FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K
March 13, 2014
As filed with the Securities and Exchange Commission on
March 13, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.
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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Exchange on which registered
Class A voting common stock	New York Stock Exchange
Class C non-voting common stock	New York Stock Exchange
5.875% Non-Cumulative Preferred Stock, Series A	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class B voting common stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. §229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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

The aggregate market value of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant was $291,572,715 as of June 28, 2013, based upon the closing prices for the respective classes on June 28, 2013 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 3, 2014, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,354,992 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2014 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part III of this Annual Report on Form 10-K).

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FORWARD-LOOKING STATEMENTS

Some statements made in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 pertaining to management's current expectations as to the Federal Agricultural Mortgage Corporation's ("Farmer Mac") 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," "should," and similar phrases. The following management's discussion and analysis 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 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 1, Item 1A of this Annual Report on Form 10-K and uncertainties regarding:

- the availability to Farmer Mac and Farmer Mac II LLC of debt and equity financing and, if available, the reasonableness of rates and terms;
- legislative or regulatory developments that could affect Farmer Mac or its sources of business, including but not limited to:
  developments related to the implementation of agricultural policies and programs resulting from the recently enacted Agricultural Act of 2014 (referred to as the 2014 Farm Bill), including the elimination of direct payments to agricultural producers by the USDA and increased federal subsidies for enhanced crop insurance programs; and changes in policies related to renewable fuel standards and the use of ethanol as a blending agent;
- fluctuations in the fair value of assets held by Farmer Mac and Farmer Mac II LLC;
- 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 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;

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- 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; 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 U.S. Securities and Exchange Commission. The discussion below is not necessarily indicative of future results.

PART I

Item 1. Business

GENERAL

The Federal Agricultural Mortgage Corporation ("Farmer Mac") is a stockholder-owned, federally chartered corporation that combines private capital and public sponsorship to serve a public purpose. Congress has charged Farmer Mac with the mission of providing a secondary market for a variety of loans made to borrowers in rural America. A secondary market is an economic arrangement in which the owners of financial assets, such as the originators of loans, may sell all or part of those assets or pay a fee to otherwise offset some or all of the inherent risks of holding the assets. Farmer Mac's main secondary market activities are:

- purchasing eligible loans directly from lenders;
- providing advances against eligible loans by purchasing obligations secured by those loans;
- securitizing assets and guaranteeing the payment of principal and interest on the resulting securities that represent interests in, or obligations secured by, pools of eligible loans; and
- issuing long-term standby purchase commitments ("LTSPCs") for eligible loans.

Securities guaranteed by Farmer Mac may be retained by the seller of the underlying eligible loans, retained by Farmer Mac, or sold to third party investors.

Farmer Mac was established under federal legislation first enacted in 1988 and amended most recently in 2008 – Title VIII of the Farm Credit Act of 1971 (12 U.S.C. §§ 2279aa et seq.), which is sometimes referred to as Farmer Mac's charter. Farmer Mac is known as a government-sponsored enterprise ("GSE") by virtue of the status conferred by its charter. The charter provides that Farmer Mac has the power to establish, acquire, and maintain affiliates (as defined in the charter) under applicable state law to carry out any activities that otherwise would be performed directly by Farmer Mac. Farmer Mac established its two existing subsidiaries, Farmer Mac II LLC and Farmer Mac Mortgage Securities Corporation, under that power.

Farmer Mac is an institution of the Farm Credit System (the "FCS"), which is composed of the banks, associations, and related entities, including Farmer Mac and its subsidiaries, regulated by the Farm Credit Administration ("FCA"), an independent agency in the executive branch of the United States government. Although Farmer Mac (including its subsidiaries) is an institution of the FCS, it is not liable for any debt or obligation of any other institution of the FCS. None of FCA, the FCS, or any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac or its subsidiaries. The debts and obligations of Farmer Mac and its subsidiaries are not guaranteed by the full faith and credit of the United States.

Farmer Mac's two principal sources of revenue are:

- interest income earned on assets held on balance sheet, net of related funding costs and interest payments and receipts on financial derivatives (i.e., net effective spread); and
- guarantee and commitment fees received in connection with outstanding guaranteed securities and LTSPCs.

Farmer Mac funds its purchases of eligible loans (including participation interests in eligible loans) and guaranteed securities primarily by issuing debt obligations of various maturities in the public capital markets. The proceeds of debt issuance are also used to fund liquidity investments that must comply with policies adopted by Farmer Mac's board of directors and with FCA regulations, which establish limitations on dollar amount, issuer concentration, and credit quality. Those regulations can be found at 12 C.F.R. §§ 652.1-652.45 (the "Liquidity and Investment Regulations"). Farmer Mac's regular debt issuance supports its access to the capital markets, and Farmer Mac's liquidity investment assets provide an alternative source of funds should market conditions be unfavorable. As of December 31, 2013, Farmer Mac had $4.9 billion of discount notes and $7.4 billion of medium-term notes outstanding. For more information about Farmer Mac's eligible loan assets and liquidity investment assets, as well as its financial performance and sources of capital and liquidity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Secondary Market

Farmer Mac's activities are intended to provide lenders with an efficient and competitive secondary market that enhances these lenders' ability to offer competitively-priced financing to rural borrowers. This secondary market is designed to increase the availability of long-term credit at stable interest rates to America's rural communities and to provide rural borrowers with the benefits of capital markets pricing and product innovation. The secondary market provided by Farmer Mac functions as a bridge between the national capital markets and the agricultural and rural credit markets by attracting new capital for financing rural borrowers.

Farmer Mac's purchases of both eligible loans and obligations secured by eligible loans, as well as Farmer Mac's guaranteed securities sold to third party investors, increase lenders' liquidity and lending capacity and provide a continuous source of funding for lenders that extend credit to borrowers in rural America. Farmer Mac's LTSPCs for eligible loans held by lenders, as well as Farmer Mac's guaranteed securities retained by lenders in exchange for the related securitized loans, result in lower regulatory capital requirements for the lenders and reduced borrower or commodity concentration exposure for some lenders, thereby expanding their lending capacity. By increasing the efficiency and competitiveness of rural finance, the secondary market provided by Farmer Mac has the potential to lower the interest rates paid on loans by rural borrowers.

The current economic and regulatory environment presents Farmer Mac with opportunities to market a mix of products to rural lenders in need of capital, liquidity, long-term fixed rate products, and portfolio diversification. As part of its outreach strategy, Farmer Mac listens to current and prospective rural lenders to identify their specific needs, with an emphasis on individual lender meetings, lender road shows, and face-to-face contact at state and national banking conferences. Farmer Mac seeks to maximize the use of technology to support these business development efforts.

Lines of Business

Farmer Mac conducts its secondary market activities through three lines of business – Farm & Ranch, USDA Guarantees, and Rural Utilities. The loans eligible for the secondary market provided by Farmer Mac include:

- mortgage loans secured by first liens on agricultural real estate, including part-time farms and rural housing (encompassing the Farm & Ranch line of business);

- agricultural and rural development loans guaranteed by the United States Department of Agriculture ("USDA") (encompassing the USDA Guarantees line of business); and
- loans made by cooperative lenders to finance electrification and telecommunications systems in rural areas (encompassing the Rural Utilities line of business).

As of December 31, 2013, the total outstanding amount of the eligible loans included in all of Farmer Mac's lines of business was $14.0 billion.

Farm & Ranch

Under the Farm & Ranch line of business, Farmer Mac purchases eligible mortgage loans secured by first liens on agricultural real estate and rural housing. Farmer Mac also guarantees securities representing interests in, or obligations secured by, pools of mortgage loans eligible for the Farm & Ranch line of business ("Farm & Ranch Guaranteed Securities"). Additionally, Farmer Mac commits to purchase, subject to the terms of the applicable LTSPC agreement, eligible Farm & Ranch mortgage loans. To be eligible, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation, and other specified standards that are discussed in "Business—Farmer Mac Lines of Business—Farm & Ranch." As of December 31, 2013, outstanding loans held by Farmer Mac, loans that either backed off-balance sheet Farm & Ranch Guaranteed Securities or were subject to LTSPCs, and other Farm & Ranch Guaranteed Securities totaled $9.7 billion.

USDA Guarantees

Under the USDA Guarantees line of business, Farmer Mac II LLC, a subsidiary of Farmer Mac, purchases the portions of certain agricultural, rural development, business and industry, and community facilities loans guaranteed by the USDA under the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.). Farmer Mac refers to these USDA-guaranteed portions of loans as "USDA Securities." Farmer Mac II LLC also purchases USDA Securities in exchange for issuing securities to third parties backed by those USDA Securities, which are then also guaranteed by Farmer Mac ("Farmer Mac Guaranteed USDA Securities"). As of December 31, 2013, outstanding USDA Securities and Farmer Mac Guaranteed USDA Securities totaled $1.7 billion, of which $41.3 million were Farmer Mac Guaranteed USDA Securities.

Rural Utilities

Farmer Mac initiated the Rural Utilities line of business in 2008 after Congress expanded Farmer Mac's authorized secondary market activities to include rural utilities loans. Farmer Mac's authorized activities under this line of business are similar to those conducted under the Farm & Ranch line of business – purchases of, and guarantees of securities ("Rural Utilities Guaranteed Securities") backed by, eligible rural utilities loans. To be eligible, loans must meet Farmer Mac's credit underwriting and other specified standards that are discussed in "Business—Farmer Mac Lines of Business—Rural Utilities." Although Farmer Mac has the ability to provide LTSPCs in the Rural Utilities line of business, none have been issued to date. As of December 31, 2013, the aggregate outstanding principal balance of rural utilities loans held and Rural Utilities Guaranteed Securities was $2.6 billion.

Farmer Mac Guaranteed Securities

Farm & Ranch Guaranteed Securities, Farmer Mac Guaranteed USDA Securities, and Rural Utilities Guaranteed Securities are sometimes collectively referred to as "Farmer Mac Guaranteed Securities." The assets underlying Farmer Mac Guaranteed Securities include (1) loans, loan participation interests, or USDA Securities eligible under one of Farmer Mac's lines of business and (2) general obligations of lenders secured by pools of eligible loans. Farmer Mac guarantees the timely payment of principal and interest on the resulting Farmer Mac Guaranteed Securities. Farmer Mac may retain Farmer Mac Guaranteed Securities in its portfolio or sell them to third parties. AgVantage® is a registered trademark of Farmer Mac used to designate Farmer Mac's guarantees of securities related to general obligations of lenders that are secured by pools of eligible loans. AgVantage securities are currently issued under the Farm & Ranch and Rural Utilities lines of business.

Competition

Farmer Mac is the only Congressionally-chartered corporation established to provide a secondary market for agricultural mortgage loans, rural utilities loans, and USDA Securities. However, Farmer Mac does face indirect competition from a variety of sources. Historically, these sources have included other financial institutions that purchase, retain, or securitize the types of loans eligible for Farmer Mac's secondary market activities, including commercial and investment banks, insurance companies, and other FCS institutions. Farmer Mac also competes indirectly with originators of eligible loans who would prefer to retain the loans they originate rather than sell them into the secondary market. Farmer Mac is able to compete to acquire eligible loans due to the variety of products it offers and its ability to offer low-cost funding to its customers. This enables Farmer Mac to offer flexible financing options and products designed to meet the variety of needs faced by lending institutions related to capital requirements, liquidity, credit risk, and management of sector and geographic concentrations and borrower exposures. However, the relative competitiveness of the loan rates offered by Farmer Mac is affected by the ability of other lending institutions to subsidize their rates on the loan products with which Farmer Mac competes by price averaging with other types of loans or by low-return use of equity. Farmer Mac's ability to develop business with lending institutions is also affected by changes in the levels of available capital and liquidity of those institutions, the existence of alternative sources of funding and credit enhancement for those institutions, the rate of growth in the market for eligible loans, and demand for Farmer Mac's products.

Farmer Mac's competitive position is also affected by the willingness of originators to offer eligible loans for sale in the secondary market, as well as the types and variety of products offered by Farmer Mac's competitors to meet the needs of Farmer Mac's customer base. Farmer Mac's limits on borrower exposure and loan size, as well as the types of loans that are eligible for Farmer Mac's lines of business, also affect Farmer Mac's competitive position. Farmer Mac's ability to obtain low-cost funding in the debt markets is essential to its ability to maintain its competitive position with its customers. As a result, competition for debt investors with other debt-issuing institutions, such as the FCS, Federal Home Loan Banks, Fannie Mae, Freddie Mac, and highly-rated financial institutions, can impact the price and volume at which Farmer Mac issues debt and, consequently, its ability to offer savings to its customers in the form of competitive products.

Capital and Corporate Governance

Farmer Mac's basic capital and corporate governance structure is prescribed in its charter. The charter authorizes Farmer Mac to issue two classes of voting common stock each of which elects one-third of Farmer Mac's 15-person board of directors, as well as non-voting common stock. The classes of Farmer Mac's common stock that are currently outstanding and their relation to Farmer Mac's board of directors are described below.

- Class A voting common stock. The charter restricts ownership of Farmer Mac's Class A voting common stock to banks, insurance companies, and other financial institutions or similar entities that are not institutions of the FCS. The charter also provides that five members of Farmer Mac's 15-member board of directors are elected by a plurality of the votes of the Class A stockholders each year. The charter limits the amount of Class A voting common stock that may be owned by one holder to no more than 33 percent of the outstanding shares of Class A voting common stock. Farmer Mac is not aware of any regulation applicable to non-FCS financial institutions that requires a minimum investment in Farmer Mac's Class A voting common stock or that prescribes a maximum investment amount lower than the 33 percent limit set forth in the charter. Farmer Mac's Class A voting common stock is listed on the New York Stock Exchange under the symbol AGM.A.

- Class B voting common stock. The charter restricts ownership of Farmer Mac's Class B voting common stock to FCS institutions and also provides that five members of Farmer Mac's 15-member board of directors are elected by a plurality of the votes of the Class B stockholders each year. The charter does not contain any restrictions on the maximum number or percentage of outstanding shares of Class B voting common stock that may be held by an eligible stockholder, and Farmer Mac is not aware of any regulation applicable to FCS institutions that requires a minimum investment in its Class B voting common stock or that prescribes a maximum amount. Farmer Mac's Class B voting common stock, which has a limited market and trades infrequently, is not listed or quoted on any exchange or other quotation system, and Farmer Mac is not aware of any publicly available quotations or prices for this class of common stock.

- Class C non-voting common stock. The charter does not impose any ownership restrictions on Farmer Mac's Class C non-voting common stock, and shares of this class are freely transferable. Holders of the Class C common stock do not vote on the election of directors or any other matter. Farmer Mac's Class C non-voting common stock is listed on the New York Stock Exchange under the symbol AGM.

- Presidential director appointments. The remaining five members of Farmer Mac's board of directors are individuals who meet the qualifications specified in the charter and are appointed by the President of the United States with the advice and consent of the United States Senate. These appointed directors serve at the pleasure of the President of the United States.

The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 45 percent of the Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Approximately 97 percent of the Class B voting common stock is held by five FCS institutions (two of which are related to each other through a parent-subsidiary relationship). Farmer Mac believes that the concentration in the Class A voting common stock is a by-product of trading activity in the stock over time and is not by design under the charter or any regulatory mandate. Farmer Mac believes that the concentration in such a small number of holders of Class B voting common stock is a by-product of the limited number of eligible holders of that stock and the structure of the FCS, the number of institutions of which has decreased over time as a result of mergers and consolidations.

The dividend and liquidation rights of all three classes of Farmer Mac's common stock are the same. Dividends may be paid on Farmer Mac's common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to compliance with applicable capital requirements and the payment of dividends on any outstanding preferred stock issued by Farmer Mac. Upon liquidation, dissolution, or winding up of the business of Farmer Mac, after payment and provision for payment of outstanding debt of Farmer Mac, the holders of shares of Farmer Mac's currently outstanding 5.875% Non-Cumulative Preferred Stock, Series A ("Series A Preferred Stock") and any other preferred stock then outstanding, would be paid at par value out of assets available for distribution, plus all declared and unpaid dividends, before the holders of shares of common stock received any payment. The assets of Farmer Mac II LLC are not directly available to satisfy the claims of Farmer Mac's creditors or stockholders. Those assets will only be available to the creditors and stockholders of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. In addition, Farmer Mac II LLC has outstanding preferred stock, which is permanent equity of Farmer Mac II LLC and presented as "Non-controlling interest – preferred stock" within total equity on Farmer Mac's consolidated balance sheets. See "Business—Financing—Equity Issuance—Non-Controlling Interest in Farmer Mac II LLC." See also "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities" for more information regarding Farmer Mac's common stock, and "Business—Financing—Equity Issuance" for more information on Farmer Mac's common stock and preferred stock.

Unlike some other GSEs, specifically other FCS institutions and the Federal Home Loan Banks, Farmer Mac is not structured as a cooperative owned exclusively by member institutions and established to provide services exclusively to its members. Rather, Farmer Mac, as a publicly-traded corporation, has a broader base of stockholders, including those who do not directly participate in the secondary market provided by Farmer Mac. Therefore, Farmer Mac seeks to fulfill its mission of serving the financing needs of rural America in a manner that is consistent with providing a return on the investment of its stockholders.

Farmer Mac's policy is to require financial institutions to own a requisite amount of Farmer Mac common stock, based on the size and type of institution, to participate in the Farm & Ranch line of business. As a result of this requirement, coupled with the ability of holders of Class A and Class B voting common stock to elect two-thirds of Farmer Mac's board of directors, Farmer Mac regularly conducts business with "related parties," including institutions affiliated with members of Farmer Mac's board of directors and institutions that own large amounts of Farmer Mac's voting common stock. Farmer Mac has adopted a Code of Business Conduct and Ethics that governs any conflicts of interest that may arise in these transactions, and Farmer Mac's policy is to require that any transactions with related parties be conducted in the ordinary course of business, with terms and conditions comparable to those available to any other counterparty not related to Farmer Mac. For more information about related party transactions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions" and Note 3 to the consolidated financial statements.

Regulatory Oversight

Farmer Mac's charter assigns to FCA, acting through the separate Office of Secondary Market Oversight ("OSMO") within FCA, the responsibility for the examination and the general supervision of the safe and sound performance of the powers, functions, and duties vested in Farmer Mac by the charter. The charter also authorizes FCA, acting through OSMO, to apply its general enforcement powers to Farmer Mac. Farmer Mac (including its subsidiaries) is the only entity regulated by OSMO, which was created as a separate office in recognition of the different role that Farmer Mac plays in providing a secondary market, as compared to the roles of other FCS institutions as primary lenders. The Director of OSMO is selected by, and reports to, the FCA board. The FCA board approves the policies, regulations, charters, and enforcement activities applicable to other FCS institutions, which are the only eligible holders of Farmer Mac's Class B voting common stock. FCA has no regulatory authority over the financial institutions that are the eligible holders of Farmer Mac's Class A voting common stock.

Farmer Mac's charter requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of FCA's regulatory activities, including the cost of any examination. Each year, OSMO conducts an examination of Farmer Mac to evaluate its safety and soundness, compliance with applicable laws and regulations, and mission achievement. The examination includes a review of Farmer Mac's capital adequacy, asset quality, management performance, earnings, liquidity, and sensitivity to interest rate risk. Farmer Mac is also required to file quarterly reports of condition with OSMO. In addition, as a publicly-traded corporation, Farmer Mac is required to comply with the periodic reporting requirements of the U.S. Securities and Exchange Commission (the "SEC"). For a more detailed discussion of Farmer Mac's regulatory and governmental relationships, see "—Government Regulation of Farmer Mac."

Capital

Farmer Mac's charter establishes three capital standards for Farmer Mac – minimum capital, critical capital, and risk-based capital. Farmer Mac is required to comply with the higher of the minimum capital requirement and the risk-based capital requirement. Also, in accordance with a recently effective FCA regulation on capital planning, Farmer Mac's board of directors has adopted a policy for maintaining a sufficient level of Tier 1 capital and imposing restrictions on dividends and employee (including officer) bonus payments in the event that Farmer Mac's Tier 1 capital falls below specified thresholds. For a discussion of Farmer Mac's capital requirements and its actual capital levels, and particularly FCA's role in the establishment and maintenance of those requirements and levels, see "—Government Regulation of Farmer Mac—Regulation—Capital Standards," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review—Equity," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters."

Employees and Property

As of December 31, 2013, Farmer Mac employed 67 people, located primarily at its office at 1999 K Street, N.W., 4th Floor, Washington, D.C. 20006. Farmer Mac also maintains an office at 5408 NW 88th Street, Suite 120, Johnston, Iowa 50131. Farmer Mac's main telephone number is (202) 872-7700.

Available Information

Farmer Mac makes available free of charge, through the "Investors" section of its internet website at www.farmermac.com, copies of materials it files with, or furnishes to, the SEC, including its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and amendments, if any, to those filings, as soon as reasonably practicable after electronically filing those materials with, or furnishing those materials to, the SEC. Please note that all references to www.farmermac.com in this Annual Report on Form 10-K are inactive textual references only. The information contained on Farmer Mac's website is not incorporated by reference into this Annual Report on Form 10-K.

FARMER MAC LINES OF BUSINESS

The following tables present the outstanding balances and new business volume under Farmer Mac's three lines of business – Farm & Ranch, USDA Guarantees, and Rural Utilities:

Outstanding Balances of Loans Held, Loans Underlying Off-Balance Sheet Farmer Mac Guaranteed Securities and LTSPCs, AgVantage Securities, USDA Securities, and Farmer Mac Guaranteed USDA Securities

	As of December 31,	
	2013	2012
	(in thousands)	
On-balance sheet:		
Farm & Ranch:		
Loans	$1,875,958	$1,519,415
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	—	39
Beneficial interests owned by third party investors	259,509	160,397
AgVantage Securities	3,539,650	3,339,200
USDA Guarantees:		
USDA Securities	1,645,806	1,559,683
Farmer Mac Guaranteed USDA Securities	21,089	26,238
Rural Utilities:		
Loans	698,010	663,097
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	354,241	368,848
AgVantage Securities	1,527,205	1,298,506
Total on-balance sheet	$9,921,468	$8,935,423
Off-balance sheet:		
Farm & Ranch:		
AgVantage Securities	$970,000	$970,000
LTSPCs	2,261,862	2,156,068
Guaranteed Securities	765,751	911,370
USDA Guarantees:		
Farmer Mac Guaranteed USDA Securities	20,222	29,658
Rural Utilities:		
AgVantage Securities	11,009	12,669
Total off-balance sheet	$4,028,844	$4,079,765
Total	$13,950,312	$13,015,188

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New Business Volume – Farmer Mac Loan Purchases, Guarantees, and LTSPCs

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Farm & Ranch:			
Loans	$824,881	$570,346	$495,455
LTSPCs	540,798	744,110	471,994
AgVantage Securities	453,500	601,000	1,801,500
USDA Guarantees:			
USDA Securities	361,894	479,324	404,445
Farmer Mac Guaranteed USDA Securities	—	5,327	3,268
Rural Utilities:			
Loans	86,965	166,117	203,789
AgVantage Securities	820,000	383,406	2,796
Total purchases, guarantees, and LTSPCs	$3,088,038	$2,949,630	$3,383,247

For additional financial information about Farmer Mac's lines of business, each of which is a reportable operating segment of Farmer Mac, see Note 14 to the consolidated financial statements. The following sections describe Farmer Mac's activities under each line of business.

