reclassified from interest income and interest expense to guarantee and commitment fees to reflect that the net interest income Farmer Mac earns is effectively a guarantee fee on the consolidated Farmer Mac Guaranteed Securities.

(4) Reflects reconciling adjustments for the reclassification to exclude expenses related to interest rate swaps not designated as hedges and fair value adjustments on financial derivatives and trading assets and a reconciling adjustment to exclude the recognition of deferred gains over the estimated lives of certain Farmer Mac Guaranteed Securities and USDA Securities.

(5) Includes the tax impact of non-GAAP reconciling items between net income attributable to common stockholders and core earnings because those non-GAAP reconciling items are presented after tax.

Specifically, the five non-GAAP reconciling items between net income attributable to common stockholders and core earnings, presented on an after-tax basis, are:

1. Unrealized losses on financial derivatives and hedging activities. The table below calculates the non-GAAP reconciling item for unrealized losses on financial derivatives and hedging activities, after tax.

Table 2
Non-GAAP Reconciling Item for Unrealized Losses on Financial Derivatives and Hedging Activities, After Tax

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Fair value hedges:		
Unrealized gains on fair value hedges (see Table 8)	$2,889	$3,116
No hedge designation:		
Unrealized losses due to fair value changes (see Table 8)	(5,878)	(4,011)
Unrealized losses on financial derivatives and hedging activities, before tax	(2,989)	(895)
Income tax impact at 35% statutory corporate income tax rate	1,046	313
Unrealized losses on financial derivatives and hedging activities, after tax	$(1,943)	$(582)

2. Unrealized gains on trading securities. The table below calculates the non-GAAP reconciling item for unrealized gains on trading securities, after tax.

Table 3
Non-GAAP Reconciling Item for Unrealized Gains on Trading Securities, After Tax

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Unrealized gains on trading securities (see Consolidated Statements of Operations)	$358	$362
Income tax impact at 35% statutory corporate income tax rate	(125)	(126)

Unrealized gains on trading securities, after tax	$233	$236

3. Amortization of premiums/discounts and deferred gains on assets consolidated at fair value. The amount of this non-GAAP reconciling item is the recorded amount of premium, discount, or deferred gain amortization during the reporting period on those assets for which the premium, discount, or deferred gain was based on the application of an accounting principle (e.g., consolidation of variable interest entities) rather than on a cash transaction (e.g., a purchase price premium or discount).

4. The net effect of settlements on agency forward contracts that are used as a short-term economic hedge of the issuance of debt. For GAAP purposes, realized gains or losses on settlements of agency forward

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contracts used as a short-term hedge of the issuance of debt are reported in the consolidated statements of operations in the period in which they occur. For core earnings purposes, these realized gains or losses on settlements of agency forward contracts are deferred and amortized as yield adjustments over the term of the related debt, which generally ranges from 3 to 15 years.

5. The loss on retirement of the Farmer Mac II LLC Preferred Stock in first quarter 2015 has been excluded from core earnings because it is not a frequently occurring transaction and is not indicative of future operating results. This is also consistent with Farmer Mac's previous treatment of these types of origination costs associated with securities underwriting that are capitalized and deferred during the life of the security.

The following sections provide more detail regarding specific components of Farmer Mac's results of operations.

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Net Interest Income.

The following table provides information regarding interest-earning assets and funding for the three months ended March 31, 2016 and 2015. The average balance of non-accruing loans is included in the average balance of loans, Farmer Mac Guaranteed Securities, and USDA Securities presented, though the related income is accounted for on a cash basis. Therefore, as the average balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. The average balance of loans in consolidated trusts with beneficial interests owned by third parties is disclosed in the net effect of consolidated trusts and is not included in the average balances of interest-earning assets and interest-bearing liabilities. The interest income and expense associated with these trusts are shown in the net effect of consolidated trusts.

Table 4

	For the Three Months Ended					
	March 31, 2016			March 31, 2015		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	(dollars in thousands)					
Interest-earning assets:						
Cash and investments	$3,858,756	$6,681	0.69 %	$3,366,486	$2,865	0.34 %
Loans, Farmer Mac Guaranteed Securities and USDA Securities(1)	10,676,340	60,522	2.27 %	10,250,330	56,801	2.22 %
Total interest-earning assets	14,535,096	67,203	1.85 %	13,616,816	59,666	1.75 %
Funding:						
Notes payable due within one year	7,044,292	7,450	0.42 %	5,629,225	2,370	0.17 %
Notes payable due after one year(2)	7,074,429	27,156	1.54 %	7,320,469	27,142	1.48 %
Total interest-bearing liabilities(3)	14,118,721	34,606	0.98 %	12,949,694	29,512	0.91 %
Net non-interest-bearing funding	416,375	—		667,122	—	
Total funding	14,535,096	34,606	0.95 %	13,616,816	29,512	0.87 %
Net interest income/yield prior to consolidation of certain trusts	14,535,096	32,597	0.90 %	13,616,816	30,154	0.89 %
Net effect of consolidated trusts(4)	742,832	1,043	0.56 %	454,844	635	0.56 %
Adjusted net interest income/yield	$15,277,928	$33,640	0.88 %	$14,071,660	$30,789	0.88 %

(1) Excludes interest income of $6.7 million and $4.3 million in first quarter 2016 and 2015, respectively, related to consolidated trusts with beneficial interests owned by third parties.