Farm & Ranch

Under the Farm & Ranch line of business, Farmer Mac provides a secondary market for mortgage loans secured by agricultural real estate and rural housing by (1) purchasing and retaining eligible mortgage loans, (2) providing advances against eligible mortgage loans by purchasing obligations secured by those loans, (3) securitizing eligible mortgage loans and guaranteeing the timely payment of principal and interest on the resulting securities that represent interests in, or obligations secured by, pools of those loans, or (4) providing LTSPCs to acquire designated eligible mortgage loans, subject to the terms of the applicable LTSPC agreement. Farmer Mac is compensated for these activities through net effective spread on loans and Farmer Mac Guaranteed Securities held on balance sheet, guarantee fees earned on Farmer Mac Guaranteed Securities, and commitment fees earned on loans in LTSPCs.

Loan Eligibility

To be eligible for the Farm & Ranch line of business, a loan is required to:

- be secured by a fee simple mortgage or a long-term leasehold mortgage, with status as a first lien on agricultural real estate, including part-time farms and rural housing, located within the United States;
- be an obligation of a citizen or national of the United States, an alien lawfully admitted for permanent residence in the United States, or a private corporation or partnership that is majority-owned by U.S. citizens, nationals, or legal resident aliens;
- be an obligation of a person, corporation, or partnership having training or farming experience that is sufficient to ensure a reasonable likelihood that the loan will be repaid according to its terms; and

meet the credit underwriting, collateral valuation, documentation, and other specified standards for the Farm & Ranch line of business. See "—Underwriting and Collateral Valuation (Appraisal) Standards" and "—Approved Lenders" for a description of these standards.

Eligible agricultural real estate consists of one or more parcels of land, which may be improved by permanently affixed buildings or other structures, that (other than rural housing property):

- is used for the production of one or more agricultural commodities or products; and
- either consists of a minimum of five acres or generates minimum annual receipts of $5,000.

Farmer Mac's charter authorizes a maximum loan size (adjusted annually for inflation) for an eligible Farm & Ranch loan secured by more than 1,000 acres of agricultural real estate. That maximum loan size was $11.0 million as of December 31, 2013 and increased to $12.0 million as of January 1, 2014. Although the charter does not prescribe a maximum loan size or a total borrower exposure for an eligible Farm & Ranch loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac currently limits the size of those loans to:

- $30.0 million in cumulative exposure to any one borrower or related borrowers for transactions involving direct exposure to credit risk on loans (e.g., loan purchases, LTSPC transactions, and non-AgVantage Farm & Ranch Guaranteed Securities, which are not backed by a general obligation of a lender); and
- $75.0 million in cumulative exposure (with the amount of any direct borrower exposure described above also counting toward the $75.0 million limit) for AgVantage transactions, which involve the general obligation of a lender that is in turn secured by eligible loans, resulting in indirect exposure to credit risk on those loans.

Farmer Mac includes its part-time farm loans and rural housing loans in the Farm & Ranch line of business. Farmer Mac defines a "part-time farm" as agricultural real estate meeting the eligibility requirements described above on which is located a primary residence whose value is at least 30 percent of the property's aggregate value at origination. Farmer Mac assesses part-time farm repayment capacity primarily on the basis of the borrower's off-farm income, rather than agricultural production capacity. Part-time farm loans do not represent a significant part of Farmer Mac's business, with a total of $162.7 million of those loans in Farmer Mac's portfolio as of December 31, 2013.

For the rural housing portion of this line of business, an eligible loan must be secured by a mortgage on a one- to four-family, owner-occupied, moderately priced principal residence located in a community with a population of 2,500 or fewer. The current maximum purchase price or current appraised value for a dwelling, excluding the land to which the dwelling is affixed, that secures a rural housing loan is $269,807. That limit is generally adjusted annually based on changes in home values during the previous year, though it was not adjusted in 2013. In addition to the dwelling itself, an eligible rural housing loan can be secured by land associated with the dwelling having an appraised value of no more than 50 percent of the total appraised value of the combined property. Rural housing loans do not represent a significant part of Farmer Mac's business, with a total of $3.8 million of those loans in Farmer Mac's portfolio as of December 31, 2013.

Summary of Farm & Ranch Transactions

During the year ended December 31, 2013, Farmer Mac added a total of $1.8 billion of new business volume under the Farm & Ranch line of business. That new business volume was partially offset by repayments on existing assets (principal paydowns and maturities) during the year, resulting in $9.7 billion of total outstanding business volume in this line of business as of December 31, 2013, including loans held, AgVantage securities, and loans underlying non-AgVantage Farm & Ranch Guaranteed Securities and LTSPCs.

During 2013, Farmer Mac purchased eligible loans from 218 entities (the top ten institutions generated 53 percent of the purchase volume) and placed loans under LTSPCs with 25 entities in the Farm & Ranch line of business. During 2012, Farmer Mac purchased eligible loans from 159 entities (the top ten institutions generated 53.9 percent of the purchase volume) and placed loans under LTSPCs with 33 entities. During 2011, Farmer Mac purchased eligible loans from 111 entities (the top ten institutions generated 66.4 percent of the purchase volume) and placed loans under LTSPCs with 22 entities.

The following table summarizes loans purchased or newly placed under LTSPCs and AgVantage securities purchased under the Farm & Ranch line of business for each of the years ended December 31, 2013, 2012, and 2011:

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Loans	$824,881	$570,346	$495,455
LTSPCs	540,798	744,110	471,994
AgVantage Securities	453,500	601,000	1,801,500
Total	$1,819,179	$1,915,456	$2,768,949

The following table presents the outstanding balances of Farm & Ranch loans held, AgVantage securities, and loans underlying non-AgVantage Farm & Ranch Guaranteed Securities and LTSPCs as of the dates indicated:

	As of December 31,	
	2013	2012
	(in thousands)	
On-balance sheet:		
Loans	$1,875,958	$1,519,415
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	—	39
Beneficial interests owned by third party investors	259,509	160,397
AgVantage Securities	3,539,650	3,339,200
Total on-balance sheet	$5,675,117	$5,019,051
Off-balance sheet:		
AgVantage Securities	$970,000	$970,000
LTSPCs	2,261,862	2,156,068
Guaranteed Securities	765,751	911,370
Total off-balance sheet	$3,997,613	$4,037,438
Total	$9,672,730	$9,056,489

Loan Purchases

Farmer Mac offers loan products designed to increase the secondary market liquidity of agricultural real estate mortgage loans and the lending capacity of financial institutions that originate those loans. Farmer Mac enters into mandatory delivery commitments to purchase loans and offers rates for those commitments daily. Farmer Mac also purchases portfolios of newly originated and seasoned loans that are current in payment on a negotiated basis. Farmer Mac purchases both fixed and adjustable rate loans that have a variety of maturities and often include balloon payments. Loans purchased may sometimes include provisions that require a yield maintenance payment or some other form of prepayment penalty in the event a borrower prepays a loan (depending upon the level of interest rates at the time of prepayment). Of the $824.9 million of loans purchased in the Farm & Ranch line of business during 2013, 66 percent included balloon payments and none included yield maintenance prepayment protection. By comparison, of the $570.3 million of loans purchased in the Farm & Ranch line of business during 2012, 57 percent included balloon payments and none included yield maintenance prepayment protection.

Guarantees and Commitments

Farmer Mac offers two credit enhancement alternatives to direct loan purchases through the Farm & Ranch line of business that allow approved lenders the ability to retain the cash flow benefits of their loans and increase their liquidity and lending capacity: (1) LTSPCs and (2) Farm & Ranch Guaranteed Securities. LTSPCs and securitization trusts where Farmer Mac is not the primary beneficiary still result in the creation of off-balance sheet obligations for Farmer Mac. Historically, the only securitization trusts where Farmer Mac has not determined itself to be the primary beneficiary have been trusts containing 100 percent participation interests in loans that comprised an LTSPC pool prior to securitization, and in which the participating institution is not a related party to Farmer Mac. In performing Farmer Mac's purchase and guarantee obligations related to LTSPCs and Farm & Ranch Guaranteed Securities, payments made on the underlying loans or participation interests and liquidation of the related collateral (in the event of default under the terms of those assets) are intended to protect Farmer Mac against losses.

Both LTSPC and Farm & Ranch Guaranteed Securities transactions permit a lender to nominate from its portfolio an identified pool of loans, subject to review by Farmer Mac for conformity with its standards for Farm & Ranch loans. In non-AgVantage Farm & Ranch Guaranteed Securities and LTSPC transactions, the lender effectively transfers the credit risk on those eligible loans because, through Farmer Mac's guarantee or commitment to purchase, Farmer Mac assumes the ultimate credit risk of borrower defaults on the underlying loans. In the case of AgVantage securities, Farmer Mac assumes the ultimate credit risk of issuer default on the underlying obligations that are secured by eligible loans. These types of risk transfer reduce a lender's credit and concentration risk exposures and, consequently, its regulatory capital requirements and loss reserve requirements. The loans and participation interests underlying LTSPCs and Farm & Ranch Guaranteed Securities may include those with payment, maturity, and interest rate characteristics that differ from the loan products that Farmer Mac offers for purchase on a daily basis, but all are subject to the applicable standards described in "—Underwriting and Collateral Valuation (Appraisal) Standards." See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees."

LTSPCs. An LTSPC commits Farmer Mac, subject to the terms of the applicable LTSPC agreement, to a future purchase of one or more loans from an identified pool of eligible loans that met Farmer Mac's standards at the time the transaction was entered into and Farmer Mac assumed the credit risk on the loans. The LTSPC structure, which is not a guarantee of loans or securities, permits the lender to retain the loan pool in its portfolio until such time, if ever, as the lender elects to deliver some or all of the loans in the pool to Farmer Mac for purchase under the terms of the LTSPC agreement. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives commitment fees payable monthly in arrears in an amount approximating what would have been the guarantee fees if the transaction were structured as Farm & Ranch Guaranteed Securities. Farmer Mac offers different options under LTSPC arrangements to meet the credit and liquidity needs of its counterparties. Some LTSPCs provide that the underlying loans can be converted into Farm & Ranch Guaranteed Securities at the option of the counterparty with no conversion fee paid to Farmer Mac. Some LTSPCs contain risk sharing arrangements that provide for the counterparty to absorb up to a specified amount (typically between one and three percent of the original principal balance of the loan pool) of any losses incurred on the loans in the pool. As of December 31, 2013 and 2012, approximately 2.7 percent and 3.0 percent, respectively, of total LTSPCs and Farm & Ranch Guaranteed Securities, including those consolidated as loans on Farmer Mac's balance sheet, contained risk sharing arrangements.

At a lender's request, Farmer Mac purchases loans subject to an LTSPC at:

- par if the loans become delinquent for either 90 days or 120 days (depending on the agreement) or are in material non-monetary default, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds; or

- a mark-to-market price or in exchange for Farm & Ranch Guaranteed Securities (if the loans are not delinquent), in accordance with the terms of the applicable agreement.

In 2013, Farmer Mac entered into $540.8 million of LTSPCs, compared to $744.1 million in 2012. In 2013, LTSPCs remained the preferred credit enhancement alternative for new off-balance sheet transactions, and they continue to be a significant portion of the Farm & Ranch line of business. During 2013 and 2012, there were no conversions of LTSPCs into Farm & Ranch Guaranteed Securities. As of 2013, Farmer Mac's outstanding LTSPCs covered 4,274 mortgage loans with an aggregate principal balance of $2.3 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

Farm & Ranch Guaranteed Securities. In Farm & Ranch Guaranteed Securities transactions, Farmer Mac guarantees securities representing interests in, or obligations secured by, eligible Farm & Ranch loans or participation interests in those loans held by a trust or other entity. Farmer Mac guarantees the timely payment of interest and principal on the securities, which are either retained by Farmer Mac or sold to third parties. For those securities sold to third parties, the eligible loans or participation interests are often acquired from lenders in exchange for the Farm & Ranch Guaranteed Securities backed by those assets. As consideration for its assumption of the credit risk on the assets underlying the Farm & Ranch Guaranteed Securities, Farmer Mac receives guarantee fees based on the outstanding principal balance of the related securities. The Farm & Ranch Guaranteed Securities representing the general obligations of issuers secured by eligible loans are referred to as AgVantage securities. See "—AgVantage Securities."

Farmer Mac is obligated under its guarantee on the securities to make timely payments to investors of principal (including balloon payments) and interest based on the scheduled payments on the underlying loans or obligations, regardless of whether Farmer Mac or the related trust has actually received those scheduled payments. Farmer Mac's guarantee fees typically are collected out of installment payments made on the underlying loans or obligations until those loans or obligations have been repaid, purchased out of the trust, or otherwise liquidated (generally as a result of default). The aggregate amount of guarantee fees received on Farm & Ranch Guaranteed Securities depends on the amount of those securities outstanding and on the applicable guarantee fee rate, which Farmer Mac's charter caps at 50 basis points (0.50 percent) per year. The amount of non-AgVantage Farm & Ranch Guaranteed Securities outstanding is influenced by the repayment rates on the underlying loans and by the rate at which Farmer Mac issues new Farm & Ranch Guaranteed Securities, including as a result of conversions from LTSPCs. In general, when the level of interest rates declines significantly below the interest rates on loans underlying Farm & Ranch Guaranteed Securities, the rate of prepayments is likely to increase. Conversely, when interest rates rise above the interest rates on the loans underlying Farm & Ranch Guaranteed Securities, the rate of prepayments is likely to decrease. In addition to changes in interest rates, the timing of principal payments on Farm & Ranch Guaranteed Securities also is influenced by a variety of economic, demographic, and other considerations, such as yield maintenance provisions that may be associated with the underlying loans. For more information about yield maintenance provisions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk."

Of the $14.0 billion outstanding principal balance of program assets included in Farmer Mac's three lines of business as of December 31, 2013, $5.5 billion were in the form of Farm & Ranch Guaranteed Securities. As of December 31, 2013, the outstanding Farm & Ranch Guaranteed Securities consisted of:

- $4.5 billion of Farm & Ranch Guaranteed Securities structured as AgVantage securities, which represent a general obligation of the issuing institution secured by a pledge of eligible loan assets in excess of the principal amount of the AgVantage securities but do not represent a direct interest in the cash flows of the pledged collateral. See "—AgVantage Securities."

- $1.0 billion of Farm & Ranch Guaranteed Securities created from the deposit of eligible loan assets into securitization trusts that issue "pass-through" certificates representing interests in the underlying assets. This type of securitization structure may involve the deposit of either whole loans or loan participation interests into the trusts.

As of December 31, 2013, Farmer Mac had outstanding non-AgVantage Farm & Ranch Guaranteed Securities of $259.5 million that represent interests in whole loans and $765.8 million that represent interests in loan participations as a result of conversions from LTSPCs. Both types of transactions involve the deposit of eligible assets into securitization trusts along with all of the rights under related agreements that provide for, among other things, remedies for any breaches of representations and warranties made by the lender and the servicing of the underlying assets. In each of these transactions, the related trust has issued securities that represent interests in the assets of the trust and that Farmer Mac guarantees as to the timely payment of principal and interest.

For Farm & Ranch Guaranteed Securities that result from the conversion of LTSPCs, a 100 percent participation in the cash flows associated with each loan formerly subject to the LTSPC, rather than the whole loan, is deposited into the securitization trust. These transactions involve loan participations for reasons unique to the counterparties that have elected these conversions, all of whom are members of the FCS. Loans made by FCS institutions to farmers and ranchers have, by statute, specified loan and collateral actions to which borrowers are entitled, known as "borrower rights." Farmer Mac does not have the ability to offer all of the prescribed borrower rights without the involvement of another FCS counterparty. In recognition of this and Farmer Mac's desire not to disrupt the borrower's relationship with the originating FCS lender and expectations about how the loan will be serviced, Farmer Mac developed the participation interest securitization structure for FCS loans with borrower rights. The deposit of participation interests into securitization trusts permits the legal ownership of the related loan to remain with the FCS counterparty, together with the servicing and borrower rights related to the loan. Farmer Mac, in its role as trustee, generally has the right to give or withhold consent to the exercise of remedies as to each related loan. The FCS servicers in these transactions are also the holders of the related Farm & Ranch Guaranteed Securities, which have the same economic benefit to the holder from a cash flow perspective as a securitization of whole loans. See "—Servicing" for more information about the servicing of loans underlying Farm & Ranch Guaranteed Securities.

For the years ended December 31, 2013 and 2012, Farmer Mac sold non-AgVantage Farm & Ranch Guaranteed Securities in the amounts of $150.4 million and $32.7 million, respectively. No gains or losses resulted from these sales in either 2013 or 2012. During 2013 and 2012, there were no conversions of LTSPCs into Farm & Ranch Guaranteed Securities. As of December 31, 2013, Farmer Mac's outstanding non-AgVantage Farm & Ranch Guaranteed Securities, which may or may not be consolidated on-balance sheet depending on the primary beneficiary determination described above, were backed by 4,218 mortgage loans with an aggregate principal balance of $1.0 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume." See "—AgVantage Securities" for information about Farmer Mac's AgVantage transactions, which are a form of Farmer Mac Guaranteed Securities.

AgVantage Securities

Each AgVantage security is a general obligation of an institution approved by Farmer Mac, and that obligation is also secured by a pool of eligible loans under one of Farmer Mac's lines of business. Farmer Mac guarantees those securities as to the timely payment of principal and interest and may retain AgVantage securities in its portfolio or sell them to third parties in the capital markets as Farmer Mac Guaranteed Securities. For information on AgVantage Securities secured by rural utilities loans, see "—Rural Utilities—Summary of Rural Utilities Transactions."

Before approving an institution as an issuer in an AgVantage transaction in the Farm & Ranch line of business, Farmer Mac assesses the institution's agricultural real estate mortgage loan performance as well as the institution's creditworthiness. Farmer Mac continues to monitor the counterparty risk assessment on an ongoing basis after the AgVantage security is issued.

In addition to being a general obligation of the issuing institution, each Farm & Ranch AgVantage security must be secured by eligible agricultural real estate mortgage loans in an amount at least equal to the outstanding principal amount of the security. In the Farm & Ranch line of business, Farmer Mac currently requires the general obligation to be over-collateralized, either by more eligible loans or any of the following types of assets:

- cash;
- securities issued by the U.S. Treasury or guaranteed by an agency or instrumentality of the United States; or
- other highly-rated securities.

The required collateralization level for a Farm & Ranch AgVantage security currently ranges from 103 percent to 120 percent, with higher collateralization levels generally required for securities issued by institutions without long-term debt ratings from a nationally recognized statistical rating organization ("NRSRO"). The required collateralization level is established at the time of issuance and does not change during the life of the AgVantage security. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Institutional."

In all AgVantage transactions, the corporate obligor is required to remove from the pool of pledged collateral any loan that becomes more than 30 days delinquent in the payment of principal or interest and to substitute an eligible loan that is current in payment to maintain the minimum required collateralization level. As of December 31, 2013, Farmer Mac had not experienced any credit losses, nor had it been called upon to make a guarantee payment to third parties, on any of its AgVantage securities.

As of December 31, 2013 and 2012, the outstanding principal amount of Farm & Ranch AgVantage securities held by Farmer Mac was $3.5 billion and $3.3 billion, respectively. As of both December 31, 2013 and 2012, the aggregate outstanding principal amount of off-balance sheet AgVantage securities sold to third parties in the Farm & Ranch line of business totaled $970.0 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume" and "—Risk Management—Credit Risk – Institutional."

Underwriting and Collateral Valuation (Appraisal) Standards

As required by Farmer Mac's charter, Farmer Mac has established underwriting, security appraisal, and repayment standards for eligible loans taking into account the nature, risk profile, and other differences between different categories of qualified loans. The charter prescribes that the following minimum standards must be applied to agricultural real estate mortgage loans in the Farm & Ranch line of business:

- provide that no loan with a loan-to-value ratio ("LTV") in excess of 80 percent may be eligible;
- require each borrower to demonstrate sufficient cash flow to adequately service the loan;
- require sufficient documentation standards;
- protect the integrity of the appraisal process for any loan; and
- confirm that the borrower is or will be actively engaged in agricultural production.

In addition to these minimum standards, agricultural mortgage loans on which Farmer Mac assumes direct credit exposure, such as loans purchased, subject to an LTSPC, or underlying non-AgVantage Farm & Ranch Guaranteed Securities, are also typically required to meet more specific underwriting standards established by Farmer Mac, as described below. Agricultural mortgage loans on which Farmer Mac assumes indirect credit risk, such as loans that secure AgVantage securities, are required to meet the minimum standards set forth in the charter.

Farmer Mac uses experienced internal agricultural credit underwriters, independent contractors who aid in loan analysis, and loan servicers along with external agricultural loan servicing and collateral valuation contractors to perform those respective functions on Farm & Ranch loans. Farmer Mac relies on the combined expertise of its own internal staff and those third-party service providers with which Farmer Mac has contracted to provide Farmer Mac with suitable resources for performing the necessary underwriting, collateral valuation, and servicing functions.

Underwriting. To manage Farmer Mac's credit risk and to provide guidance for the management, administration, and conduct of underwriting to all participating and potential Farm & Ranch lenders, Farmer Mac has adopted credit underwriting standards that vary by loan type and loan product. Farmer Mac developed these standards based on industry norms for similar mortgage loans and designed them to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac for having assumed the credit risk on those loans. Furthermore, Farmer Mac requires Farm & Ranch lenders to make representations and warranties regarding the conformity of eligible mortgage loans to these standards and any other requirements that Farmer Mac may impose from time to time. Farmer Mac has the ability to require repurchase of the loan upon a material breach of these representations and warranties. The underwriting standards described in this section apply to Farmer Mac's Farm & Ranch loans other than (1) part-time farm and rural housing loans, whose underwriting standards more closely resemble generally-accepted industry standards for residential lending, including fully verified repayment capacity and use of credit scores and (2) Farm & Ranch loans that secure AgVantage securities, which are general obligations of institutions whose creditworthiness Farmer Mac assesses on an individual basis. For more information about AgVantage securities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Institutional."

Farmer Mac's credit underwriting standards for Farm & Ranch loans require that the original LTV of any loan not exceed 70 percent (or 60 percent in the case of certain Midwestern states in which property values have experienced recent escalation), with the exception that a loan secured by a livestock facility and supported by a contract with an integrator may have an original LTV of up to 75 percent. The original LTV of a loan is calculated by dividing the loan's principal balance at the time of guarantee, purchase, or commitment by the lower of the appraised value or the purchase price at the date of loan origination or, when available, updated appraised value at the time of guarantee, purchase, or commitment. Rural housing loans and part-time farm loans secured primarily by owner-occupied residences may also have original LTVs of up to 80 percent.

In the case of newly-originated Farm & Ranch loans, Farmer Mac's credit underwriting standards include:

- pro forma total debt service coverage ratio supported by historical profitability, including farm and non-farm income, of 1.25 or higher;
- pro forma debt-to-asset ratio of 50 percent or less; and
- pro forma ratio of current assets to current liabilities of 1.25 or higher.

Farmer Mac evaluates these standards on an ongoing basis based on current and anticipated market conditions, and adjusts these standards as Farmer Mac determines is necessary, while adhering closely to its core underwriting standards for repayment capacity, working capital (current ratio), and leverage (debt-to-asset ratio). Farmer Mac also implements interest rate shock tests for adjustable rate Farm & Ranch loans with initial reset periods of less than five years.

Farmer Mac includes its facility loans, such as dairy and ethanol facilities, in its Farm & Ranch line of business. Farmer Mac defines a facility loan as a loan secured by agricultural real estate with building improvements (other than a residence) that contribute more than 60 percent of the appraised value of the property. The credit underwriting standards for facility loans are the same as for Farm & Ranch loans but more stringent for the total debt service coverage ratio, including farm and non-farm income, of 1.35 or higher.

Loans not exceeding $1 million that are secured by eligible collateral with original LTVs not greater than 55 percent made to borrowers with high credit scores and adequate financial resources may be accepted without further underwriting tests being applied.

In addition, Farmer Mac's underwriting standards provide for the acceptance of a loan that, in the judgment of the Farmer Mac underwriter, is a sound loan with a high probability of repayment in accordance with its terms even though the loan does not meet one or more of the underwriting ratios usually required for loans of that type. In those cases, Farmer Mac permits approval of a loan if it:

- has compensating strengths, which means it exceeds minimum requirements for one or more of the underwriting standards to a degree that compensates for noncompliance with one or more other standards; and
- is made to a producer of particular agricultural commodities or products in a segment of agriculture in which such compensating strengths are typical of the financial condition of sound borrowers in that segment.

Despite these underwriting approvals based on compensating strengths, no loan will be approved if it does not at least meet all of the minimum standards prescribed by Farmer Mac's charter.

Farmer Mac's use of compensating strengths is not intended to provide a basis for waiving or lessening the requirement that eligible mortgage loans under the Farm & Ranch line of business be of consistently high quality. Loans approved on the basis of compensating strengths are fully underwritten and have experienced lower cumulative rates of loss following default compared to loans that were approved on the basis of conformance with all applicable underwriting ratios. During 2013, $308.4 million (22.6 percent) of the loans purchased or loans added under LTSPCs were approved based on compensating strengths ($3.4 million of which also had original LTVs of greater than 70 percent). As of December 31, 2013, a total of $2.2 billion (42.8 percent) of the outstanding balance of loans held and loans underlying LTSPCs and Farm & Ranch Guaranteed Securities (excluding AgVantage securities) were approved based on compensating strengths ($94.1 million of which had original LTVs of greater than 70 percent).

In the case of a seasoned loan, Farmer Mac considers sustained historical performance to be a reliable alternative indicator of a borrower's ability to pay the loan according to its terms. In the Farm & Ranch line of business, a seasoned loan generally will be deemed an eligible loan if:

- it has been outstanding for at least five years and has an LTV of 60 percent or less;
- there have been no payments more than 30 days past due during the previous three years; and
- there have been no material restructurings or modifications for credit reasons during the previous five years.

A seasoned loan that has been outstanding for more than one year but less than five years must substantially comply with the applicable underwriting standards for newly originated loans as of the date the loan was originated by the lender. The loan must also have a payment history that shows no payment more than 30 days past due during the three-year period immediately before the date the loan is either purchased by Farmer Mac or made subject to an LTSPC. Farmer Mac does not require that each loan's compliance with the underwriting standards be re-evaluated after Farmer Mac purchases the loan or approves it for inclusion in a pool that backs a guaranteed security or an LTSPC pool.

Farmer Mac performs due diligence before purchasing, guaranteeing securities backed by, or committing to purchase seasoned loans, including:

- evaluating loan database information to determine conformity to the criteria set forth in the preceding paragraphs;
- confirming that loan file data conform to database information;
- validating supporting credit information in the loan files; and

- reviewing loan documentation and collateral valuations.

Farmer Mac performs these and other due diligence procedures using methods that consider the size, age, leverage, industry sector, and nature of the collateral for the loans.

Required documentation for all loans in the Farm & Ranch line of business includes a first lien mortgage or deed of trust, a written promissory note, and assurance of Farmer Mac's lien position through either a title insurance policy or title opinion from an experienced real estate attorney in any geographic area where title insurance is not the industry practice.

As Farmer Mac develops new credit products, it establishes underwriting guidelines for them. Those guidelines result in industry-specific measures that meet or exceed the minimum underwriting standards contained in Farmer Mac's charter and provide Farmer Mac with the flexibility to deliver the benefits of a secondary market to farmers, ranchers, and rural homeowners in diverse sectors of the rural economy.

Collateral Valuation Standards. Farmer Mac has adopted collateral valuation standards for newly originated loans purchased or underlying Farm & Ranch Guaranteed Securities or LTSPCs. Those standards require, among other things, that a current valuation be performed, or have been performed within the preceding 12 months, independently of the credit decision-making process. Farmer Mac generally requires appraisals to conform to the Uniform Standards of Professional Appraisal Practice ("USPAP") promulgated by the Appraisal Standards Board. For AgVantage securities in the Farm & Ranch line of business, Farmer Mac requires either appraisals that conform to the USPAP or similar collateral valuation methods based upon Farmer Mac's evaluation of the lender's collateral valuation protocols and history.

Farmer Mac's collateral valuation standards require that the valuation function be conducted or administered by an individual who meets specific qualification and competence criteria and who:

- is not associated, except by the engagement for the collateral valuation, with the credit underwriters making the loan decision, though the appraiser or evaluator and the credit underwriter may be directly or indirectly employed by a common employer;
- receives no financial or professional benefit of any kind by virtue of the report content, valuation, or credit decision made, or based on the valuation report; and
- has no present or contemplated future direct or indirect interest in the property serving or to serve as collateral.

Farmer Mac's collateral valuation standards require uniform reporting of reliable and credible opinions of the market value based on analyses of comparable property sales, including consideration of the property's income-producing capacity and, if relevant, the market's response to the cost of improvements, as well as information regarding market trends. For seasoned loans, Farmer Mac obtains collateral valuation updates as considered necessary in its assessment of collateral risk determined in the due diligence process. If a current or updated collateral valuation is required for a seasoned loan, the collateral valuation standards described above would apply.

Portfolio Diversification

It is Farmer Mac's policy to diversify its portfolio of loans held and loans underlying Farm & Ranch Guaranteed Securities and LTSPCs, both geographically and by agricultural commodity/product. Farmer Mac directs its marketing efforts toward agricultural lenders throughout the nation to achieve commodity/product and geographic diversification in its exposure to credit risk. Farmer Mac evaluates its credit exposure in particular geographic regions and commodities/products relative to the total principal amount of all outstanding loans held and loans underlying LTSPCs and non-AgVantage Farm & Ranch Guaranteed Securities.

Farmer Mac is not obligated to assume credit risk on every loan that meets its underwriting and collateral valuation standards submitted by an eligible participant. Farmer Mac may consider other factors, such as its overall portfolio diversification, commodity and farming forecasts, and risk management objectives, in deciding whether or not to accept a loan as part of the Farm & Ranch line of business. For example, if industry forecasts indicate possible weakness in a geographic area or agricultural commodity or product, Farmer Mac may decide not to purchase or commit to purchase an affected loan as part of managing Farmer Mac's overall portfolio exposure to areas of possible heightened risk exposure. Because Farmer Mac effectively assumes the credit risk on all loans under an LTSPC, Farmer Mac's commodity/product and geographic diversification disclosures reflect all loans under LTSPCs and any loans that have been purchased out of LTSPC pools. For information about the diversification of Farmer Mac's existing portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees" and Note 8 to the consolidated financial statements.

Approved Lenders

As of December 31, 2013, Farmer Mac had 669 approved lenders eligible to participate in Farmer Mac's Farm & Ranch line of business, ranging from single-office to multi-branch institutions, spanning community banks, FCS institutions, mortgage companies, commercial banks, and insurance companies, compared to 536 eligible approved lenders as of December 31, 2012. In addition to participating directly in the Farm & Ranch line of business, some of the approved lenders facilitate indirect participation by other lenders by managing correspondent networks of lenders from which the approved lenders purchase loans to sell to Farmer Mac. As of December 31, 2013, of the 669 approved lenders eligible to participate, 237 lenders had been active participants in the Farm & Ranch line of business during the previous 12 months by either selling or pooling for purchase commitment at least one loan to Farmer Mac.

To be considered for approval as a participant in the Farm & Ranch line of business, a lender must meet criteria that Farmer Mac establishes. Those criteria include the following requirements:

- own a requisite amount of Farmer Mac common stock according to a schedule prescribed for the size and type of institution;
- have, in the judgment of Farmer Mac, the ability and experience to make or purchase and sell eligible farm and ranch loans and service those loans in accordance with Farmer Mac's requirements either through the lender's own staff or through contractors and originators;
- maintain a minimum adjusted net worth; and
- enter into a Seller/Servicer Agreement, which requires compliance with the terms of the Farmer Mac Seller/Servicer Guide, including providing representations and warranties regarding the eligibility of the loans and accuracy of loan data provided to Farmer Mac.

Servicing

Farmer Mac generally does not directly service the loans included in the Farm & Ranch line of business, although in some cases Farmer Mac may assume direct servicing for defaulted loans. Farmer Mac serves in the role of master servicer for Farm & Ranch loans held by Farmer Mac and for whole loans underlying Farm & Ranch Guaranteed Securities (other than AgVantage securities). In that capacity, Farmer Mac contracts with other institutions, known as a central servicers, to undertake the majority of the servicing responsibilities for the loans in accordance with Farmer Mac's specified servicing requirements. For these loans, the central servicer is typically not the same entity as the lender that sold the loans to Farmer Mac, and the originating lenders may retain some direct borrower contacts, referred to as field servicing functions. Field servicers may enter into contracts with Farmer Mac's central servicers that specify the retained servicing functions.

Loans related to the participation interests underlying Farm & Ranch Guaranteed Securities that result from the conversion of LTSPCs are serviced for the benefit of Farmer Mac, as trustee and guarantor, by the FCS institution that participated the loans to Farmer Mac. The servicer of those loans is usually also the holder of the related Farm & Ranch Guaranteed Securities. In those transactions, the FCS servicer is required to service the loans related to the securitized participation interests in a commercially reasonable manner and in substantial compliance with Farmer Mac's servicing requirements for Farm & Ranch loans. Those servicers are also required to give effect to all statutory borrower rights applicable to the loans and have shared power with Farmer Mac for some servicing actions to ensure this. The loans related to the Farm & Ranch Guaranteed Securities that result from the conversion of loans formerly subject to an LTSPC are the only loans included in the Farm & Ranch line of business that are subject to a shared power servicing provision.

Loans underlying LTSPCs and AgVantage securities are serviced by the holders of those loans in accordance with those lenders' servicing procedures, which are reviewed by Farmer Mac before entering into those transactions.

In summary, the substance of all servicing for loans in the Farm & Ranch line of business is performed in a manner consistent with Farmer Mac's servicing requirements, with some special servicing requirements for the assets underlying Farm & Ranch Guaranteed Securities resulting from LTSPC conversions to accommodate the borrower rights regime unique to loans originated by FCS institutions.

USDA Guarantees

General

Farmer Mac initiated its USDA Guarantees line of business in 1991 after Congress revised Farmer Mac's charter to provide that:

- USDA-guaranteed portions of loans (which Farmer Mac refers to as "USDA Securities") guaranteed under the Consolidated Farm and Rural Development Act (7 U.S.C. § 1921 et seq.) are statutorily included in the definition of loans eligible for the secondary market programs provided by Farmer Mac;
- USDA Securities are exempted from the credit underwriting, collateral valuation, documentation, and other standards that other loans must meet to be eligible for the secondary market provided by

Farmer Mac, and are exempted from any diversification and internal credit enhancement that may be required of pools of other eligible loans; and

- Farmer Mac is authorized to pool and issue Farmer Mac Guaranteed Securities backed by USDA Securities.

Since January 2010, nearly all purchases of USDA Securities have been made by Farmer Mac II LLC, a subsidiary of Farmer Mac that operates substantially all of the business related to the USDA Guarantees line of business. Farmer Mac operates only that part of the business that involves the issuance of Farmer Mac Guaranteed USDA Securities to investors other than Farmer Mac or Farmer Mac II LLC. Although Farmer Mac II LLC may issue securities in these transactions, Farmer Mac II LLC does not guarantee any USDA Securities it holds or any Farmer Mac Guaranteed USDA Securities issued by Farmer Mac or Farmer Mac II LLC.

Summary of USDA Guarantees Transactions

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac Guaranteed USDA Securities backed by USDA Securities. Farmer Mac does not guarantee the repayment of the USDA Securities themselves. In January 2010, Farmer Mac contributed substantially all of the assets comprising the USDA Guarantees line of business, in excess of $1.1 billion, to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA Securities and also included $35.0 million of Farmer Mac Guaranteed USDA Securities. Farmer Mac did not and will not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA Securities. The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied.

During the years ended December 31, 2013, 2012, and 2011, Farmer Mac II LLC purchased approximately $361.9 million, $479.3 million, and $404.4 million, respectively, of USDA Securities, all of which were retained on its balance sheet. Farmer Mac did not purchase any USDA Securities in 2013. During the years ended December 31, 2012, and 2011, Farmer Mac purchased $5.3 million and $3.3 million, respectively, of USDA Securities. All of the USDA Securities purchased by Farmer Mac in 2012 and 2011 (which exclude those purchased directly by Farmer Mac II LLC) were securitized and sold to lenders or other investors in the form of Farmer Mac Guaranteed USDA Securities. During 2013, 2012, and 2011, Farmer Mac and Farmer Mac II LLC conducted USDA Guarantees transactions with 195, 225, and 193 entities, respectively.

As of December 31, 2013 and 2012, $1.7 billion and $1.6 billion, respectively, of Farmer Mac Guaranteed USDA Securities and USDA Securities were outstanding. The following table presents activity in the USDA Guarantees line of business for each of the years indicated:

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Purchased and retained	$361,894	$479,324	$404,445
Purchased and sold	—	5,327	3,268
Total	$361,894	$484,651	$407,713

The following table presents the outstanding balance of USDA Securities and Farmer Mac Guaranteed USDA Securities as of the dates indicated:

	As of December 31,	
	2013	2012
	(in thousands)	
On-balance sheet:		
USDA Securities	$1,645,806	$1,559,683
Farmer Mac Guaranteed USDA Securities	21,089	26,238
Off-balance sheet:		
Farmer Mac Guaranteed USDA Securities	20,222	29,658
Total	$1,687,117	$1,615,579

As of December 31, 2013, Farmer Mac had experienced no other-than-temporary impairment on any of its Farmer Mac Guaranteed USDA Securities or USDA Securities.

United States Department of Agriculture Guaranteed Loan Programs

The USDA, acting through its various agencies, currently administers the federal rural credit programs first developed in the mid-1930s. The USDA makes direct loans and guarantees portions of loans made and serviced by USDA-qualified lenders for various purposes. The USDA's guarantee is supported by the full faith and credit of the United States. The USDA guarantees up to 95 percent of the principal amount of guaranteed loans. Through its USDA Guarantees line of business, Farmer Mac is one of several competing purchasers of USDA Securities representing the USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities loans, and other loans. The guaranteed portions of these loans are fully guaranteed as to principal and interest by the USDA.

USDA Guarantees. Each USDA guarantee is a full faith and credit obligation of the United States and becomes enforceable if a lender fails to repurchase the portion of the loan that is guaranteed by the USDA from its holder within 30 days after written demand from the holder when:

- the borrower under the guaranteed loan is in default not less than 60 days in the payment of any principal or interest due on the USDA-guaranteed portion of the loan; or
- the lender has failed to remit to the holder the payment made by the borrower on the USDA-guaranteed portion of the loan or any related loan subsidy within 30 days after the lender's receipt of the payment.

If the lender does not repurchase the USDA-guaranteed portion as provided above, the USDA is required to purchase the unpaid principal balance of the USDA-guaranteed portion together with accrued interest (including any loan subsidy) to the date of purchase, less the lender's servicing fee, within 60 days after written demand upon the USDA by the holder. While the USDA guarantee will not cover the note interest to the holder on USDA-guaranteed portions accruing after 90 days from the date of the original demand letter of the holder to the lender requesting repurchase, Farmer Mac has established procedures to require prompt demand on the USDA to purchase USDA-guaranteed portions that have not been repurchased by the lender.

If, in the opinion of the lender (with the concurrence of the USDA) or in the opinion of the USDA, repurchase of the USDA-guaranteed portion is necessary to service the related guaranteed loan adequately, the holder is required to sell the USDA-guaranteed portion to the lender or USDA for an amount equal to the unpaid principal balance and accrued interest on such USDA-guaranteed portion less the lender's servicing fee. Federal regulations prohibit the lender from repurchasing USDA-guaranteed portions for arbitrage purposes.

Lenders. Any lender authorized by the USDA to obtain a USDA guarantee on a loan may participate in Farmer Mac's USDA Guarantees line of business. During 2013, 195 lenders, consisting mostly of community and regional banks, sold USDA Securities to Farmer Mac, compared to 225 lenders that did so during 2012.

Loan Servicing. The lender on each USDA guaranteed loan is required by regulation to retain the unguaranteed portion of the guaranteed loan, to service the entire underlying guaranteed loan, including the USDA-guaranteed portion, and to remain mortgagee and/or secured party of record. The USDA-guaranteed portion and the unguaranteed portion of the loan are to be secured by the same collateral with equal lien priority. The USDA-guaranteed portion of a loan cannot be paid later than, or in any way be subordinated to, the related unguaranteed portion.

Rural Utilities

General

Under its charter, Farmer Mac is permitted to purchase, and guarantee securities backed by, rural electric and telephone loans made by cooperative lenders to borrowers who have received or are eligible to receive loans under the Rural Electrification Act of 1936 ("REA"). The REA is administered by the Rural Utilities Service ("RUS"), an agency of the USDA. None of Farmer Mac's business to date under the Rural Utilities line of business has involved telecommunications loans. Farmer Mac's Rural Utilities line of business encompasses purchases of eligible rural utilities loans and guarantees of Rural Utilities Guaranteed Securities backed by such loans. Although Farmer Mac is also authorized to issue LTSPCs for pools of eligible rural utilities loans, no LTSPCs have been issued to date under the Rural Utilities line of business.

Summary of Rural Utilities Transactions

During the year ended December 31, 2013, Farmer Mac added $0.9 billion of new Rural Utilities business, compared to $0.5 billion and $0.2 billion for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2013 and 2012, the aggregate outstanding principal balance of rural utilities loans held and of Rural Utilities Guaranteed Securities was $2.6 billion and $2.3 billion, respectively.

The following table summarizes new Rural Utilities business activity for each of the years ended December 31, 2013, 2012, and 2011:

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
On-balance sheet:			
Loans	$86,965	$166,117	$203,789
AgVantage Securities	820,000	383,406	—
Off-balance sheet:			
AgVantage Securities	—	—	2,796
Total	$906,965	$549,523	$206,585

The following table presents the outstanding balances of rural utilities loans held and of Rural Utilities Guaranteed Securities as of the dates indicated:

	As of December 31,	
	2013	2012
	(in thousands)	
On-balance sheet:		
Loans	$698,010	$663,097
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	354,241	368,848
AgVantage Securities	1,527,205	1,298,506
Total on-balance sheet	$2,579,456	$2,330,451
Off-balance sheet:		
AgVantage Securities	11,009	12,669
Total	$2,590,465	$2,343,120

As of December 31, 2013, all of the Rural Utilities Guaranteed Securities consisted of securities representing either (1) direct interests in eligible rural electric loans or (2) general obligations of the National Rural Utilities Cooperative Finance Corporation ("CFC") secured by eligible rural electric loans. As of December 31, 2013, CFC held approximately 8 percent of Farmer Mac's outstanding Class A voting common stock (5 percent of total voting shares) and 50 percent of Farmer Mac's outstanding Series A Preferred Stock, which was issued in January 2013 when Farmer Mac's outstanding Series C Non-Voting Cumulative Preferred Stock ("Series C Preferred Stock"), of which CFC held 100 percent, was simultaneously redeemed in its entirety.

Loan Eligibility

To be eligible for Farmer Mac's Rural Utilities line of business, a rural utilities loan (or an interest in such a loan) is required to:

- be made for an electric or telephone facility by a lender organized as a cooperative to a borrower that has received or is eligible to receive a loan under the REA;
- be performing and not more than 30 days delinquent; and
- meet Farmer Mac's underwriting standards described in more detail below.