(2) Includes current portion of long-term notes.

(3) Excludes interest expense of $5.6 million and $3.7 million in first quarter 2016 and 2015, respectively, related to consolidated trusts with beneficial interests owned by third parties.

(4) Includes the effect of consolidated trusts with beneficial interests owned by third parties.

Net interest income was $33.6 million for the three months ended March 31, 2016 compared to $30.8 million for the same period in 2015. The overall net interest yield was 88 basis points for the three months ended March 31, 2016 and 2015.

The $2.8 million increase in net interest income for the three months ended March 31, 2016 compared to the same period in 2015 was driven primarily by the increase in the average outstanding balance of Farm & Ranch loans, USDA Securities, and AgVantage securities and the impact of an increase in short-term interest rates on assets indexed to LIBOR. Also contributing to the increase was a decrease in net yield adjustments related to amortization of premiums and discounts on assets consolidated at fair value and the impact of an increase in securitization activity of

Farm & Ranch loans during 2015 and 2016 for which the net effects are recorded through net interest income. The increase was offset in part by a decrease in income received on non-accruing Farm & Ranch loans and an increase in amortization expense related to purchase premium recognized on Farm & Ranch loans.

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The following table sets forth information regarding changes in the components of Farmer Mac's net interest income for the periods indicated. For each category, information is provided on changes attributable to changes in volume (change in volume multiplied by old rate) and changes in rate (change in rate multiplied by old volume). Combined rate/volume variances, the third element of the calculation, are allocated based on their relative size.

Table 5

	For the Three Months Ended March 31, 2016 Compared to Same Period 2015		
	Increase/(Decrease) Due to		
	Rate	Volume	Total
	(in thousands)		
Income from interest-earning assets:			
Cash and investments	$ 3,343	$ 473	$ 3,816
Loans, Farmer Mac Guaranteed Securities and USDA Securities	1,324	2,397	3,721
Total	4,667	2,870	7,537
Expense from other interest-bearing liabilities	2,320	2,774	5,094
Change in net interest income prior to consolidation of certain trusts(1)	$ 2,347	$ 96	$ 2,443

(1) Excludes the effect of debt in consolidated trusts with beneficial interests owned by third parties.

For the three months ended March 31, 2016 compared to the same period in 2015, the increase in income on interest-earning assets and the increase in expense on other interest-bearing liabilities due to changes in rate resulted from the fourth quarter 2015 increase in the federal funds rate and slightly higher average short-term rates. The increase in income due to changes in rate on loans, Farmer Mac Guaranteed Securities, and USDA Securities was also due to a decrease in net yield adjustments related to amortization of premiums and discounts on assets consolidated at fair value offset in part by a decline in market rates on AgVantage securities acquired or refinanced during 2015 and 2016 and a decrease in cash basis income received on non-accruing Farm & Ranch loans. The increases in income from interest-earning assets and in expense from other interest-bearing liabilities due to changes in volume reflect the increase in the average balance of on-balance sheet assets and the related funding for those assets, respectively.

Net interest yield includes the amortization of premiums and discounts on assets consolidated at fair value and excludes the accrual of income and expense related to the contractual amounts due on financial derivatives that are not designated in hedge accounting relationships ("undesignated financial derivatives"). The following paragraphs describe the effects of these items on the net interest yield and Table 6 below presents them as adjustments to reconcile to the net effective spread Farmer Mac earns between its interest-earning assets and its net funding costs, including payments for income and expense related to undesignated financial derivatives.

Farmer Mac uses interest rate swaps to manage its interest rate risk exposure by synthetically modifying the interest rate reset or maturity characteristics of certain assets and liabilities. The accrual of the contractual amounts due on interest rate swaps designated in hedge accounting relationships is included as an adjustment to the yield or cost of the hedged item and is included in net interest income. For interest rate swaps not designated in hedge accounting relationships, Farmer Mac records the income or expense

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related to the accrual of the contractual amounts due in "Losses on financial derivatives and hedging activities" on the consolidated statements of operations. However, Farmer Mac does include the accrual of the contractual amounts due for undesignated financial derivatives in its calculation of net effective spread, which is intended to reflect the net spread between an asset and all of its related funding, including any associated derivatives, whether or not they are in a hedge accounting relationship.