Underwriting

Farmer Mac's charter does not specify minimum underwriting criteria for eligible rural utilities loans under the Rural Utilities line of business. To manage Farmer Mac's credit risk, to mitigate the risk of loss from borrower defaults, and to provide guidance for the management, administration, and conduct of underwriting to participants in the Rural Utilities line of business, Farmer Mac has adopted credit underwriting standards that vary by loan type, based on whether loans are made to electric distribution cooperatives or electric generation and transmission ("G&T") cooperatives, and by loan product. These standards are based on industry norms for similar rural utilities loans and are designed to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac depending on whether direct or indirect credit exposure is assumed on the loan. Farmer Mac reviews lenders' credit submissions and analyzes borrowers' audited financial statements and financial and operating reports filed with RUS and the Federal Energy Regulatory Commission to confirm that loans meet Farmer Mac's underwriting standards for rural utilities loans. Furthermore, Farmer Mac requires sellers of rural utilities loans to make representations and warranties regarding the conformity of eligible loans to these standards and any other requirements that Farmer Mac may impose from time to time. Farmer Mac has the ability to require repurchase of the loan upon a material breach of these representations and warranties.

In addition to the loan eligibility criteria described above for rural utilities loans, Farmer Mac has developed different underwriting standards for rural utilities loans that depend on whether direct or indirect credit exposure is assumed on a loan and whether the borrower is an electric distribution cooperative or a G&T cooperative. Farmer Mac's credit underwriting standards for all rural utilities loans on which it assumes direct credit exposure (i.e., with no general obligation of a lender involved in the transaction) require:

- each borrower to demonstrate sufficient cash flow to adequately service the loan; and
- each borrower's leverage position to be adequate based on industry standards.

In the case of a newly-originated loan to a distribution cooperative on which Farmer Mac assumes direct credit exposure, the borrower typically must, among other criteria set forth in Farmer Mac's credit underwriting standards, meet the following ratios (based on the average of the most recent three years):

- the ratio of long-term debt to "net utility plant" does not exceed 90 percent;
- the modified debt service coverage ratio (the cooperative's available cash plus patronage capital credits allocated to the cooperative, relative to debt expense) equals or exceeds 1.35; and
- the ratio of equity to total assets equals or exceeds 20 percent.

The "net utility plant" means the real and tangible personal property of a rural utilities borrower constituting the long-term assets of property, plant, and equipment (PPE), less depreciation, computed in accordance with applicable accounting requirements.

In the case of a newly-originated loan to a G&T cooperative on which Farmer Mac assumes direct credit exposure, the borrower typically must, among other criteria set forth in Farmer Mac's credit underwriting standards, meet the following ratios (based on the average of the most recent three years):

- the equity to total assets ratio equals or exceeds 10 percent;
- the modified debt service coverage ratio equals or exceeds 1.15;

- the debt to EBITDA (earnings before income taxes, depreciation and amortization) ratio does not exceed 12; and
- the aggregate members' equity to total capitalization ratio equals or exceeds 25 percent.

Since the inception of the Rural Utilities line of business in 2008, Farmer Mac has purchased only one loan that has not met all of the applicable underwriting standards for Rural Utilities loans described above.

Farmer Mac's credit underwriting standards for all AgVantage transactions under the Rural Utilities line of business, in which Farmer Mac has indirect credit exposure on loans securing the general obligation of a lender, require:

- the counterparty issuing the general obligation to have a credit rating from an NRSRO that is at least investment grade, or be of comparable creditworthiness as determined through Farmer Mac's analysis;
- the collateral to be comprised of loans, or interests in loans, for electric or telephone facilities by a lender organized as a cooperative to a borrower that has received or is eligible to receive a loan under the REA;
- the collateral to be performing and not more than 30 days delinquent; and
- the collateralization (consisting of current, performing loans) to be maintained at the contractually prescribed level, in an amount at least equal to the outstanding principal amount of the security.

In addition, the same underwriting standards that apply to loans made to distribution cooperatives on which Farmer Mac assumes direct credit exposure also apply to loans made to distribution cooperatives that secure the general obligation of the lender in AgVantage transactions (based on the average of the most recent three years):

- the ratio of long-term debt to net utility plant does not exceed 90 percent;
- the modified debt service coverage ratio equals or exceeds 1.35; and
- the ratio of equity to total assets equals or exceeds 20 percent.

For loans made to G&T cooperatives that secure the general obligation of the lender in AgVantage transactions, the G&T cooperative must either (1) have a rating from an NRSRO of BBB- (or equivalent rating) or better or (2) meet the following underwriting standards (based on the average of the most recent three years):

- the aggregate members' equity to total capitalization ratio equals or exceeds 25 percent;
- the modified debt service coverage ratio equals or exceeds 1.10; and
- the equity to total assets ratio equals or exceeds 10 percent.

The due diligence Farmer Mac performs before purchasing, or guaranteeing securities backed by rural utilities loans includes:

- evaluating loan database information to determine conformity to Farmer Mac's underwriting standards;
- confirming that loan file data conforms to database information;
- validating supporting credit information in the loan files; and
- reviewing loan documentation.

Farmer Mac is not obligated to assume credit risk on every rural utilities loan submitted to Farmer Mac that meets its underwriting and collateral valuation standards. Farmer Mac may consider other factors, such as portfolio diversification, in deciding whether or not to accept the loans.

Collateral

It is customary in loans to distribution cooperatives and G&T cooperatives for the lender to take a security interest in substantially all of the borrower's assets. In cases in which Farmer Mac purchases a rural utilities loan with a pledge of all assets and a lender also has a lien on all assets, Farmer Mac verifies that a lien accommodation results in either a shared first lien or a first lien in favor of Farmer Mac. In cases where debt indentures are utilized, Farmer Mac determines if available collateral is adequate to support the loan program and Farmer Mac's investment. As of December 31, 2013, all of the rural utilities loans held by Farmer Mac consisted of loans with a pledge of all assets of the borrower except for one unsecured loan with a balance of $13.1 million. Farmer Mac also has indirect credit exposure on rural utilities loans that are pledged to secure AgVantage securities. Some of those loans are unsecured or secured by less than all of the borrower's assets. The agreements governing Farmer Mac's Rural Utilities AgVantage securities provide that these loans may not comprise more than 20 percent of the aggregate rural utilities loans securing these AgVantage securities.

Servicing

Farmer Mac generally does not directly service the rural utilities loans held in its portfolio or the loans underlying Rural Utilities Guaranteed Securities. Those loans are serviced by a servicer designated by Farmer Mac. Rural utilities loans pledged to secure AgVantage securities are serviced by the issuer of the AgVantage securities in accordance with the institution's servicing procedures, which are reviewed and approved by Farmer Mac before entering into those transactions. CFC, a related party to Farmer Mac by virtue of CFC's stock ownership in Farmer Mac and sole issuer of AgVantage securities secured by rural utilities loans, currently services all of the rural utilities loans in Farmer Mac's portfolio.

Approved Lenders

Farmer Mac's charter requires eligible rural utilities loans be made by a lender organized as a cooperative. Currently, the only two rural utilities lenders that are cooperatives are CFC and CoBank, ACB ("CoBank"), an institution of the FCS. As of December 31, 2013, these cooperatives had approximately $20.7 billion in loans outstanding to distribution cooperatives and $7.4 billion in loans outstanding to G&T cooperatives. To date, CFC is the only lender to have participated in Farmer Mac's Rural Utilities line of business.

Portfolio Diversification

Rural utilities loans are made throughout the entire United States. Farmer Mac analyzes the geographic distribution of loans to cooperatives and considers regional concentration levels in connection with its business activities under the Rural Utilities program. As of December 31, 2013, Farmer Mac had direct credit exposure on 788 loans to electric cooperatives constituting $1.1 billion across 37 states.

Farmer Mac's charter does not prescribe a maximum loan size for an eligible rural utilities loan, but Farmer Mac currently has a $30.0 million limit in place for cumulative direct credit exposure on those loans (e.g., purchases of loans or securities representing interests in loans) to any one borrower or related

borrowers. For indirect credit exposures on rural utilities loans (e.g., AgVantage transactions), Farmer Mac's current limit is $75.0 million for cumulative loan exposure to any one borrower or related borrowers, with the amount of any direct exposure to a borrower also counting toward the $75.0 million limit. As of December 31, 2013, Farmer Mac's direct credit exposure to rural utilities loans consisted of $1.0 billion in loans to distribution cooperatives and $35.3 million in loans to G&T cooperatives.

Funding of Guarantee and LTSPC Obligations

The principal sources of funding for the payment of Farmer Mac's obligations under its guarantees and LTSPCs are the fees Farmer Mac receives for its guarantees and commitments, net effective spread, proceeds of debt issuances, loan repayments, and maturities of AgVantage securities. Farmer Mac satisfies its obligations under LTSPCs and its guarantees by purchasing defaulted loans out of LTSPCs and from the related trusts for Farmer Mac Guaranteed Securities. Farmer Mac typically recovers a significant portion of the value of defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties, or foreclosure and sale of the property securing the loans. Ultimate credit losses arising from Farmer Mac's guarantees and commitments are reflected in Farmer Mac's charge-offs against its allowance for losses, gains and losses on the sale of real estate owned ("REO"), which consists of real estate acquired through foreclosure, and fair value adjustments of REOs held. During 2013, Farmer Mac had net credit losses of $3.0 million, compared to $1.7 million during 2012, primarily due to an increase in the level of charge-offs in 2013.

Farmer Mac's charter requires Farmer Mac to maintain in its accounts a portion of the guarantee fees it receives from its guarantee activities as a reserve against losses. As of December 31, 2013, this reserve against losses arising from Farmer Mac's guarantee activities was $31.6 million. Farmer Mac calculates the amount of this statutorily required reserve against losses arising from its guarantee activities based on the credit risk component of guarantee fees received on all Farm & Ranch Guaranteed Securities and AgVantage securities (in both the Farm & Ranch and Rural Utilities lines of business). This amount does not represent either anticipated credit losses or estimated probable credit losses and does not directly relate to either the allowance for loan losses or the reserve for losses in Farmer Mac's consolidated balance sheets. Rather, this is the amount that must be exhausted before Farmer Mac may issue obligations to the U.S. Treasury against the $1.5 billion that Farmer Mac is statutorily authorized to borrow from the U.S. Treasury to fulfill its guarantee obligations. That borrowing authority is not intended to be a routine funding source and has never been used. For a more detailed discussion of Farmer Mac's borrowing authority from the U.S. Treasury, see "Business—Farmer Mac's Authority to Borrow from the U.S. Treasury."

Farmer Mac's total outstanding guarantees and LTSPCs exceed the total of: (1) the amount held as an allowance for losses, (2) the amount maintained as a reserve against losses arising from guarantee activities, and (3) the amount Farmer Mac may borrow from the U.S. Treasury. However, Farmer Mac does not expect its future payment obligations under its guarantees and LTSPCs to exceed amounts available to satisfy those obligations, including access to the underlying collateral in the event of default. For information about Farmer Mac's allowance for losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees" and Note 2(j) and Note 8 to the consolidated financial statements.

FINANCING

Debt Issuance

Farmer Mac's statutory charter (12 U.S.C. § 2279aa-6(e)) authorizes Farmer Mac to issue debt obligations to purchase eligible loans, USDA Securities, and Farmer Mac Guaranteed Securities, and to maintain reasonable amounts for business operations, including adequate liquidity. Farmer Mac funds its purchases of eligible loan assets and liquidity investment assets primarily by issuing debt obligations of various maturities in the public capital markets. Farmer Mac also issues debt obligations to obtain funds to finance its transaction costs and its obligations under guarantees and LTSPCs. Farmer Mac's debt obligations include discount notes and fixed and floating rate medium-term notes, including callable notes.

The interest and principal on Farmer Mac's debt obligations are not guaranteed by, and do not constitute debts or obligations of, FCA or the United States or any agency or instrumentality of the United States other than Farmer Mac. Farmer Mac is an institution of the FCS, but is not liable for any debt or obligation of any other institution of the FCS. Likewise, neither the FCS nor any other individual institution of the FCS is liable for any debt or obligation of Farmer Mac. Income to the purchaser of a Farmer Mac discount note or medium-term note is not exempt under federal law from federal, state, or local taxation. Farmer Mac's discount notes and medium-term notes are not currently rated by an NRSRO.

Farmer Mac's board of directors has authorized the issuance of up to $15.0 billion of discount notes and medium-term notes (of which $12.3 billion was outstanding as of December 31, 2013), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing needs. The board of directors increased that authorization from $12.0 billion to $15.0 billion in December 2012. Farmer Mac invests the proceeds of its debt issuances in loan purchases, Farmer Mac Guaranteed Securities, and liquidity investment assets in accordance with policies established by its board of directors that comply with FCA's Liquidity and Investment Regulations, which establish limitations on dollar amount, issuer concentration, and credit quality. Farmer Mac's regular debt issuance supports its access to the capital markets, and Farmer Mac's liquidity investment assets provide an alternative source of funds should market conditions be unfavorable. Farmer Mac's current policies authorize liquidity investments in:

- obligations of or guaranteed by the United States;
- obligations of GSEs;
- municipal securities;
- international and multilateral development bank obligations;
- money market instruments;
- diversified investment funds;
- asset-backed securities;
- corporate debt securities; and
- mortgage securities.

For more information about Farmer Mac's outstanding investments and indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review" and Note 4 and Note 7 to the consolidated financial statements.

Equity Issuance

Farmer Mac's charter authorizes Farmer Mac to issue voting common stock, non-voting common stock, and non-voting preferred stock. Only banks, other financial entities, insurance companies, and institutions of the FCS eligible to participate in one or more of Farmer Mac's lines of business may hold voting common stock. No holder of Class A voting common stock may directly or indirectly be a beneficial owner of more than 33 percent of the outstanding shares of Class A voting common stock. There are no restrictions on the maximum number or percentage of outstanding shares of Class B voting common stock that may be held by an eligible stockholder. No ownership restrictions apply to Class C non-voting common stock or to any preferred stock issued by Farmer Mac, and those securities are freely transferable.

The dividend rights of all three classes of Farmer Mac's common stock are the same, and dividends may be paid on common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to compliance with applicable capital requirements and the payment of dividends on outstanding preferred stock. Upon liquidation, dissolution, or winding up of the business of Farmer Mac, after payment and provision for payment of outstanding debt of Farmer Mac, the holders of shares of preferred stock would be paid at par value out of assets available for distribution, plus all declared and unpaid dividends, before the holders of shares of common stock received any payment. The assets of Farmer Mac II LLC are not directly available to satisfy the claims of Farmer Mac's creditors or stockholders. Those assets will only be available to the creditors and stockholders of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied.

Common Stock

As of December 31, 2013, the following shares of Farmer Mac common stock were outstanding:

- 1,030,780 shares of Class A voting common stock;
- 500,301 shares of Class B voting common stock; and
- 9,354,804 shares of Class C non-voting common stock.

Farmer Mac may obtain additional capital from future issuances of voting and non-voting common stock and non-voting preferred stock. Farmer Mac did not repurchase any common stock during 2013 or 2012.

The following table presents the dividends declared on Farmer Mac's common stock during and subsequent to 2013:

Date Dividend Declared	Per Share Amount	For Holders Of Record As Of	Date Paid
February 6, 2013	$0.12	March 15, 2013	March 29, 2013
June 5, 2013	$0.12	June 17, 2013	June 28, 2013
July 31, 2013	$0.12	September 16, 2013	September 30, 2013
December 4, 2013	$0.12	December 20, 2013	December 31, 2013
February 6, 2014	$0.14	March 17, 2014	*

* The dividend declared on February 6, 2014 is scheduled to be paid on March 31, 2014.

Farmer Mac's ability to declare and pay common stock dividends could be restricted if it were to fail to comply with applicable capital requirements. See Note 9 to the consolidated financial statements and "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards."

Preferred Stock

On January 17, 2013, Farmer Mac redeemed and retired all 57,578 outstanding shares of its Series C Preferred Stock (and paid all outstanding declared but unpaid dividends on the Series C Preferred Stock on a pro-rated basis to the date of redemption) through the proceeds received from the issuance of 2.4 million shares of Series A Preferred Stock on the same date (as further described below). Farmer Mac had authorized the issuance of up to 100,000 shares of Series C Preferred Stock with a par value of $1,000 per share and an initial liquidation preference of $1,000 per share. CFC, a related party, owned all of the outstanding Series C Preferred Stock on the date of its redemption, and held at issuance 1.2 million shares of the Series A Preferred Stock.

The Series A Preferred Stock has a par value of $25 per share and an initial liquidation preference of $25 per share. Since its issuance, there have been no additional sales of Series A Preferred Stock by Farmer Mac. Series A Preferred Stock ranks senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock, and any other common stock of Farmer Mac issued in the future. The annual dividend rate will remain at a fixed rate of 5.875 percent for as long as the Series A Preferred Stock remains outstanding. Dividends on Series A Preferred Stock are non-cumulative, which means that if the Board of Directors has not declared a dividend before the applicable dividend payment date for any dividend period, such dividend will not be paid or cumulate, and Farmer Mac will have no obligation to pay dividends for such dividend period, whether or not dividends on the Series A Preferred Stock are declared for any future dividend period. Farmer Mac may pay dividends on Series A Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to Series A Preferred Stock. Farmer Mac has the right, but not the obligation, to redeem some or all of the issued and outstanding shares of Series A Preferred Stock at a price equal to the then-applicable liquidation preference beginning on January 17, 2018 and anytime thereafter.

The following table presents the dividends declared and paid on Series A Preferred Stock during and subsequent to 2013:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 6, 2013	$0.3672	January 18, 2013	April 17, 2013	April 17, 2013
June 5, 2013	$0.3672	April 18, 2013	July 17, 2013	July 17, 2013
July 31, 2013	$0.3672	July 18, 2013	October 17, 2013	October 17, 2013
December 4, 2013	$0.3672	October 18, 2013	January 17, 2014	January 17, 2014
February 6, 2014	$0.3672	January 18, 2014	April 17, 2014	*

* The dividend declared on February 6, 2014 is scheduled to be paid on April 17, 2014.

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of $250.0 million aggregate face amount of securities issued by a newly formed Delaware statutory trust. The trust securities, called Farm Asset-

Linked Capital Securities or "FALConS," represent undivided beneficial ownership interests in 250,000 shares of Farmer Mac II LLC Preferred Stock. The Farmer Mac II LLC Preferred Stock has a liquidation preference of $1,000 per share.

Dividends on the Farmer Mac II LLC Preferred Stock are payable if, when, and as declared by Farmer Mac II LLC's board of directors, quarterly, on a non-cumulative basis, on March 30, June 30, September 30, and December 30 of each year. From the date of issuance to but excluding the quarterly payment date occurring on March 30, 2015, the annual dividend rate on the Farmer Mac II LLC Preferred Stock is 8.875 percent. After consideration of the consolidated tax benefits to Farmer Mac, the net effective cost of the $250.0 million of the Farmer Mac II LLC Preferred Stock is currently 5.77 percent per year. From March 30, 2015 to but excluding the quarterly payment date occurring on March 30, 2020, the annual dividend rate on the Farmer Mac II LLC Preferred Stock will be 10.875 percent. Beginning on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be an annual rate equal to three-month LIBOR plus 8.211 percent. Dividends on the Farmer Mac II LLC Preferred Stock are non-cumulative, so dividends that are not declared for any payment date will not accrue.

Farmer Mac II LLC Preferred Stock is permanent equity of Farmer Mac II LLC and is presented as "Non-controlling interest – preferred stock" within total equity on the consolidated balance sheets of Farmer Mac. Farmer Mac II LLC incurred $8.1 million of direct costs related to the issuance of the Farmer Mac II LLC Preferred Stock, which reduced the amount of non-controlling interest – preferred stock. The accrual of declared dividends is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the consolidated statements of operations on a pre-tax basis. The consolidated tax benefit is included in "income tax expense" on the consolidated statements of operations.

Without the consent of the holders of the FALConS or the Farmer Mac II LLC Preferred Stock, Farmer Mac II LLC may redeem the Farmer Mac II LLC Preferred Stock on March 30 of 2015, 2016, 2017, 2018, and 2019 and on any quarterly payment date on or after March 30, 2020, in whole or in part, at a cash redemption price equal to the liquidation preference. Farmer Mac II LLC will likely redeem some or all of the Farmer Mac II LLC Preferred Stock on March 30, 2015 or a subsequent redemption date if Farmer Mac is able to replace the Farmer Mac II LLC Preferred Stock, which does not constitute a Tier 1 capital-eligible security, with other securities issued by Farmer Mac constituting Tier 1 capital-eligible securities, as defined under Farmer Mac's capital plan. For more information on Farmer Mac's capital plan, see "Government Regulation of Farmer Mac—Capital Standards—Capital Adequacy Requirements." In addition, prior to the initial redemption date on March 30, 2015 or between subsequent redemption dates, Farmer Mac or an affiliated third party may purchase FALConS from time to time in the open market, in privately negotiated transactions or through a public tender offer, and, subject to favorable market conditions, may seek to do so.

The following table presents the dividends declared on Farmer Mac II LLC Preferred Stock during and subsequent to 2013:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 6, 2013	$22.1875	December 30, 2012	March 29, 2013	April 1, 2013
June 5, 2013	$22.1875	March 30, 2013	June 29, 2013	July 1, 2013
July 31, 2013	$22.1875	June 30, 2013	September 29, 2013	September 30, 2013
December 4, 2013	$22.1875	September 30, 2013	December 29, 2013	December 30, 2013
February 6, 2014	$22.1875	December 30, 2013	March 29, 2014	*

* The dividend declared on February 6, 2014 is scheduled to be paid on March 31, 2014.

FARMER MAC'S AUTHORITY TO BORROW FROM THE U.S. TREASURY

Farmer Mac is authorized to borrow up to $1.5 billion from the U.S. Treasury through the issuance of debt obligations to the U.S. Treasury. Any funds borrowed from the U.S. Treasury may be used solely for the purpose of fulfilling Farmer Mac's guarantee obligations. Farmer Mac's charter provides that the U.S. Treasury is required to purchase Farmer Mac's debt obligations up to the authorized limit if Farmer Mac certifies that:

- a portion of the guarantee fees assessed by Farmer Mac has been set aside as a reserve against losses arising out of Farmer Mac's guarantee activities in an amount determined by Farmer Mac's board of directors to be necessary and such reserve has been exhausted (that amount was $31.6 million as of December 31, 2013); and
- the proceeds of such obligations are needed to fulfill Farmer Mac's guarantee obligations.

Any debt obligations issued by Farmer Mac under this authority would bear interest at a rate determined by the U.S. Treasury, taking into consideration the average rate on outstanding marketable obligations of the United States as of the last day of the last calendar month ending before the date of the purchase of the obligations from Farmer Mac. Farmer Mac would be required to repurchase any of its debt obligations held by the U.S. Treasury within a "reasonable time." As of December 31, 2013, Farmer Mac had not utilized this borrowing authority and does not expect to utilize this borrowing authority in the future.

The United States government does not guarantee payments due on Farmer Mac Guaranteed Securities, funds invested in the equity or debt securities of Farmer Mac, any dividend payments on shares of Farmer Mac stock, or the profitability of Farmer Mac.

GOVERNMENT REGULATION OF FARMER MAC

General

Farmer Mac was created by federal statute in 1988 in the aftermath of the collapse of the agricultural credit delivery system. Farmer Mac's primary committees of jurisdiction in Congress – the Committee on Agriculture of the U.S. House of Representatives and the U.S. Senate Committee on Agriculture, Nutrition and Forestry – added requirements for Farmer Mac that had not been included in any of the other statutes establishing other GSEs. Unlike the other existing GSEs at the time, Farmer Mac was required to be

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regulated by an independent regulator, the Farm Credit Administration, which has the authority to regulate Farmer Mac's safety and soundness. The statute creating Farmer Mac expressly requires that qualified loans meet minimum credit and appraisal standards that represent sound loans to profitable businesses. The enabling legislation also required Farmer Mac to comply with the periodic reporting requirements of the SEC, including filing quarterly reports on the financial status of Farmer Mac and current reports when there are significant developments. Farmer Mac's statutory charter also requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act of 1933 and related regulations (collectively, the "Securities Act"), unless an exemption for an offering is available.

Since Farmer Mac's creation, Congress has amended Farmer Mac's charter four times:

- in 1990 to create the USDA Guarantees line of business;
- in 1991 to clarify Farmer Mac's authority to purchase its guaranteed securities, establish OSMO as Farmer Mac's financial regulator, and set minimum regulatory capital requirements for Farmer Mac;
- in 1996 to remove certain barriers to and restrictions on Farmer Mac's operations to be more competitive (e.g., allowing Farmer Mac to buy loans directly from lenders and issue guaranteed securities representing 100 percent of the principal of the purchased loans and modifying capital requirements); and
- in 2008 to authorize Farmer Mac to purchase, and guarantee securities backed by, loans made by lenders organized as cooperatives to borrowers to finance electrification and telecommunications systems in rural areas.

Farmer Mac's authorities and regulatory structure were not revised by subsequent legislation adopted in 2008 to regulate other GSEs.

Regulation

Office of Secondary Market Oversight (OSMO)

As an institution of the FCS, Farmer Mac (including its subsidiaries) is subject to the regulatory authority of FCA. FCA, acting through OSMO, has general regulatory and enforcement authority over Farmer Mac, including the authority to promulgate rules and regulations governing the activities of Farmer Mac and to apply its general enforcement powers to Farmer Mac and its activities. The Director of OSMO, who is selected by and reports to the FCA board, is responsible for the examination of Farmer Mac and the general supervision of the safe and sound performance by Farmer Mac of the powers and duties vested in it by Farmer Mac's charter. Farmer Mac's charter requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of its regulatory activities, including the cost of any examination. Farmer Mac is required to file quarterly reports of condition with FCA.

Capital Standards

General Requirements. Farmer Mac's charter establishes three capital standards for Farmer Mac:

- Statutory minimum capital requirement. Farmer Mac's minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income plus non-controlling interest – preferred stock) 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 Farmer Mac's aggregate off-balance sheet obligations, 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. The 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.

The risk-based capital stress test promulgated by FCA is intended to determine the amount of regulatory capital (core capital plus the allowance for losses) that Farmer Mac would need to maintain positive capital during a ten-year period in which:

- annual losses occur at a rate of default and severity "reasonably related" to the rates of the highest sequential two years in a limited U.S. geographic area; and
- interest rates increase to a level equal to the lesser of 600 basis points or 50 percent of the ten-year U.S. Treasury rate, and interest rates remain at such level for the remainder of the period.

The risk-based capital stress test then adds an additional 30 percent to the resulting capital requirement for management and operational risk.

As of December 31, 2013, Farmer Mac's statutory minimum and critical capital requirements were $398.5 million and $199.3 million, respectively, and its actual core capital level was $590.7 million, $192.2 million above the statutory minimum capital requirement and $391.4 million above the statutory critical capital requirement. Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2013 was $90.8 million and Farmer Mac's regulatory capital of $604.0 million exceeded that amount by approximately $513.2 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" for a presentation of Farmer Mac's current regulatory capital position.

Enforcement Levels. Farmer Mac's charter directs FCA to classify Farmer Mac within one of four enforcement levels for purposes of determining compliance with the capital standards established by Farmer Mac's charter. As of December 31, 2013, Farmer Mac was classified as within level I – the highest compliance level.

Failure to comply with the applicable required capital level in the charter would result in Farmer Mac being classified as within level II (below the applicable risk-based capital level, but above the minimum capital level), level III (below the minimum capital level, but above the critical capital level) or level IV (below the critical capital level). In the event that Farmer Mac were classified as within level II, III or IV, the charter requires the Director of OSMO to take a number of mandatory supervisory measures and

provides the Director with discretionary authority to take various optional supervisory measures depending on the level in which Farmer Mac is classified. The mandatory measures applicable to levels II and III include:

- requiring Farmer Mac to submit and comply with a capital restoration plan;
- prohibiting the payment of dividends if such payment would result in Farmer Mac being reclassified as within a lower level and requiring the pre-approval of any dividend payment even if such payment would not result in reclassification as within level IV; and
- reclassifying Farmer Mac as within one level lower if it does not submit a capital restoration plan that is approved by the Director, or the Director determines that Farmer Mac has failed to make, in good faith, reasonable efforts to comply with such a plan and fulfill the schedule for the plan approved by the Director.

If Farmer Mac were classified as within level III, then, in addition to the foregoing mandatory supervisory measures, the Director of OSMO could take any of the following discretionary supervisory measures:

- imposing limits on any increase in, or ordering the reduction of, any obligations of Farmer Mac, including off-balance sheet obligations;
- limiting or prohibiting asset growth or requiring the reduction of assets;
- requiring the acquisition of new capital in an amount sufficient to provide for reclassification as within a higher level;
- terminating, reducing, or modifying any activity the Director determines creates excessive risk to Farmer Mac; or
- appointing a conservator or a receiver for Farmer Mac.

Farmer Mac's charter does not specify any supervisory measures, either mandatory or discretionary, to be taken by the Director in the event Farmer Mac were classified as within level IV.

The Director of OSMO has the discretionary authority to reclassify Farmer Mac to a level that is one level below its then current level (for example, from level I to level II) if the Director determines that Farmer Mac is engaging in any action not approved by the Director that could result in a rapid depletion of core capital or if the value of property subject to mortgages backing Farmer Mac Guaranteed Securities has decreased significantly.

Capital Adequacy Requirements. Under FCA's rule on capital planning adopted on September 12, 2013 and effective January 3, 2014, Farmer Mac must develop and submit to OSMO for approval annually a plan for capital that considers the sources and uses of Farmer Mac's capital, addresses capital projections under stress scenarios, assesses Farmer Mac's overall capital adequacy, and incorporates a Farmer Mac board-approved policy on capital adequacy. In accordance with this regulation and as part of its capital plan for 2014, Farmer Mac's board of directors has established a policy that will require Farmer Mac to maintain an adequate level of "Tier 1" capital, consisting of retained earnings, paid-in-capital, common stock, qualifying preferred stock, and accumulated other comprehensive income allocable to "non-program" investments that are not included in the Farm & Ranch, USDA Guarantees, and Rural Utilities lines of business. Under this policy, Farmer Mac must maintain at all times during 2014 a Tier 1 capital ratio of not less than 4.0 percent of risk-weighted assets, calculated using an advanced internal ratings based ("AIRB") asset risk weighting regime that is consistent with current Basel-based principles, with the minimum Tier 1 capital ratio increasing by 0.25 percent annually to reach 5.0 percent in 2018.

The policy also requires Farmer Mac to maintain a "capital conservation buffer" of additional Tier 1 capital of more than 2.5 percent of risk-weighted assets. If the capital conservation buffer drops to various levels at or below 2.5 percent, as shown in the table below, the policy requires Farmer Mac to restrict distributions of current quarter Tier 1-eligible dividends and total employee (including officer) bonus payments to an amount not to exceed the corresponding payout percentage specified in the table below, which represents the percentage of the cumulative core earnings for the four quarters immediately preceding the distribution date:

Capital Conservation Buffer (percentage of risk-weighted assets)	Payout Percentage (percentage of four quarters' accumulated core earnings)
greater than 2.5%	No limitation
greater than 1.875% to and including 2.5%	60%
greater than 1.25% to and including 1.875%	40%
greater than 0.625% to and including 1.25%	20%
equal to or less than 0.625%	0% (no payout permitted)

These distribution restrictions will remain for so long as the Tier 1 capital conservation buffer remains at or below the minimum level of 2.5 percent, and Farmer Mac's board of directors may consider other factors, such as GAAP earnings and other regulatory requirements, in determining whether to restrict capital distributions, including dividends and bonus payments. This policy will be effective for Farmer Mac for distributions made in first quarter 2014. Farmer Mac does not expect its compliance with the final rule on capital planning, including Farmer Mac's policy on Tier 1 capital established under the final rule, to materially affect Farmer Mac's operations or financial condition. For more information on FCA's regulation on capital planning and other regulations affecting Farmer Mac, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters."

Item 1A. Risk Factors

Farmer Mac's business activities, financial performance, and results of operations are, by their nature, subject to a number of risks and uncertainties, including those related to the agricultural sector, the rural utilities industry, access to the capital markets, the regulatory environment, and the level of prevailing interest rates and overall market conditions. The following risk factors could materially affect Farmer Mac's financial condition and operating results and should be considered in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K, including the risks and uncertainties described in the "Forward-Looking Statements" section. Furthermore, because new risk factors likely will emerge from time to time, management can neither predict all such risk factors nor assess the effects of such factors on Farmer Mac's business, operating results, and financial condition or the extent to which any factor, or combination of factors, may affect Farmer Mac's actual results and financial condition. If any of the following risks materialize, Farmer Mac's business, financial condition, or results of operations could be materially and adversely affected. Farmer Mac undertakes no obligation to update or revise this risk factor discussion, except as required by law.

An inability to access the equity and debt capital markets could have a material adverse effect on Farmer Mac's business, operating results, financial condition, and capital levels.

Farmer Mac's ability to operate its business, meet its obligations, generate asset volume growth, and fulfill its statutory mission depends on Farmer Mac's capacity to remain adequately capitalized through the issuance of equity securities and to issue substantial amounts of debt frequently and at favorable rates. The issuance of equity and debt securities in the U.S. financial markets are primary sources of Farmer Mac's capitalization and funding for Farmer Mac's purchases of eligible loan assets and liquidity investment assets and for repaying or refinancing existing debt. Moreover, one of the primary sources of Farmer Mac's revenue is the net interest income earned from the difference, or "spread," between the return received on assets held and the related borrowing costs. Farmer Mac's ability to obtain funds through the issuance of equity and debt securities, at favorable rates and terms, depends on many factors, including:

- Farmer Mac's corporate structure established by its charter, including its status as a government-sponsored enterprise, or GSE, and perceptions about the viability of stockholder-owned GSEs in general;
- compliance with applicable statutory, regulatory, and board-approved capital requirements and any measures imposed by Farmer Mac's regulator or board of directors if Farmer Mac failed to comply with those requirements;
- Farmer Mac's financial results and changes in its financial condition;
- public perception of the risks to and financial prospects of Farmer Mac's business;
- prevailing conditions in the capital markets;
- competition from other issuers of GSE equity or debt; and
- legislative or regulatory actions relating to Farmer Mac's business, including any actions that would affect Farmer Mac's GSE status or that could increase its costs for hedging interest rate risks or restrict or reduce its ability to issue equity or debt.

Factors affecting the agricultural sector or the rural utilities industry may negatively affect borrowers' profitability and, as a consequence, their ability to repay their loans on which Farmer Mac has assumed credit risk.

External factors beyond Farmer Mac's control that could negatively affect borrowers' profitability could cause Farmer Mac to experience increased delinquency and default rates within its loan portfolio, including, but not limited to:

- severe protracted or sudden adverse weather conditions, animal and plant disease outbreaks, restrictions on water supply, or other conditions affecting particular geographic regions or industries;
- increases in production expenses, including increases in commodity or fuel prices or labor costs within any particular industry;
- fluctuations in currency exchange markets or changes in the global economy that would reduce export demand for U.S. agricultural products;
- slow or negative economic growth, which could reduce demand for U.S. agricultural products;
- adverse changes in interest rates, agricultural land values, or other factors that may affect delinquency levels and credit losses on agricultural real estate mortgage loans;
- the effects of any changes in federal assistance for ethanol producers, such as the elimination of the tax credit previously available to blenders and the elimination of the import tariff previously

applicable to foreign producers, which may affect the level of income of ethanol producers and consequently their repayment capacity on affected loans in Farmer Mac's portfolio;

- the effects of changes in federal assistance for agricultural producers resulting from the recently enacted Agricultural Act of 2014 (referred to as the 2014 Farm Bill), including the elimination of direct payments to agricultural producers by the USDA and increased federal subsidies for enhanced crop insurance programs, which may, on a net basis, affect the level of income of grain, livestock, or other producers and, consequently, their repayment capacity on affected loans owned or guaranteed by Farmer Mac;
- changes in the general economy that could affect the availability of off-farm sources of income and prices of real estate for borrowers; and
- negative economic conditions that may strain the ability of members of rural electric cooperatives to pay the costs of providing electricity or cause regulators of rural electric cooperatives to restrict the cooperatives' ability to raise rates to achieve profitable levels.

Farmer Mac's business, operating results, financial condition, and capital levels may be materially and adversely affected by external factors that may affect the price or marketability of Farmer Mac's products or Farmer Mac's ability to offer its products and services.

Farmer Mac's business, operating results, financial condition, and capital levels may be materially and adversely affected by external factors, including adverse changes in the capital markets or changes in public policy, that may affect the price or marketability of Farmer Mac's products and services or Farmer Mac's ability to offer its products and services, including, but not limited to:

- disruptions in the capital markets, which could adversely affect the value and performance of Farmer Mac's eligible loan assets and investment securities, liquidity position, and ability to access funding at favorable levels or to raise capital;
- competitive pressures in the purchase of loans eligible for Farmer Mac's lines of business and the sale of Farmer Mac Guaranteed Securities and debt securities;
- changes in interest rates that may increase the basis risk of Farmer Mac's hedging instruments, thereby increasing its funding costs; and
- legislative or regulatory developments or interpretations of Farmer Mac's statutory charter that could adversely affect Farmer Mac or its ability to offer new products, the ability or motivation of certain lenders to participate in Farmer Mac's lines of business or the terms of any such participation, or increase the cost of related corporate activities.

Farmer Mac's business development, profitability, and capital depend on the continued growth of the secondary market for agricultural real estate mortgage loans and for rural utilities loans, the future for both of which remains uncertain.

Continued growth in Farmer Mac's business and future profitability may be constrained by conditions that limit the need or ability for lenders to obtain the benefits of the secondary market provided by Farmer Mac, including, but not limited to:

- reduced growth rates in the agricultural mortgage market caused by prevailing conditions in the overall economy;
- the increase in capital levels or the availability of other sources of capital for customers of Farmer Mac;
- decreased demand for mortgage lending due to borrower liquidity;

- the acceptance by Federal Home Loan Banks of agricultural real estate mortgage loans as collateral;
- the historical preference of many agricultural lending institutions to retain loans in their portfolios rather than to sell them into the secondary market;
- the small number of business partners that currently provide a significant portion of Farmer Mac's business volume, resulting in vulnerability as existing business volume pays down or matures and the status of these business partners evolves; and
- expanded funding alternatives available to rural utilities.

The loss of business from key business partners or customers could adversely affect Farmer Mac's business and result in a decrease in its revenues and profits.

Farmer Mac's business and ability to generate revenues and profits largely depends on its ability to purchase eligible loans or place eligible loans under guarantees or purchase commitments. Farmer Mac conducts a significant portion of its business with a small number of business partners. This results in vulnerability as existing assets pay down or mature and the status and needs of Farmer Mac's business partners evolve. In 2013, ten institutions generated approximately 53 percent of loan purchase volume in the Farm & Ranch line of business. As of December 31, 2013, approximately 99.8 percent of the $6.0 billion outstanding principal amount of AgVantage securities were issued by five institutions. Transactions with CFC has represented 100 percent of business volume under Farmer Mac's Rural Utilities line of business since its inception in 2008. Farmer Mac's ability to maintain the current relationships with its business partners or customers and the business generated by those business partners or customers is significant to Farmer Mac's business. Consequently, the loss of business from any one of Farmer Mac's key business partners could negatively impact Farmer Mac's revenues and profitability. Furthermore, Farmer Mac may not be able to replace the loss of business of a key business partner or customer with alternate sources of business due to limitations on the types of assets eligible for the secondary market provided by Farmer Mac under its charter, which could adversely affect Farmer Mac's business and result in a decrease in its revenues and profits.

The failure of an issuer to pay the outstanding principal amount or to issue new AgVantage securities upon the maturity of outstanding AgVantage securities could negatively affect Farmer Mac's liquidity position and income.

As of December 31, 2013, Farmer Mac had $6.0 billion of AgVantage securities outstanding, of which $0.9 billion and $0.7 billion will be maturing in 2014 and 2015, respectively. AgVantage securities are guaranteed by Farmer Mac as to the timely payment of interest and principal. The terms of most AgVantage securities do not require the periodic payment of principal based on amortization schedules and instead have fixed maturity dates when the secured general obligation is due. If the issuer of a maturing AgVantage security defaults and does not pay the outstanding principal amount due upon maturity, Farmer Mac's liquidity position could be negatively affected because Farmer Mac will be required to obtain funds in a significant amount to pay the holder of the AgVantage security or, for AgVantage securities owned by Farmer Mac, to pay off the debt securities used to fund the purchase of the AgVantage securities. Farmer Mac's income could also be adversely affected if the issuer of a maturing AgVantage security does not issue new AgVantage securities to replace the maturing securities and Farmer Mac does not find alternate sources of business, or if the net interest margin earned by Farmer Mac on new AgVantage securities that replace maturing AgVantage securities is lower than the margin earned on the maturing AgVantage securities.

Farmer Mac is a GSE that may be materially and adversely affected by legislative or political developments, which may affect the ongoing operations or continued existence of GSEs.

Farmer Mac is a GSE that is governed by a statutory charter, which is subject to amendment by the U.S. Congress at any time, and regulated by government agencies. Although Farmer Mac is not aware of any pending legislative proposals that would adversely affect either the manner in which Farmer Mac conducts its business or the status of Farmer Mac as a GSE at this time, Farmer Mac's ability to effectively conduct its business is subject to risks and uncertainties related to legislative or political developments that may affect the status or operations of GSEs generally. From time to time, legislative initiatives may be commenced that, if successful, could result in the enactment of legislation or the promulgation of regulations that could negatively affect the status of Farmer Mac as a GSE or the manner in which Farmer Mac operates. Farmer Mac cannot predict whether any legislative proposals related to the housing GSEs would also address the continued GSE status of Farmer Mac or modify the current operating structure or authorities of Farmer Mac in any material way. Implementation of any such proposal could have a material and adverse effect on Farmer Mac's business, operating results, financial condition, and capital levels. See "Government Regulation of Farmer Mac" in Item 1 of this Annual Report on Form 10-K for additional discussion on the rules and regulations governing Farmer Mac's activities.

Farmer Mac is subject to capital requirements that are subject to change, and failure to meet those requirements could result in supervisory measures or the inability of Farmer Mac to declare dividends, or otherwise materially and adversely affect Farmer Mac's business, operating results, or financial condition.

Farmer Mac is required by statute and regulation to maintain certain capital levels. Any inability by Farmer Mac to meet these capital requirements could result in supervisory measures by FCA, adversely affect Farmer Mac's ability to declare dividends on its common and preferred stock, or otherwise materially and adversely affect Farmer Mac's business, operating results, or financial condition. In addition, pursuant to a recently-effective FCA regulation on capital planning, Farmer Mac has adopted a policy to maintain a sufficient level of Tier 1 capital and to impose restrictions on paying Tier 1-eligible dividends in the event that Tier 1 capital falls below specified thresholds. For more information on Farmer Mac's capital requirements, including the new Tier 1 capital requirement, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards." For more information on FCA's capital planning rule, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters." Factors that could adversely affect the adequacy of Farmer Mac's capital levels in the future, and which may be beyond Farmer Mac's control, include:

- the potential for any other-than-temporary impairment charges;
- adverse changes in interest rates or credit spreads;
- the potential need to increase the level of the allowance for losses on eligible loan assets in the future;
- legislative or regulatory actions that increase Farmer Mac's applicable capital requirements; and
- changes in U.S. generally accepted accounting principles ("GAAP").

Farmer Mac is exposed to credit risk on its eligible loan assets, the repayment of which may depend on factors outside of Farmer Mac's or the borrower's control, and widespread repayment shortfalls on loans could have a material adverse effect on Farmer Mac's financial condition, results of operations, and liquidity.

Farmer Mac's earnings depend significantly on the performance of its eligible loan assets and the spread between the interest, guarantee fees, and commitment fees earned on such assets and interest paid on Farmer Mac's obligations and liabilities. Farmer Mac assumes the ultimate credit risk of borrower defaults on the agricultural mortgage and rural utilities loans it holds, as well as the loans underlying LTSPCs and non-AgVantage Farmer Mac Guaranteed Securities. Widespread repayment shortfalls on loans in the Farm & Ranch line of business or Rural Utilities line of business could result in losses on loans held or require Farmer Mac to pay under its guarantees and LTSPCs, which could have a material adverse effect on Farmer Mac's financial condition, results of operations, and liquidity.