Farmer Mac's net interest income and net interest yield include net yield adjustments related to the amortization of premiums and discounts on assets consolidated at fair value. These premiums and discounts are amortized as adjustments to yield in interest income over the contractual or estimated remaining lives of the underlying assets. Farmer Mac excludes these amounts from net effective spread because they either do not reflect actual cash premiums paid for the assets at acquisition or are not expected to have an economic effect on Farmer Mac's financial performance if the assets are held to maturity, as is generally expected.

The following table presents the net effective spread between Farmer Mac's interest-earning assets and its net funding costs. This spread is measured by including income or expense related to undesignated financial derivatives (the income or expense related to financial derivatives designated in hedge accounting relationships is already included in net interest income) and excluding the amortization of premiums and discounts on assets consolidated at fair value.

Table 6

	For the Three Months Ended			
	March 31, 2016		March 31, 2015	
	Dollars	Yield	Dollars	Yield
	(dollars in thousands)			
Net interest income/yield prior to consolidation of certain trusts	$32,597	0.90 %	$30,154	0.89 %
Expense related to undesignated financial derivatives	(2,669)	(0.08)%	(2,011)	(0.06)%
Amortization of premiums on assets consolidated at fair value	21	— %	1,114	0.03 %
Net effective spread	$29,949	0.82 %	$29,257	0.86 %

Net effective spread was $29.9 million for first quarter 2016 compared to $29.3 million for first quarter 2015. In percentage terms, net effective spread for the three months ended March 31, 2016 was 0.82 percent, compared to 0.86 percent for the same period in 2015.

For first quarter 2016 compared to first quarter 2015, the contraction in net effective spread in percentage terms was primarily attributable to market increases in LIBOR-based short-term funding costs, a tighter spread on a large AgVantage security that was refinanced at a shorter maturity than the original security, and a decrease in cash basis interest income received on non-accruing Farm & Ranch loans. Additionally, Farmer Mac maintained a higher average balance in lower-earning cash and investment securities in first quarter 2016 compared to first quarter 2015 to increase Farmer Mac's liquidity position during the quarter. The year-over-year increase in dollars was attributable to growth in outstanding business volume.

See Note 9 to the consolidated financial statements for more information regarding net effective spread from Farmer Mac's individual business segments. Additionally, see "—Supplemental Information" for quarterly net effective spread by line of business.

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Provision for and Release of Allowance for Loan Losses and Reserve for Losses.

The following table summarizes the components of Farmer Mac's total allowance for losses for the three months ended March 31, 2016 and 2015:

Table 7

	For the Three Months Ended					
	March 31, 2016			March 31, 2015		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
For the Three Months Ended:						
Beginning Balance	$4,480	$ 2,083	$ 6,563	$5,864	$ 4,263	$ 10,127
Provision for/(release of) losses	49	14	63	76	(772)	(696)
Ending Balance	$4,529	$ 2,097	$ 6,626	$5,940	$ 3,491	$ 9,431

The provisions to the allowance for loan losses recorded during first quarter 2016 were attributable to an increase in the specific allowance for on-balance sheet impaired loans resulting from a modest increase in the outstanding balance of such loans. The provisions were partially offset by releases from the general allowance due to repayments of on-balance sheet Agricultural Storage and Processing loans.

The provisions to the allowance for loan losses during first quarter 2015 were primarily attributable to an increase in the specific allowance of on-balance sheet impaired loans for which updated collateral valuations were not available. Farmer Mac evaluated these loans in the aggregate in consideration of their similar risk characteristics and historical statistics. The provisions were partially offset by a decrease in the general allowance of on-balance sheet Agricultural Storage and Processing loans due to paydowns of these loans. The releases recorded during first quarter 2015 were primarily attributable to paydowns of Agricultural Storage and Processing loans underlying LTSPCs resulting from repayments of these loans at par.

As of both March 31, 2016 and December 31, 2015, Farmer Mac's allowance for loan losses was $4.5 million and its reserve for losses was $2.1 million. See Note 5 to the consolidated financial statements and "—Risk Management—Credit Risk – Loans and Guarantees."

Guarantee and Commitment Fees. Guarantee and commitment fees, which compensate Farmer Mac for assuming the credit risk on loans underlying off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs, were $3.6 million for first quarter 2016, compared to $3.4 million for first quarter 2015. The increase in guarantee and commitment fees was attributable to the addition of $0.5 billion of Rural Utilities loans under LTSPCs in the second half of 2015, offset in part by a lower average outstanding balance of off-balance sheet Farm & Ranch Guaranteed Securities.