In the Farm & Ranch line of business, repayment of eligible loans typically depends on the success of the related farming operation, which, in turn, depends on many variables and factors over which farmers may have little or no control, such as weather conditions, animal and plant disease outbreaks, restrictions on water supply, economic conditions (both domestic and international), and political conditions. Farmer Mac's credit risk may also increase in the case of a loan with a balloon payment due at maturity if the borrower seeks to refinance but is unable to do so. As of December 31, 2013, 66.2 percent of the loans in the Farm & Ranch line of business included balloon payments. In addition, loans to borrowers in industries that have had historically higher delinquency rates relative to Farmer Mac's overall portfolio may present a higher risk of delinquency in future periods. For example, as of December 31, 2013, loans to borrowers in the permanent plantings and part-time farm categories comprised a combined 20.8 percent of the Farm & Ranch portfolio (excluding AgVantage securities), but delinquencies in these combined categories comprised 54.6 percent of the aggregate delinquencies for all commodity categories. As of December 31, 2013, loans to borrowers in the AgStorage and Processing category (including ethanol facilities) comprised 3.0 percent of the Farm & Ranch portfolio (excluding AgVantage securities), but cumulative net credit losses for this category comprised 39.3 percent of the cumulative net credit losses for all categories.

In the Rural Utilities line of business, eligible utilities operations include the distribution of electricity, the generation and transmission of electricity, and telecommunications. Each type of utility operation has different inherent risks associated with it, but all share a common risk posed by potential changes in public and regulatory policies. Business cash flows can be disrupted as a result of storms, though distribution cooperatives have in place cost-sharing arrangements with providers in other regions that mitigate this exposure. Historically, natural disasters have often resulted in disaster area declarations and financial aid to utilities providers through the Federal Emergency Management Agency and other conduits, although there can be no assurance that any such aid would be available in the event of any future natural disaster. The electrical distribution and generation sectors can be adversely affected by changes in fuel costs and prices received from consumers, as well as by contractual power obligations that do not match up with supply or demand. In the event that Farmer Mac purchases telecommunications loans in the future, the depth and pace of technological change in the telecommunications industry can also provide significant challenges, as the industry requires heavy capital investment and correct judgments about the sustainability of new technologies in an area with many competitors.

Farmer Mac Guaranteed Securities and LTSPCs expose Farmer Mac to significant contingent liabilities, and Farmer Mac's ability to fulfill its obligations under its guarantees and LTSPCs may be limited.

Farmer Mac's guarantee and purchase commitment obligations to third parties, including Farmer Mac Guaranteed Securities and LTSPCs, are obligations of Farmer Mac only and are not backed by the full faith and credit of the United States, FCA, or any other agency or instrumentality of the United States other than Farmer Mac. As of December 31, 2013, Farmer Mac had $4.0 billion of contingent liabilities related to Farmer Mac Guaranteed Securities and LTSPCs issued to third parties, which represents Farmer Mac's exposure if all loans underlying these guarantees and purchase commitments defaulted and Farmer Mac recovered no value from the related collateral. Farmer Mac's principal sources of funds for payments on all of its liabilities, including claims that may arise under its guarantees and purchase commitments, are the liquid assets held by Farmer Mac (including cash and cash equivalents), guarantee and commitment fees, interest payments on assets held by Farmer Mac, loan repayments, repayment of principal amounts due upon maturity of AgVantage securities, and proceeds from the issuance of debt securities. If all of the loans underlying Farmer Mac's guarantees and purchase commitments defaulted and Farmer Mac recovered no value from the related collateral, the sources of funds for payment on these guarantees and purchase commitments could be substantially less than the aggregate amount of the corresponding liabilities. It is difficult to quantify at any particular point in time the funds that would be available from interest payments, loan repayments, and maturing AgVantage securities for payment on Farmer Mac's guarantees and purchase commitments, and Farmer Mac's ability to issue debt as a source of repayment would be subject to its ability to access the debt markets and market conditions at that time. As of December 31, 2013, Farmer Mac held cash, cash equivalents, and other investment securities with a fair value of $3.2 billion that could be used as a source of funds for payment on its obligations. Although Farmer Mac believes that it remains well-collateralized on the assets underlying its guarantee and purchase commitment obligations to third parties and that the estimated probable losses for these obligations remain low relative to the amount available for payment of claims on these obligations, Farmer Mac's total contingent liabilities for these obligations exceed the amount it may have available for payment of claims on these obligations. See "Management's Discussion and Analysis—Risk Management—Credit Risk – Loans and Guarantees" for more information on Farmer Mac's management of credit risk.

Farmer Mac is exposed to swap counterparty credit risk on its non-cleared swaps that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac relies on interest rate swap contracts and hedging arrangements to effectively manage its interest rate risk. In managing this swap counterparty credit risk on non-cleared swaps, Farmer Mac contracts only with counterparties that have investment grade credit ratings, establishes and maintains collateral requirements that are scaled based upon credit ratings, and enters into netting agreements. However, failure to perform under a non-cleared derivatives contract by one or more of Farmer Mac's counterparties could disrupt Farmer Mac's hedging operations, particularly if Farmer Mac were entitled to a termination payment under the terms of the contract that it did not receive, or if Farmer Mac were unable to reposition the swap with a new counterparty. Of the $6.6 billion combined notional amount of interest rate swaps, $4.3 billion were not cleared through swap clearinghouses as of December 31, 2013. As of December 31, 2013, Farmer Mac's credit exposure to interest rate swap counterparties was $25.1 million excluding netting arrangements and $3.3 million including netting arrangements.

Farmer Mac is exposed to AgVantage counterparty credit risk that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac is exposed to credit risk from issuers of AgVantage securities. Each AgVantage security is a general obligation of an issuing institution secured by eligible loans in an amount at least equal to the outstanding principal amount of the security and guaranteed by Farmer Mac. However, most of Farmer Mac's AgVantage exposure is concentrated in a small number of issuers. Farmer Mac seeks to manage its risk to AgVantage counterparties by reviewing each institution for which Farmer Mac has AgVantage exposure and requiring those institutions to meet Farmer Mac's standards for creditworthiness. In addition, Farmer Mac requires some level of over-collateralization (between 103 percent and 120 percent of the principal amount of the securities issued) for AgVantage securities in the Farm & Ranch line of business. As of December 31, 2013, nearly all of the AgVantage securities outstanding had been issued by five counterparties. A default by any of these counterparties could have a significant adverse effect on Farmer Mac's business, operating results, and financial condition.

Farmer Mac is exposed to counterparty credit risk on its investment securities that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac maintains an investment portfolio that can be drawn upon for liquidity needs. In addition to cash and cash equivalents (such as U.S. Treasury securities and short-term money market instruments), this portfolio consists of investment securities, including securities guaranteed by U.S. Government agencies and GSEs, GSE-issued preferred stock, corporate debt obligations, and auction-rate certificates. Though some of these investment securities do not qualify for purposes of calculating liquidity under the regulatory requirements prescribed by FCA, they still may be drawn upon for Farmer Mac's liquidity needs. Farmer Mac regularly reviews concentration limits to ensure that its investments are appropriately diversified and comply with policies approved by Farmer Mac's board of directors and with applicable FCA regulations, but Farmer Mac is still exposed to credit risk from issuers of the investment securities it holds. For example, as of December 31, 2013, Farmer Mac held at fair value, as part of its liquidity investment portfolio, $195.6 million of corporate debt securities, $174.4 million of asset-backed securities principally backed by U.S. Government-guaranteed student loans (including $65.3 million of auction-rate certificates), $946.7 million of investment securities guaranteed by GSEs, and $83.2 million of preferred stock issued by a single GSE. A default by multiple issuers of investment securities held by Farmer Mac, or by a single issuer of investment securities in which Farmer Mac is more heavily concentrated, could have an adverse effect on Farmer Mac's business, operating results, and financial condition.

Farmer Mac is exposed to interest rate risk that could materially and adversely affect its business, operating results, and financial condition.

Farmer Mac is subject to interest rate risk due to the possible timing differences in the cash flows of the assets it holds and related liabilities. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar duration and cash flow characteristics so that they will perform similarly as interest rates change. Through Farmer Mac's issuances of debt securities in the form of discount notes and medium-term notes coupled with interest rate swap contracts that adjust the characteristics of the debt issued, Farmer Mac seeks to match its liabilities closely with the cash flow and duration characteristics of its loans and other assets. However, the ability of borrowers to prepay their loans prior to the scheduled maturities increases the risk of asset and liability cash flow mismatches. In a changing interest rate environment, these cash flow mismatches could reduce Farmer Mac's earnings if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments, particularly if Farmer Mac's related funding costs cannot be correspondingly repaid. In addition, if assets repay more slowly than anticipated and the associated debt issued to fund the assets must be reissued at a higher yield, Farmer Mac's earnings could be adversely affected. As of December 31, 2013, of all the eligible loan assets held on Farmer Mac's balance sheet, $5.0 billion had a fixed interest rate and $4.9 billion had an adjustable interest rate.

Changes in interest rates relative to Farmer Mac's management of interest rate risk through derivatives may cause volatility in financial results and capital levels and adversely affect net interest income.

Farmer Mac enters into financial derivatives transactions to hedge interest rate risks inherent in its business and applies fair value accounting to its financial derivatives transactions. Although Farmer Mac's financial derivatives provide effective economic hedges of interest rate risk, accounting guidance requires changes in the fair values of financial derivatives to be reflected in net income. As interest rates increase or decrease, the fair value of Farmer Mac's derivatives changes based on the position Farmer Mac holds relative to the specific characteristics of the derivative. Application of the accounting guidance on financial derivatives could contribute to volatility in Farmer Mac's earnings under GAAP, particularly if the financial derivative is not designated in a hedging relationship. Another consequence of the changes in the fair values of financial derivatives being accounted for in earnings is the resulting effect on Farmer Mac's regulatory core capital that is available to meet Farmer Mac's statutory minimum capital requirement. Adverse changes in the fair values of Farmer Mac's financial derivatives would reduce the amount of core capital available to meet this requirement, which could result in regulatory enforcement action against Farmer Mac if it were unable to meet the requirement. In 2013 and 2012, Farmer Mac recorded unrealized gains of $33.9 million and $0.7 million for fair value changes on its financial derivatives not designated in a hedging relationship as a result of movements in interest rates during the year. In contrast, Farmer Mac recorded unrealized losses of $47.6 million in 2011 for fair value changes on its financial derivatives not designated in a hedging relationship as a result of movements in interest rates during the year. Beginning in 2012, Farmer Mac has designated a portion of its interest rate swaps in fair value hedging relationships and has recorded in earnings offsetting fair value adjustments on the hedged items attributable to the risk being hedged. Although derivative instruments designated in fair value hedging relationships may lessen exposure to changes in the fair value of assets or liabilities, any differences arising from fair value changes that are not offset could result in hedge ineffectiveness and adversely affect Farmer Mac's earnings under GAAP.

Changes in interest rates as well as certain credit events may trigger collateralization requirements for Farmer Mac under its derivatives contracts, which could adversely affect Farmer Mac's liquidity position and operating results.

Farmer Mac uses derivatives contracts to help manage its interest rate risk. Changes in interest rates have required, and in the future may require, Farmer Mac to post cash or investment securities to its derivative counterparties to reflect the changes in fair market values of Farmer Mac's derivatives as a result of the changes in interest rates. For example, as of December 31, 2013, Farmer Mac posted $9.8 million of cash and $1.5 million of investment securities as collateral for its derivatives in net liability positions. Farmer Mac's derivatives contracts contain provisions establishing minimum threshold collateral amounts below which Farmer Mac is not required to post collateral. These threshold collateral amounts range between $15 million and $25 million, but may be reduced to zero upon the occurrence of specified credit events such as insolvency, receivership, failure to make a payment under the contract when due, or failure to continue as an instrumentality of the United States. If changes in interest rates were to result in a significant decrease in the fair value of Farmer Mac's derivatives, Farmer Mac would be required to post a significant amount of cash, cash equivalents, or investment securities, possibly within a short period of time, to satisfy its obligations under its derivatives contracts. The amount required to be posted would expand if Farmer Mac also experienced a credit event triggering full collateralization of its derivatives positions without any minimum threshold. As of December 31, 2013, the amount that would have been required for full collateralization of Farmer Mac's derivatives positions given the fair value of Farmer Mac's derivatives at that time was $63.5 million. If Farmer Mac were required to fully collateralize its derivatives position in an adverse interest rate environment, it could have a negative effect on Farmer Mac's liquidity position and operating results.

Incorrect estimates and assumptions by management in preparing financial statements could adversely affect Farmer Mac's business, operating results, reported assets and liabilities, financial condition, and capital levels.

Incorrect estimates and assumptions by management in connection with the preparation of Farmer Mac's consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of Farmer Mac's consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. For example, as of December 31, 2013, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.8 billion whose fair values were estimated by management in the absence of readily determinable fair values (in other words, level 3). These financial instruments measured as level 3 represented 51 percent of total assets and 73 percent of financial instruments measured at fair value as of December 31, 2013. Further information regarding fair value measurement is included in "Management's Discussion and Analysis—Critical Accounting Policies—Fair Value Measurement." If management makes incorrect assumptions or estimates, Farmer Mac may under- or overstate reported financial results, which could materially and adversely affect Farmer Mac's business, operating results, reported assets and liabilities, financial condition, and capital levels.

Changes in the value or composition of Farmer Mac's investment securities could adversely affect Farmer Mac's business, operating results, financial condition, and capital levels.

Deterioration in financial or credit market conditions could reduce the fair value of Farmer Mac's investment securities, particularly those securities that are less liquid and more subject to market variability. Some securities owned by Farmer Mac, including auction-rate certificates and GSE subordinated debt, do not have well-established secondary trading markets, making it more difficult to estimate current fair values for those securities. Adverse financial market conditions may further compound the challenges of estimating fair values for Farmer Mac's securities, as was the case in 2008 after widespread failure of the auction mechanism that had been established to provide liquidity for the auction-rate certificates that Farmer Mac currently holds.

Farmer Mac relies on market observations to determine the fair value of its investment securities, although the market data Farmer Mac relies upon may not reflect the actual sale conditions that Farmer Mac would face when selling its investment securities. For example, the market value of auction-rate certificates held by Farmer Mac depends in large part on the amounts and timing of the expected cash flows on these securities, which may be highly uncertain. Therefore, a change in the amounts or timing of cash flows could materially alter the market price of those securities. Subsequent valuations of these and other investment securities, in light of factors then prevailing, may result in significant changes in the value of Farmer Mac's investment securities. For example, the current market values for the auction-rate certificates and GSE subordinated debt held by Farmer Mac are significantly below their amortized cost due to widening credit spreads after purchase. As of December 31, 2013, the fair values of Farmer Mac's auction-rate certificates and GSE subordinated debt were $65.3 million and $63.4 million, respectively, compared to Farmer Mac's amortized cost of $74.1 million and $70.0 million, respectively, for each of these classes of investment securities.

Farmer Mac also relies on internal models to estimate the fair values of its investment securities and to determine whether credit losses exist, which requires Farmer Mac to exercise judgment about estimates and assumptions used in the models. If Farmer Mac uses incorrect estimates or assumptions in the internal models it develops to estimate the fair value of its investment securities, those models could adversely affect reported income during the reporting period.

If Farmer Mac decides to sell securities in its investment portfolio, the price ultimately realized will depend on the demand and liquidity in the market at the time of sale. Farmer Mac's inability to sell the securities in its investment portfolio at or above their estimated fair values could adversely affect Farmer Mac's business, operating results, financial condition, and capital levels.

Farmer Mac's ability to attract and retain qualified employees is critical to the success of its business, and failure to do so may materially adversely affect Farmer Mac's performance or financial condition.

Farmer Mac relies on its employees' breadth and depth of knowledge of agricultural and rural utilities lending, financial products, and other areas of expertise to run its business operations successfully. A significant disruption in the continuity of Farmer Mac's employees would require Farmer Mac to expend resources to replace personnel and could result in a loss of productivity in the interim. If Farmer Mac is unable to continue to retain and attract qualified employees, Farmer Mac's performance or financial condition could be materially adversely affected.

Any failure, interruption, or breach in Farmer Mac's information systems or technology, including the occurrence of successful cyber incidents or a deficiency in Farmer Mac's cyber security, could result in a loss of business, damage to Farmer Mac's reputation, the disclosure or misuse of confidential or proprietary information, or increased costs or liability to Farmer Mac, which could adversely affect Farmer Mac's business, operating results, or financial condition.

Farmer Mac relies heavily on information systems and other technology, including from third parties, to conduct and manage its business operations. As Farmer Mac's reliance on technology has increased, so have the risks posed to its systems, including the effect of events that would threaten the confidentiality, integrity, or availability of Farmer Mac's information resources, known as cyber incidents. Farmer Mac has undertaken remedial measures and devotes significant resources to regularly implement, maintain, and upgrade its information systems and network with backup systems and other safeguards (including a business continuity plan) to diminish these risks and risks that Farmer Mac's information system and network assets could be used to unlawfully gain access to third-party network systems. However, Farmer Mac may not be able to prevent, address on a timely and adequate basis, or fully mitigate the negative effects of any failure or interruption of Farmer Mac's information systems or network, including these backup systems and safeguards, on Farmer Mac's business, operating results, or financial condition. A failure or interruption in any of Farmer Mac's information systems, backup infrastructure, or other technology could result in a disruption or malfunction of its operations, which could adversely affect Farmer Mac's ability to do business with its approved lenders or other counterparties, result in financial loss, or cause damage to Farmer Mac's reputation.

The secure transmission, processing, and storage of Farmer Mac's approved lenders' and other counterparties' confidential, proprietary, and other information through online and network systems and applications is instrumental to Farmer Mac's operations. Any action that results in unauthorized access to Farmer Mac's information systems and networks by third parties, including through computer viruses, malicious code, cyber-attacks, or other information security breaches, could disrupt Farmer Mac's operations, corrupt its data, or result in the misappropriation, unauthorized release, loss, or destruction of the confidential, proprietary, or other information of its approved lenders and other counterparties. Similar to many other financial institutions, Farmer Mac faces regular attempts by third parties to gain unauthorized access to its systems, though Farmer Mac is not aware of any actual breaches of its network or underlying databases by unauthorized third parties. However, if such an event were to occur, Farmer Mac could consequently experience operational interruption, damage to its reputation, loss of business, legal liability, or increased costs from private data exposure, which could adversely affect Farmer Mac's business, operating results, or financial condition.

If Farmer Mac's management of risk associated with its eligible loan assets and investment securities is not effective, its business, operating results, financial condition, and capital levels could be materially adversely affected.

Events in the financial markets since 2008 leading to heightened volatility and tightened liquidity and credit have challenged financial institutions, including Farmer Mac, to adapt and further develop profitability and risk management models adequate to address a wider range of possible market developments. Farmer Mac's techniques and strategies may not be effective in mitigating its risk exposure in all economic market environments or against all types of risk, including risks that Farmer Mac fails to identify or anticipate. Some of Farmer Mac's qualitative tools and metrics for managing risk are based upon its use of observed historical market behavior. Farmer Mac applies statistical and other tools to these observations to quantify its risks. These tools and metrics may fail to predict future or unanticipated risk. Such failures could, for example, arise from factors Farmer Mac did not anticipate or correctly evaluate in its models. In addition, Farmer Mac's quantified modeling does not take into account all risks. Farmer Mac's more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. The inability of Farmer Mac to effectively identify and manage the risks inherent in its business could have a material adverse effect on its business, operating results, financial condition, and capital levels.

Farmer Mac's ability to repay its obligations and/or raise capital through issuances of debt or equity may be adversely affected by the sale of certain assets to, and the operating results of, its subsidiary Farmer Mac II LLC.

In January 2010, Farmer Mac contributed substantially all of its USDA Guarantees line of business to Farmer Mac II LLC, including USDA Securities in an aggregate principal amount of $1.1 billion and the primary intangible assets related to the operation of that line of business. As a result, the assets of Farmer Mac II LLC are no longer directly available to satisfy the claims of Farmer Mac's creditors or stockholders. In the event of an insolvency, bankruptcy, liquidation, reorganization, dissolution, or winding-up of Farmer Mac II LLC, Farmer Mac, as the holder of the common equity interest, may lose all or some of its investment in Farmer Mac II LLC, which event likely would adversely affect Farmer Mac's ability to raise capital, issue new debt, and repay outstanding debt as it comes due. Because Farmer Mac is also a creditor to Farmer Mac II LLC, the value of Farmer Mac II LLC's assets may be insufficient to repay amounts due to Farmer Mac, which also could adversely affect Farmer Mac's ability to raise capital, issue new debt, and repay outstanding debt as it comes due. In addition, the ability of Farmer Mac II LLC to successfully operate the USDA Guarantees line of business will impact its ability to pay dividends on the common equity interest owned by Farmer Mac. If Farmer Mac II LLC cannot pay dividends to Farmer Mac or repay or refinance obligations owed to Farmer Mac, Farmer Mac's liquidity and ability to raise additional capital also may be adversely affected, which could adversely affect Farmer Mac's operating results and financial condition.

The trading price for Farmer Mac's Class C non-voting common stock may be volatile due to market influences, trading volume, or the effects of equity awards for Farmer Mac's officers, directors, and employees.
The trading price of Farmer Mac's Class C non-voting common stock has at times experienced substantial price volatility and may continue to be volatile. For example, from January 2013 to December 2013, the price of the stock ranged from $26.96 per share to $37.72 per share. The trading price may fluctuate in response to various factors, including short sales, hedging, or stock market influences in general that are unrelated to Farmer Mac's operating performance. In addition, as a component of compensation for officers, directors, and employees, Farmer Mac typically grants equity awards each year that are based on the Class C non-voting common stock, including stock appreciation rights and restricted stock that vest over time or upon the achievement of specified performance goals. Sales of stock acquired upon vesting or the exercise of equity awards by Farmer Mac's officers, directors, or employees, whether pursuant to an established trading plan or otherwise, could adversely affect the trading price of Farmer Mac's Class C non-voting common stock. These factors may be exacerbated during periods of low trading volume for Farmer Mac's Class C non-voting common stock, which averaged approximately 30,000 shares daily during 2013, and may have a prolonged negative effect on its trading price or increase price volatility.

Farmer Mac's efforts to pursue its Congressional mission of providing a secondary market for loans made to borrowers in rural America may adversely affect its business, operating results, and financial condition.

Congress created Farmer Mac to provide for a secondary market for agricultural mortgage loans, loans to rural utilities cooperatives, and the guaranteed portions of USDA-guaranteed loans. In pursuing this mission, Farmer Mac's secondary market activities are designed to:

- increase the availability of long-term credit to rural borrowers at stable interest rates;
- provide greater liquidity and lending capacity in extending credit to rural borrowers; and
- provide an arrangement for new lending by facilitating capital market investments in long-term funding for rural borrowers, including funds at fixed rates of interest.

Although Farmer Mac strives to undertake its mission-related activities in a manner consistent with providing a positive return to Farmer Mac's stockholders, it is possible that these activities may contribute to a lower return to stockholders than if Farmer Mac's sole purpose were to maximize stockholder value. In addition, it is possible that the entities that regulate Farmer Mac could seek to alter Farmer Mac's mission-related activities in the future or place limits on its liquidity investments that provide liquidity for Farmer Mac's mission-related activities. If this were to happen, and Farmer Mac were required to undertake activities involving greater risk to satisfy its Congressional mission, Farmer Mac's business, operating results, and financial condition could be adversely affected.

A few stockholders who own large amounts of Farmer Mac voting common stock may seek to influence Farmer Mac's business, strategy, or board composition, and the interests of these stockholders may differ from the interests of Farmer Mac or other holders of Farmer Mac's common stock.

The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 45 percent of Farmer Mac's Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Approximately 97 percent of Farmer Mac's Class B voting common stock is held by five FCS institutions (two of which are related to each other through a parent-subsidiary relationship). Three of those five FCS institutions may be deemed to have entered into a voting arrangement regarding the election of directors to Farmer Mac's board of directors.

Many holders of Farmer Mac's voting common stock are rural lenders that may compete directly with each other. At times, some of these voting stockholders may also view Farmer Mac as an indirect competitor because Farmer Mac's secondary market activities often provide attractive funding and effective risk management tools that help many lenders compete in the origination of eligible rural loans. So long as Farmer Mac's Class A and Class B voting common stock is highly concentrated in a small number of institutions, there is the potential that these institutions will seek to influence Farmer Mac's business, strategy, or board composition in a way that may not be in the best interests of either Farmer Mac or all other stockholders. Furthermore, the interests of the holders of Farmer Mac's Class A and Class B voting common stock may not be fully aligned with each other or the interests of Farmer Mac's Class C non-voting common stockholders, and this could lead to a strategy that is not in the best interests of Farmer Mac or all of its stockholders. The holders of Farmer Mac's Class A voting common stock and the holders of Farmer Mac's Class B voting common stock each have the right to elect one third of the membership of Farmer Mac's Board. Accordingly, each of these stockholder classes has the potential to significantly influence Farmer Mac's business and strategy in a manner that may not be in the best interests of all stockholders.

Any of the risks described in this section could materially and adversely affect Farmer Mac's business, operating results, financial condition, capital levels, and future earnings. For additional discussion about Farmer Mac's risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" in Item 7 of this Annual Report on Form 10-K.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Farmer Mac maintains its principal office at 1999 K Street, N.W., 4th Floor, Washington, D.C. 20006, under the terms of a sublease that began on October 1, 2011 and ends on August 30, 2024. Farmer Mac also maintains an office located at 5408 NW 88th Street, Suite 120, Johnston, Iowa 50131, under the terms of a lease that began on July 1, 2013 and ends on June 30, 2018. Farmer Mac's offices are suitable and adequate for its current and currently anticipated needs.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

(a)Farmer Mac has three classes of common stock outstanding: Class A voting common stock, Class B voting common stock, and Class C non-voting common stock. Ownership of Class A voting common stock is restricted to banks, insurance companies, and other financial institutions or similar entities that are not institutions of the FCS. Ownership of Class B voting common stock is restricted to institutions of the FCS. There are no ownership restrictions on the Class C non-voting common stock. Under the terms of the original public offering of the Class A and Class B voting common stock, Farmer Mac reserved the right to redeem at book value any shares of either class held by an ineligible holder.

Farmer Mac's Class A voting common stock and Class C non-voting common stock are listed on the New York Stock Exchange under the symbols AGM.A and AGM, respectively. The Class B voting common stock, which has a limited market and trades infrequently, is not listed or quoted on any exchange or other quotation system, and Farmer Mac is not aware of any publicly available quotations or prices for that class of common stock.

As of March 3, 2014, there were 1,094 registered owners of the Class A voting common stock, 81 registered owners of the Class B voting common stock, and 1,020 registered owners of the Class C non-voting common stock.

The information below represents the high and low closing sales prices for shares of both the Class A and Class C common stock for the periods indicated below, as reported by the New York Stock Exchange:

	Sales Prices			
	Class A Stock		Class C Stock	
	High	Low	High	Low
	(per share)			
2014				
First quarter (through March 3, 2014)	$28.55	$22.41	$32.96	$29.36
2013				
Fourth quarter	$32.33	$26.49	$36.04	$32.78
Third quarter	32.50	25.98	35.65	29.04
Second quarter	27.75	21.80	32.19	26.96
First quarter	29.50	23.36	37.72	30.79
2012				
Fourth quarter	$28.88	$19.75	$34.58	$25.76
Third quarter	21.47	17.52	27.36	23.71
Second quarter	20.51	17.28	26.51	20.55
First quarter	18.33	11.35	22.70	18.01

The dividend rights of all three classes of Farmer Mac's common stock are the same, and dividends may be paid on common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to compliance with applicable capital requirements and payment of dividends on any outstanding preferred stock. From first quarter 2009 through fourth quarter 2011, Farmer Mac paid a quarterly dividend of $0.05 per share on all classes of Farmer Mac's common stock. On February 2, 2012, Farmer Mac's board of directors declared a quarterly dividend of $0.10 per share on Farmer Mac's common stock payable for first quarter 2012, which increased the quarterly dividend rate to the level paid prior to 2009. That dividend rate was paid quarterly through fourth quarter 2012. On February 6, 2013, Farmer Mac's board of directors declared a quarterly dividend of $0.12 per share on Farmer Mac's common stock payable for first quarter 2013. That dividend rate was paid quarterly through fourth quarter 2013. On February 6, 2014, Farmer Mac's board of directors declared a quarterly dividend of $0.14 per share on Farmer Mac's common stock payable on March 31, 2014. Farmer Mac expects to continue to pay comparable quarterly cash dividends for the foreseeable future, subject to the outlook and indicated capital needs of Farmer Mac and the determination of the board of directors. Farmer Mac's ability to pay dividends on its common stock is subject to the payment of dividends on its outstanding preferred stock. Farmer Mac's ability to declare and pay dividends could also be restricted if it were to fail to comply with applicable capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards." In addition, the FCA recently adopted a rule that requires Farmer Mac to provide FCA with 15 days' advance notice of certain capital distributions. See "Management's Discussion and Analysis—Regulatory Matters."

Information about securities authorized for issuance under Farmer Mac's equity compensation plans appears under "Equity Compensation Plans" in Farmer Mac's definitive proxy statement to be filed on or about April 25, 2014. That portion of the definitive proxy statement is incorporated by reference into this Annual Report on Form 10-K.

Farmer Mac is a federally chartered instrumentality of the United States, and its common stock is exempt from registration under Section 3(a)(2) of the Securities Act. One type of transaction related to Farmer Mac common stock occurred during fourth quarter 2013 that was not registered under the Securities Act and not otherwise reported on a Current Report on Form 8-K:

- On October 11, 2013, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 192 shares of its Class C non-voting common stock to the five directors who elected to receive such stock in lieu of a portion of their cash retainers. The number of shares issued to the directors was calculated based on a price of $33.38 per share, which was the closing price of the Class C non-voting common stock on September 30, 2013, the last business day of the third quarter, as reported by the New York Stock Exchange.

Performance Graph. The following graph compares the performance of Farmer Mac's Class A voting common stock and Class C non-voting common stock with the performance of the New York Stock Exchange Composite Index (the "NYSE Comp") and the Standard & Poor's 500 Diversified Financials Index (the "S&P 500 Div Fin") over the period from December 31, 2008 to December 31, 2013. The graph assumes that $100 was invested on December 31, 2008 in each of: Farmer Mac's Class A voting common stock; Farmer Mac's Class C non-voting common stock; the NYSE Comp; and the S&P 500 Div Fin. The graph also assumes that all dividends were reinvested into the same securities throughout the past five years. Farmer Mac obtained the information contained in the performance graph from SNL Financial.

This performance graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC, and this performance graph shall not be incorporated by reference into any of Farmer Mac's filings under the Securities Act or the Securities Exchange Act of 1934 and related regulations (collectively, the "Exchange Act"), or any other document, whether made before or after the date of this report and irrespective of any general incorporation language contained in a filing or document (except to the extent Farmer Mac specifically incorporates this section by reference into a filing or document).

(b) Not applicable.

(c) Farmer Mac did not repurchase any shares of its common stock during 2013, 2012, or 2011.

Item 6. Selected Financial Data

The selected consolidated financial data presented below is summarized from Farmer Mac's consolidated balance sheet data as of December 31, 2013 and the five-year period then ended, as well as selected results of operations data for the five-year period then ended. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

	As of December 31,				
Summary of Financial Condition:	2013	2012	2011	2010	2009
	(dollars in thousands)				
Cash and cash equivalents	$749,313	$785,564	$817,046	$729,920	$654,794
Investment securities	2,484,075	2,499,629	2,184,490	1,763,329	1,131,895
Farmer Mac Guaranteed Securities	5,091,600	4,766,258	4,289,272	2,907,264	3,398,996
USDA Securities (1)	1,612,013	1,590,783	1,491,905	1,317,444	—
Loans, net	3,193,248	2,729,774	2,894,156	2,558,599	753,720
Total assets	13,361,780	12,622,201	11,883,508	9,479,914	6,138,813
Notes payable:					
Due within one year	7,338,781	6,567,366	6,087,879	4,509,419	3,662,898
Due after one year	5,001,169	5,034,739	4,104,882	3,430,656	1,908,713
Total liabilities	12,787,311	12,029,239	11,328,975	9,001,037	5,798,406
Mezzanine equity	—	—	—	—	144,216
Stockholders' equity	332,616	351,109	312,680	237,024	196,191
Non-controlling interest - preferred stock	241,853	241,853	241,853	241,853	—
Selected Financial Ratios:					
Return on average assets (2)	0.55 %	0.36 %	0.13 %	0.28 %	1.46 %
Return on average common equity (3)	25.30 %	16.00 %	6.34 %	13.88 %	113.70 %
Average equity to assets (4)	2.63 %	2.71 %	2.57 %	2.77 %	1.88 %
Average total equity to assets (5)	4.49 %	4.68 %	4.84 %	5.25 %	4.45 %

(1) Prior to 2010, USDA Securities were included in Farmer Mac Guaranteed Securities.

(2) Calculated as net income attributable to common stockholders divided by the simple average of beginning and ending total assets.

(3) Calculated as net income attributable to common stockholders divided by the simple average of beginning and ending stockholders' equity, net of preferred stock, at redemption value.

(4) Calculated as the simple average of beginning and ending stockholders' equity divided by the simple average of beginning and ending total assets.

(5) Calculated as the simple average of beginning and ending mezzanine equity, stockholders' equity and non-controlling interest - preferred stock divided by the simple average of beginning and ending total assets.

Summary of Operations:	For the Year Ended December 31, 2013	2012	2011	2010	2009
	(in thousands, except per share amounts)				
Interest Income:					
Net interest income after provision for loan losses	$98,603	$118,289	$120,695	$94,150	$83,055
Non-interest income/(loss):					
Guarantee and commitment fees	26,958	24,963	24,821	24,091	31,805
Gains/(losses) on financial derivatives, hedging activities and trading assets	30,945	(19,522)	(89,190)	(11,889)	64,570
Other-than-temporary impairment losses	—	—	—	—	(3,994)
Gains on asset sales and debt repurchases	2,113	18	269	266	4,934
Gains on the repurchase of debt	1,462	—	—	—	—
Gains on the sale of real estate owned	1,236	878	974	10	—
Lower of cost or fair value adjustment on loans held for sale	—	(5,943)	8,887	(8,748)	(139)
Other income	3,057	3,341	6,850	1,244	1,578
Non-interest income/(loss)	65,771	3,735	(47,389)	4,974	98,754
Non-interest expense	33,107	30,908	28,659	32,627	29,692
Income before income taxes	131,267	91,116	44,647	66,497	152,117
Income tax expense	33,752	22,156	5,797	13,797	52,517
Net income	97,515	68,960	38,850	52,700	99,600
Less: Net income attributable to non-controlling interest - preferred stock dividends	(22,187)	(22,187)	(22,187)	(20,707)	—
Preferred stock dividends	(3,495)	(2,879)	(2,879)	(4,129)	(17,302)
Loss on retirement of preferred stock	—	—	—	(5,784)	—
Net income attributable to common stockholders	$71,833	$43,894	$13,784	$22,080	$82,298
Allowance for Losses Activity:					
Provision for/(release of) losses	$448	$1,875	$(2,347)	$4,310	$5,242
Net charge-offs/(recoveries)	4,004	2,501	252	(1,618)	7,490
Ending balance	13,334	16,890	17,516	20,115	14,187
Earnings Per Common Share and Dividends:					
Basic earnings per common share	$6.64	$4.19	$1.32	$2.16	$8.12
Diluted earnings per common share	6.41	3.98	1.28	2.08	8.04
Common stock dividends per common share	0.48	0.40	0.20	0.20	0.20
Regulatory Capital:					
Statutory minimum capital requirement	$398,531	$374,037	$348,649	$300,996	$216,959
Core capital	590,671	518,993	475,163	460,602	337,153
Excess capital	192,140	144,956	126,514	159,606	120,194

Item 7. 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 two subsidiaries – Farmer Mac Mortgage Securities Corporation and Farmer Mac II LLC. Farmer Mac II LLC is a Delaware limited liability company that operates substantially all of Farmer Mac's USDA Guarantees line of business – primarily the acquisition of USDA Securities. The business operations of Farmer Mac II LLC began in January 2010. Since then, Farmer Mac has operated only that part of the USDA Guarantees line of business that involves the issuance of Farmer Mac Guaranteed Securities backed by USDA Securities to investors other than Farmer Mac or Farmer Mac II LLC. Although Farmer Mac II LLC may issue securities in these transactions, Farmer Mac II LLC does not guarantee any USDA

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Securities it holds or any Farmer Mac Guaranteed Securities issued by Farmer Mac or Farmer Mac II LLC.

This discussion and analysis of financial condition and results of operations should be read together with Farmer Mac's consolidated financial statements and the related notes to the consolidated financial statements for the fiscal years ended December 31, 2013, 2012, and 2011.

Overview

At the end of 2013, Farmer Mac's outstanding program volume and core earnings reached record levels, and asset quality remained high. Spread compression on new Farm & Ranch loan purchases, which has been continuing for the past several years, stabilized in the second half of 2013 and showed modest expansion in the fourth quarter. Farmer Mac also increased the amount of its Tier 1 capital during 2013 and finished the year with a significant amount of total equity capital, aided by strong earnings and the issuance of $60.0 million of Tier 1-eligible, non-cumulative perpetual preferred stock in January 2013. Farmer Mac is prepared to build on these positive results, while remaining committed to delivering stockholder value and fulfilling its mission. Farmer Mac believes that its financial condition and earnings outlook remain strong, as indicated by the recent increase in the quarterly dividend declared on all three classes of common stock.

During the year, Farmer Mac added $3.1 billion of new business volume, which included purchases of AgVantage securities in an aggregate amount of $1.3 billion under the Farm & Ranch and Rural Utilities lines of business and purchases of Farm & Ranch loans in an aggregate amount of $824.9 million. This amount of Farm & Ranch loan purchases is 45 percent higher than the $570.3 million purchased in 2012 and 66 percent higher than the $495.5 million purchased in 2011. Taking into account maturities and paydowns on existing assets, this new business increased the aggregate outstanding amount of business volume to $14.0 billion as of December 31, 2013, compared to $13.0 billion as of December 31, 2012, and $11.9 billion as of December 31, 2011.

Farmer Mac's GAAP net income attributable to common stockholders for 2013 was $71.8 million, compared to net income of $43.9 million and $13.8 million, respectively, for 2012 and 2011. While non-GAAP core earnings grew steadily over these periods, the sharp increases in Farmer Mac's GAAP net income in each of these years were mostly due to the effects of fair value changes on financial derivatives and hedged assets. In 2013, acceleration of the amortization of premiums for certain Rural Utilities loans that were consolidated at fair value and that were recast into new loan products in the fourth quarter of the year partially offset the increase in GAAP net income.

Farmer Mac's non-GAAP core earnings for 2013 were a record $54.9 million, compared to $49.6 million in 2012 and $42.9 million in 2011. Farmer Mac's net effective spread was $105.3 million (86 basis points) in 2013, compared to $106.6 million (95 basis points) in 2012 and $89.4 million (96 basis points) in 2011. While the spreads on new Farm & Ranch loans added during the second half of 2013 stabilized and were at levels that met or exceeded current average net effective spreads as of December 31, 2013, repayments of existing Farm & Ranch loans with higher historical spreads relative to the new Farm & Ranch loans added in 2013, combined with the effect of refinancing existing floating rate assets at higher costs, were the primary drivers of the decrease in net effective spread in 2013. Reinvestment of maturing AgVantage securities at lower market spreads also contributed to the decrease in net effective spread in 2013. For more information on Farmer Mac's use of core earnings, a non-GAAP measure, see "—Results of Operations."

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The loans included in Farmer Mac's three lines of business continued to perform well during 2013. As of December 31, 2013, Farmer Mac's 90-day delinquencies in the Farm & Ranch line of business were $28.3 million (0.55 percent of the non-AgVantage Farm & Ranch portfolio), down from $33.3 million (0.70 percent) as of December 31, 2012, and down from $40.6 million (0.93 percent) as of December 31, 2011. As 2013 progressed, the drought conditions experienced in the Midwest and Great Plains during 2012 that had caused significant deterioration in the yields of feed grains were relieved and ultimately had no measurable impact on the credit quality of Farmer Mac's portfolio. Farmer Mac continues to monitor the effects of a persistent drought affecting certain western regions in the United States that worsened over the course of 2013 and remains significant in early 2014. As of December 31, 2013, this drought has had no measurable impact on the credit quality of Farmer Mac's portfolio. Farmer Mac believes that it generally remains well-collateralized on its exposures in drought areas.

When analyzing the overall risk profile of its entire portfolio, Farmer Mac takes into account more than the loan delinquency percentages in its Farm & Ranch line of business. Farmer Mac's portfolio also includes AgVantage securities and rural utilities loans, neither of which had any delinquencies as of December 31, 2013, and USDA Securities, which are backed by the full faith and credit of the United States. Across Farmer Mac's three lines of business, 90-day delinquencies represented 0.20 percent of total business volume as of December 31, 2013, compared to 0.26 percent as of December 31, 2012 and 0.34 percent as of December 31, 2011.

As of December 31, 2013, Farmer Mac's core capital of $590.7 million exceeded its minimum capital requirement of $398.5 million by $192.2 million. As noted, Farmer Mac issued $60.0 million of non−-cumulative perpetual preferred stock (Series A Preferred Stock) in January 2013 and used the proceeds to redeem and retire all $57.6 million of its outstanding Series C Preferred Stock. See "— Outlook" for further discussion about the opportunities that Farmer Mac foresees for future business growth.

Critical Accounting Policies and Estimates

The preparation of Farmer Mac's consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policies that are both important to the portrayal of Farmer Mac's financial condition and results of operations and require complex, subjective judgments are the accounting policies for: (1) the allowance for losses, (2) fair value measurement, and (3) other-than-temporary impairment.

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses incurred as of the balance sheet date on loans held for investment ("allowance for loan losses") and loans that underlie off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs ("reserve for losses") based on available information. Farmer Mac Guaranteed Securities do not include AgVantage securities with regard to the allowance for losses discussion. For purposes of this accounting policy, the allowance for loan losses and the reserve for losses are described collectively as the "allowance for losses" because the estimation methodology is identical for loans that are held for investment and for loans that underlie off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs. Disaggregation by commodity type is performed, where appropriate, in analyzing the need for an allowance for losses.

The allowance for loan losses is increased through periodic provisions for loan losses that are charged against net interest income and the reserve for losses is increased through provisions for losses that are charged to non-interest expense. Both the allowance for loan losses and reserve for losses are reduced by charge-offs for actual losses, net of recoveries. Charge-offs represent losses on the outstanding principal balance, any interest payments previously accrued or advanced, and expected costs of liquidation. Negative provisions, or releases of allowance for losses, are recorded in the event that the estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period.

The total allowance for losses consists of a general allowance for losses and a specific allowance for individually identified impaired loans.

General Allowance for Losses

Farm & Ranch

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

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

Management believes that this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans included in the Farm & Ranch line of business, including loans held for investment and loans that underlie off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs.

Rural Utilities

Farmer Mac separately evaluates the rural utilities loans it holds for investment to estimate any probable losses inherent in those assets. Farmer Mac has not provided an allowance for losses for the portfolio segment related to the Rural Utilities program based on the credit quality of the collateral supporting rural utilities assets.

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Specific Allowance for Impaired Loans

Farmer Mac individually analyzes certain loans in its portfolio for impairment. Farmer Mac's individually impaired loans generally include loans 90 days or more past due, in foreclosure, restructured, in bankruptcy, and certain performing loans that have previously been delinquent or are secured by real estate that produces agricultural commodities or products that are currently under stress.

For individually identified impaired loans with an updated appraisal, other updated collateral valuation, or management's estimate of discounted collateral value, this analysis compares the measurement of the fair value of the collateral to the total recorded investment in the loan. The total recorded investment in the loan includes principal, interest, and advances, net of any charge-offs. In the event that an individually analyzed loan's collateral value does not equal or exceed its total recorded investment, Farmer Mac provides a specific allowance for loss in the amount of the difference between the recorded investment and fair value, less estimated costs to liquidate the collateral. Estimated selling costs are based on historical selling costs incurred by Farmer Mac or management's best estimate of selling costs for a particular property. For individually identified impaired loans without updated valuations, this analysis is performed in the aggregate considering similar risk characteristics of the loans and historical statistics. Farmer Mac considers appraisals that are more than two years old as of the reporting date not to be updated for purposes of individually analyzing loans.