Losses on Financial Derivatives and Hedging Activities. The effect of unrealized and realized gains and losses on Farmer Mac's financial derivatives and hedging activities was net losses of $6.8 million for first quarter 2016, compared to net losses of $3.9 million for first quarter 2015.

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The components of gains and losses on financial derivatives and hedging activities for three months ended March 31, 2016 and 2015 are summarized in the following table:

Table 8

	For the Three Months Ended March 31, 2016	March 31, 2015
	(in thousands)	
Fair value hedges:		
Unrealized (losses)/gains due to fair value changes:		
Financial derivatives[1]	$(26,898)	$(5,760)
Hedged items	29,787	8,876
Unrealized gains on fair value hedging activities	2,889	3,116
Cash flow hedges:		
Loss recognized (ineffective portion)	(149)	(216)
Losses on cash flow hedges	(149)	(216)
No hedge designation:		
Unrealized losses due to fair value changes	(5,878)	(4,011)
Realized:		
Expense related to financial derivatives	(2,520)	(1,795)
Losses due to terminations or net settlements	(1,124)	(976)
Losses on financial derivatives not designated in hedging relationships	(9,522)	(6,782)
Losses on financial derivatives and hedging activities	$(6,782)	$(3,882)

(1) Included in the assessment of hedge effectiveness as of March 31, 2016, but excluded from the amounts in the table, were losses of $1.5 million, for the three months ended March 31, 2016, attributable to the fair value of the swaps at the inception of the hedging relationship. Accordingly, the amounts recognized as hedge ineffectiveness for the three months ended March 31, 2016 were gains of $1.4 million. The comparable amounts as of March 31, 2015 were losses of $2.9 million for the three months ended March 31, 2015, attributable to the fair value of the swaps at the inception of the hedging relationship and, accordingly, gains of $0.2 million for the three months ended March 31, 2015, attributable to hedge ineffectiveness.

Changes in the fair values of Farmer Mac's open derivative positions for both designated and undesignated hedges are captured in the table above in unrealized losses due to fair value changes and are primarily the result of fluctuations in long-term interest rates. For financial derivatives designated in fair value hedge accounting relationships, changes in the fair values of the hedged items attributable to the hedged risk are also included in the table above in unrealized (losses)/gains due to fair value changes. The accrual of periodic cash settlements for interest paid or received from Farmer Mac's interest rate swaps that are not designated in hedge accounting relationships is shown as expense related to financial derivatives. Payments or receipts to terminate derivative positions or net cash settled forward sales contracts on the debt of other GSEs and U.S. Treasury futures that are not designated in hedge accounting relationships are included in losses due to terminations or net settlements.

Gains on Trading Securities. During both the three months ended March 31, 2016 and March 31, 2015, Farmer Mac recorded unrealized gains on trading securities of $0.4 million. Of the total gains recognized during the three months ended March 31, 2016, $0.3 million of gains related to financial assets selected to be carried at fair value with changes in fair value included in earnings (the fair value option), compared to recorded gains of $0.2 million during the same period in 2015.

Other Income. Other income totaled $0.1 million for first quarter 2016, compared to $0.6 million in first quarter 2015. Other income during first quarter 2016 included the recognition of $0.2 million of appraisal fees received by Farmer Mac's consolidated appraisal company subsidiary, Contour Valuation Services, LLC, which was formed in fourth quarter 2014. Farmer Mac's recognition of appraisal fees received by Contour Valuation Services, LLC was immaterial in first quarter 2015. Other income during first quarter

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2016 also included the recognition of $0.3 million of losses previously deferred in accumulated other comprehensive income related to fair value changes of certain available-for-sale securities contributed to Farmer Mac II LLC in 2010 and other miscellaneous items, compared to the recognition of $0.3 million of previously deferred gains during first quarter 2015.

Compensation and Employee Benefits. Compensation and employee benefits were $5.8 million for first quarter 2016, compared to $5.7 million for first quarter 2015. The increase in first quarter 2016 compared to first quarter 2015 was due primarily to higher stock compensation expense related to the annual vesting of stock-based awards and one additional business day in first quarter 2016. Compensation costs for first quarter 2016 and 2015 included $0.2 million and $0.1 million, respectively, in compensation costs for Farmer Mac's consolidated appraisal company subsidiary, Contour Valuation Services, LLC.

General and Administrative Expenses. General and administrative expenses, including legal, audit, and consulting fees, were $3.5 million for first quarter 2016 compared to $2.8 million in first quarter 2015. This year-over-year increase was due primarily to higher legal and consulting fees and information services expenses related to corporate strategic initiatives and general corporate matters. Additionally, general and administrative costs for both first quarter 2016 and first quarter 2015 included $0.1 million in operating expenses for Farmer Mac's consolidated appraisal company subsidiary.

Regulatory Fees. Regulatory fees, which consist of the fees paid to FCA, were $0.6 million