Farmer Mac uses a risk-based approach in determining the necessity of obtaining updated appraisals on impaired loans. For example, larger exposures associated with highly improved and specialized collateral will generally receive updated appraisals once the loans are identified as impaired. In addition, updated appraisals are always obtained during the foreclosure process. Depending on the risk factors associated with the loan and underlying collateral, which can vary widely depending on the circumstances of the loan and collateral, this can occur early in the foreclosure process, while in other instances this may occur just prior to the transfer of title. As part of its routine credit review process, Farmer Mac often will exercise judgment in discounting an appraised value due to local real estate trends or the condition of the property (e.g., following an inspection by Farmer Mac or the servicer). In addition, a property appraised value may be discounted based on the market's reaction to Farmer Mac's asking price for sale of the property.

Further information regarding the allowance for losses is included in "—Risk Management—Credit Risk – Loans and Guarantees" and Note 2(j) to the consolidated financial statements.

Fair Value Measurement

A significant portion of Farmer Mac's assets consists of financial instruments that are measured at fair value in the consolidated balance sheets. For financial instruments that are complex in nature or for which observable inputs are not available, the measurement of fair value requires management to make significant judgments and assumptions. These judgments and assumptions, as well as changes in market conditions, may have a material impact on the consolidated balance sheets and statements of operations.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price) and establishes a hierarchy for ranking fair value measurements. In determining fair value, Farmer Mac uses various valuation approaches, including market and income approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. When available, the fair value of Farmer Mac's financial instruments is based on

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quoted market prices, valuation techniques that use observable market-based inputs, or unobservable inputs that are corroborated by market data. Pricing information obtained from third parties is internally validated for reasonableness prior to use in the consolidated financial statements.

When observable market prices are not readily available, Farmer Mac estimates fair value using techniques that rely on alternate market data or internally developed models using significant inputs that are generally less readily observable. Market data includes prices of financial instruments with similar maturities and characteristics, interest rate yield curves, measures of volatility, and prepayment rates. If market data needed to estimate fair value is not available, Farmer Mac estimates fair value using internally-developed models that employ a discounted cash flow approach. Even when market assumptions are not readily available, Farmer Mac's assumptions reflect those that market participants would likely use in pricing the asset or liability at the measurement date.

Farmer Mac's assets and liabilities presented at fair value in the consolidated balance sheets on a recurring basis include investment securities, Farmer Mac Guaranteed Securities, USDA Securities, and financial derivatives. The changes in fair value from period to period are recorded either in the consolidated statements of comprehensive income as other comprehensive (loss)/income, net of tax or in the consolidated statements of operations as gains/(losses) on financial derivatives and hedging activities or gains/(losses) on trading assets.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The hierarchy has the following three levels to classify fair value measurements:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3	Prices or valuations that require unobservable inputs that are significant to the fair value measurement.

As of December 31, 2013, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.8 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 51 percent of total assets and 73 percent of financial instruments measured at fair value as of December 31, 2013.

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Assets underlying (or, in the case of USDA Securities, consisting of) these financial instruments measured as level 3 primarily include the following:

Type of Financial Instrument	Underlying Assets
Farm & Ranch Guaranteed Securities	General obligations of various issuers that are secured by agricultural real estate loans eligible under the standards for the Farm & Ranch line of business.
Farmer Mac Guaranteed USDA Securities	Portions of loans guaranteed by the USDA pursuant to the Consolidated Farm Rural Development Act.
USDA Securities	Portions of loans guaranteed by the USDA pursuant to the Consolidated Farm Rural Development Act.
Rural Utilities Guaranteed Securities	General obligations of issuers (currently only CFC) that are secured by rural utilities loans eligible under the standards for the Rural Utilities line of business.
Auction-rate certificates ("ARCs")	Guaranteed student loans that are backed by the full faith and credit of the United States.

Further information regarding fair value measurement is included in Note 13 to the consolidated financial statements.

Other-than-Temporary Impairment of Investment Securities

If the fair value of a security is less than its amortized cost basis as of the balance sheet date, Farmer Mac assesses whether the impairment is temporary or other-than-temporary. Other-than-temporary impairment occurs when the fair value of an available-for-sale security is below its amortized cost, and it is determined that management (1) has the intent to sell the security or (2) more likely than not will be required to sell the security before its anticipated recovery. In these cases, the entire difference between the amortized cost basis of the security and the fair value as of the balance sheet date is recognized as other-than-temporary impairment in earnings.

For debt securities, if management does not intend to sell the security and it is not more likely than not that it will be required to sell the security before anticipated recovery, Farmer Mac determines whether a credit loss exists. Many factors considered in this determination involve significant judgment, including recent events specific to the issuer or the related industry, changes in external credit ratings, the severity and duration of the impairment, recoveries or additional declines in fair value subsequent to the balance sheet date, and other relevant information related to the collectability of the security. If Farmer Mac determines that the present value of the cash flows likely to be collected from the security is greater than the amortized cost basis of the security, the impairment is deemed to be temporary. Conversely, if the present value of the cash flows likely to be collected is less than the amortized cost basis of the security, a credit loss is deemed to have occurred and the security is deemed to be other-than-temporarily impaired and the amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income, net of tax.

Results of Operations

Farmer Mac's GAAP net income attributable to common stockholders for 2013 was $71.8 million or $6.41 per diluted common share, compared to $43.9 million or $3.98 per diluted common share for 2012, and $13.8 million or $1.28 per diluted common share for 2011.

Farmer Mac's non-GAAP core earnings were $54.9 million or $4.90 per diluted share in 2013, compared to $49.6 million or $4.51 per diluted share in 2012, and $42.9 million or $3.97 per diluted common share in 2011.

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 GAAP net income by excluding the effects of fair value accounting guidance, which are not expected to have a cumulative net impact on GAAP earnings if the related financial instruments are held to maturity, as is generally expected. Core earnings also differs from GAAP net income 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. This non-GAAP financial measure 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 GAAP net income attributable to common stockholders to core earnings is presented in the following table, and the adjustments are described in more detail below the table:

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

	For the Years Ended December 31,		
	2013	2012	2011
	(in thousands, except per share amounts)		
GAAP net income attributable to common stockholders	$71,833	$43,894	$13,784
Less the after-tax effects of:			
Unrealized gains/(losses) on financial derivatives and hedging activities	29,368	4,325	(30,930)
Unrealized (losses)/gains on trading assets	(533)	200	2,246
Amortization of premiums/discounts and deferred gains on assets consolidated at fair value (1)	(12,467)	(7,266)	(3,692)
Net effects of settlements on agency forward contracts	573	856	(2,523)
Lower of cost or fair value adjustment on loans held for sale	—	(3,863)	5,776
Sub-total	16,941	(5,748)	(29,123)
Core earnings	$54,892	$49,642	$42,907
Composition of Core Earnings:			
Revenues:			
Net effective spread	$105,251	$106,557	$89,419
Guarantee and commitment fees	27,922	26,622	28,090
Other	3,421	501	(662)
Total revenues	136,594	133,680	116,847
Credit related (income)/expenses:			
Provisions for/(release of) losses	448	1,875	(2,347)
REO operating expenses	423	134	823
Gains on sale of REO	(1,236)	(878)	(974)
Total credit related (income)/expenses	(365)	1,131	(2,498)
Operating expenses:			
Compensation & employee benefits	17,817	19,186	17,884
General & Administrative	11,563	11,123	9,732
Regulatory fees	2,375	2,281	2,277
Total operating expenses	31,755	32,590	29,893
Net earnings	105,204	99,959	89,452
Income taxes	24,630	25,251	21,479
Non-controlling interest	22,187	22,187	22,187
Preferred stock dividends	3,495	2,879	2,879
Core earnings	$54,892	$49,642	$42,907
Core earnings per share:			
Basic	$5.07	$4.74	$4.15
Diluted	4.90	4.51	3.97
Weighted-average shares:			

Basic	10,816	10,479	10,335
Diluted	11,209	11,019	10,802

(1) Includes $10.3 million related to the acceleration of premium amortization in fourth quarter 2013 due to significant refinancing activity in the Rural Utilities line of business.

Farmer Mac excludes the after-tax effect of unrealized gains and losses resulting from changes in the fair values of financial derivatives and hedging activities from core earnings. As of December 31, 2013, the cumulative fair value of after-tax losses recorded on financial derivatives was $36.4 million. Over time, Farmer Mac will realize in earnings the net effect of the cash settlements on its interest rate swap contracts, which will on its own produce either income or expense, but is expected to generate positive net effective spread when combined with the interest received and paid on the assets and liabilities Farmer Mac holds on its balance sheet. Any positive net effective spread would continue to build retained earnings and capital over time.

Farmer Mac previously elected the fair value option for certain investment securities and Farmer Mac Guaranteed Securities that were funded or hedged principally with financial derivatives in an effort to mitigate volatility in GAAP earnings. Farmer Mac classifies these assets as trading and measures them at fair value, with changes in fair value recorded in GAAP earnings as they occur; however, Farmer Mac excludes the changes in fair value from core earnings consistent with its treatment of fair value changes on financial derivatives.

In 2010, Farmer Mac consolidated certain variable interest entities ("VIEs") where Farmer Mac held beneficial interests in trusts used as vehicles for securitization. Prior to consolidation, Farmer Mac classified these assets as trading Farmer Mac Guaranteed Securities because of a fair value option election made previously. As such, these assets were measured at fair value and the unrealized gains and losses resulting from changes in fair value were excluded from Farmer Mac's core earnings. Upon consolidation, these assets were transferred to loans held for investment in consolidated trusts at their fair value, which resulted in an unamortized premium of $42.7 million. This premium is being amortized into interest income over the contractual lives of the underlying assets.

Also in 2010, Farmer Mac contributed substantially all of the assets, in excess of $1.1 billion, comprising the USDA Guarantees line of business to a subsidiary, Farmer Mac II LLC. The contributed assets included securities that were designated as either available-for-sale or trading, depending on whether a fair value option election had been made previously. Farmer Mac transferred these assets at their fair value, which resulted in an unamortized premium of $39.1 million being recorded by Farmer Mac II LLC. This premium is being amortized into interest income over the estimated remaining lives of the USDA Securities that were transferred.

At the time of transfer, Farmer Mac had after-tax unrealized gains of $7.0 million recorded in accumulated other comprehensive income related to changes in the fair value of the contributed securities designated as available-for-sale. These gains are being amortized into other income based on the estimated remaining lives of the related USDA Securities. On a consolidated basis, the amortization of these gains will offset the premium amortization on the contributed securities designated as available-for-sale.

On January 1, 2013, Farmer Mac transferred $674.0 million of loans from held for sale to held for investment because Farmer Mac either (1) no longer intends to sell these loans in the foreseeable future or (2) generally securitizes these loans using VIEs that are ultimately consolidated on Farmer Mac's balance sheet and reported as "Loans held for investment in consolidated trusts, at amortized cost." Farmer Mac transferred these loans at the lower of cost or fair value (determined on a pooled basis). Farmer Mac recorded a $5.9 million unamortized discount for loans transferred at fair value. This discount is being amortized into interest income over the contractual lives of the underlying loans.

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The after-tax net effect of the amortization of the premiums, discounts, and deferred gains described above are shown as amortization of premiums, discounts, and deferred gains on assets consolidated at fair value in the table above. Farmer Mac excludes these items from core earnings because they 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. As of December 31, 2013, $25.2 million of these premiums and $5.5 million of discounts were still outstanding and $1.7 million of after-tax gains remained deferred in accumulated other comprehensive income.

Farmer Mac routinely enters into forward sales contracts on the debt of other GSEs to reduce its interest rate exposure on forecasted future debt issuances. In its calculation of core earnings, Farmer Mac reverses the gains or losses resulting from the net settlement of these contracts in the period of settlement and amortizes them over the estimated lives of the associated debt issuances. The after-tax net effect of these items is shown as net effect of settlements on agency forward contracts in the table above. Changes in the fair values of these contracts prior to net settlement are excluded from Farmer Mac's core earnings and are captured in unrealized gains/(losses) on financial derivatives and hedging activities in the table above.

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

Net Interest Income. Net interest income was $98.1 million for 2013, $122.0 million for 2012, and $121.3 million for 2011. The decrease in net interest income in 2013 compared to 2012 was primarily attributable to lower net effective spread that resulted from repayments of Farm & Ranch loans that had higher historical spreads and the acceleration of amortization of $15.9 million in premiums associated with certain Rural Utilities loans that were recast into other loan products in fourth quarter 2013. In addition, reduced interest income on Farmer Mac Guaranteed Securities resulting from the designation of certain interest rate swaps in fair value hedge relationships during third quarter 2012 for which the interest settlements are recorded in margin, reduced net interest income in 2013. The interest rate swaps are used to hedge against the risk of changes in fair values of certain AgVantage securities due to changes in the designated benchmark interest rate (i.e., LIBOR). The accrual of the contractual amounts due on these interest rate swaps is included as an adjustment to the yield of the hedged items and is reported in interest income for 2013, but only for the second half of 2012, when the related hedge designation became effective. The overall net interest yield was 79 basis points for the year ended December 31, 2013, compared to 105 basis points and 120 basis points for the years ended December 31, 2012 and 2011, respectively.

The following table provides information regarding interest-earning assets and funding for the years ended December 31, 2013, 2012, and 2011. 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. The average rate earned on cash and investments reflects lower short-term market rates during 2013 compared to 2012 and 2011. The lower average rate on loans, Farmer Mac Guaranteed Securities, and USDA Securities during 2013 is due to the decline in market rates reflected in the rates on loans acquired or reset during the past year and the effect of designating certain interest rate

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swaps in fair value hedge relationships as described above. The downward trend in the average rate on notes payable due after one year reflects the retirement of older debt and the issuance of new debt at lower market rates. While the average rate on notes payable within one year has not changed in absolute terms, these shorter-term funding levels, which are typically swapped to a floating rate of interest, have become less favorable relative to the LIBOR interest rate swap curve in 2013, which could reduce the margin on floating rate assets that need to be refinanced in the future if this relationship continues.

Table 2

	For the Year Ended December 31,								
	2013			2012			2011		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	(dollars in thousands)								
Interest-earning assets:									
Cash and investments	$2,897,795	$21,940	0.76 %	$3,020,264	$24,729	0.82 %	$2,503,513	$28,117	1.12 %
Loans, Farmer Mac Guaranteed Securities and USDA Securities (1)	9,302,145	205,556	2.21 %	8,225,582	221,949	2.70 %	6,858,866	209,611	3.06 %
Total interest-earning assets	12,199,940	227,496	1.86 %	11,245,846	246,678	2.19 %	9,362,379	237,728	2.54 %
Funding:									
Notes payable due within one year	4,532,662	7,939	0.18 %	5,266,520	9,707	0.18 %	4,232,118	9,218	0.22 %
Notes payable due after one year (2)	7,140,897	122,399	1.71 %	5,516,953	116,649	2.11 %	4,658,829	110,474	2.37 %
Total interest-bearing liabilities (3)	11,673,559	130,338	1.12 %	10,783,473	126,356	1.17 %	8,890,947	119,692	1.35 %
Net non-interest-bearing funding	526,381	—		462,373	—		471,432	—	
Total funding	12,199,940	130,338	1.07 %	11,245,846	126,356	1.12 %	9,362,379	119,692	1.28 %
Net interest income/yield prior to consolidation of certain trusts	12,199,940	97,158	0.80 %	11,245,846	120,322	1.07 %	9,362,379	118,036	1.26 %
Net effect of consolidated trusts (4)	167,227	964	0.58 %	392,046	1,658	0.42 %	747,577	3,269	0.44 %
Adjusted net interest income/yield	$12,367,167	$98,122	0.79 %	$11,637,892	$121,980	1.05 %	$10,109,956	$121,305	1.20 %

(1) Includes $15.9 million related to the acceleration of premium amortization in fourth quarter 2013 due to significant refinancing activity in the rural utilities line of business. Excludes interest income of $7.9 million, $18.0 million, and $37.0 million in 2013, 2012, and 2011, 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 $6.9 million, $16.3 million, and $33.7 million in 2013, 2012, and 2011, 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.

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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. The decreases in income due to changes in rate reflect the reset of variable rate investments and adjustable rate mortgages to lower rates, the acceleration of premium amortization in fourth quarter 2013 due to significant refinancing activity in the Rural Utilities line of business, and the acquisition of new lower-yielding investments, loans, Farmer Mac Guaranteed Securities, and USDA Securities, as described above. The decrease in expense due to changes in rate reflects the decreased cost of funding due to lower interest rates in the debt markets. The increases due to changes in volume reflect the increase in on-balance sheet assets during 2013 compared to 2012.

Table 3

	2013 vs. 2012			2012 vs. 2011		
	Increase/(Decrease) Due to			Increase/(Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
	(in thousands)					
Income from interest-earning assets:						
Cash and investments	$(1,814)	$(975)	$(2,789)	$(8,510)	$5,122	$(3,388)
Loans, Farmer Mac Guaranteed Securities and USDA Securities (1)	(43,235)	26,842	(16,393)	(26,351)	38,689	12,338
Total	(45,049)	25,867	(19,182)	(34,861)	43,811	8,950
Expense from interest-bearing liabilities	(6,135)	10,117	3,982	(16,761)	23,425	6,664
Change in net interest income prior to consolidation of certain trusts (2)	$(38,914)	$15,750	$(23,164)	$(18,100)	$20,386	$2,286

(1) Includes $15.9 million related to the acceleration of premium amortization in fourth quarter 2013 due to significant refinancing activity in the rural utilities line of business.
(2) Excludes the effect of debt in consolidated trusts with beneficial interests owned by third parties.

The 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 hedging relationships. The following paragraphs describe the effects of these items on the net interest yield and the table below presents them as adjustments to reconcile to the net effective spread Farmer Mac earns on the difference between its interest-earning assets and its net funding costs, including payments for income and expense related to derivative financial instruments that are not designated as hedging instruments in a hedge accounting relationship ("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. Beginning in third quarter 2012, Farmer Mac designated certain interest rate swaps in fair value hedge accounting relationships. The accrual of the contractual amounts due on these interest rate swaps is included as an adjustment to the yield of the hedged item and is included in interest income. For interest rate swaps not designated in hedge accounting relationships, Farmer Mac records the income or expense related to the accrual of the contractual amounts due in "Gains/(losses) on financial derivatives and hedging activities" on the consolidated statements of operations. Farmer Mac includes the accrual of the contractual amounts due for undesignated financial derivatives in its calculation of net effective spread.

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Farmer Mac's net interest income and net interest yield include net expenses 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 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.

Prior to 2013, Farmer Mac excluded yield maintenance payments received upon the payoff of certain borrowers' loans from its calculation of net effective spread. These payments were excluded because the timing and size of the payments vary greatly and the variations in these payments are not necessarily indicative of positive or negative trends in Farmer Mac's financial results. However, beginning in 2013 Farmer Mac no longer excludes these yield maintenance payments from its calculation of net effective spread because Farmer Mac generally reinvests these yield maintenance payments, along with the prepaid balance of the underlying loans, in other interest-earning assets. Yield maintenance payments were immaterial to Farmer Mac's net effective spread for 2013.

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 and excluding the amortization of premiums and discounts on assets consolidated at fair value. Farmer Mac's net effective spread was $105.3 million for 2013, compared to $106.6 million and $89.4 million, respectively, for 2012 and 2011. In percentage terms, net effective spread for 2013 was 0.86 percent compared to 0.95 percent and 0.96 percent, respectively, for 2012 and 2011. This contraction in net effective spread is primarily attributable to repayments of existing Farm & Ranch loans with higher historical spreads relative to the new Farm & Ranch loans added this year, combined with the effect of refinancing existing floating rate assets at higher costs during 2013 compared to 2012. See Note 14 to the consolidated financial statements for more information regarding net effective spread from Farmer Mac's individual business segments.

Table 4

	For the Year Ended December 31,					
	2013		2012		2011	
	Dollars	Yield	Dollars	Yield	Dollars	Yield
	(dollars in thousands)					
Net interest income/yield prior to consolidation of certain trusts	$97,158	0.80 %	$120,322	1.07 %	$118,036	1.26 %
Expense related to undesignated financial derivatives	(12,325)	(0.10)%	(25,596)	(0.23)%	(38,663)	(0.41)%
Yield maintenance payments	—	— %	(1,187)	(0.01)%	(816)	(0.01)%
Amortization of premiums on assets consolidated at fair value (1)	20,418	0.16 %	13,018	0.12 %	10,862	0.12 %
Net effective spread	$105,251	0.86 %	$106,557	0.95 %	$89,419	0.96 %

(1) Includes $15.9 million related to the acceleration of premium amortization in fourth quarter 2013 due to significant refinancing activity in the rural utilities line of business.

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Release of and Provisions for Allowance for Loan Losses. During 2013, Farmer Mac recorded releases to its allowance for loan losses of $0.5 million and charge-offs of $4.0 million, respectively, compared to provisions to its allowance for loan losses of $3.7 million and charge-offs of $2.5 million, respectively, for 2012, and provisions to its allowance for loans losses of $0.6 million and charge-offs of $0.3 million, respectively, for 2011. The releases recorded during 2013 were driven primarily by overall improved credit quality. The charge-offs recorded in 2013 included a $3.6 million charge-off related to one ethanol loan that was foreclosed during first quarter 2013 and for which Farmer Mac recorded a partial recovery of $1.1 million upon sale of the REO property in second quarter 2013. The provisions recorded during 2012 resulted primarily from a specific allowance of $3.2 million from the purchase of one defaulted ethanol loan pursuant to the terms of an LTSPC agreement during fourth quarter 2012. Prior to purchasing that defaulted ethanol loan, there was a specific allowance in the reserve for losses in the amount of $3.2 million related to that individual loan. During 2011, Farmer Mac purchased two defaulted loans pursuant to the terms of an LTSPC agreement that resulted in a specific allowance of $1.8 million. Prior to the purchase of those two defaulted loans, there was a specific allowance in the reserve for losses in the amount of $1.8 million related to those two individual loans. These specific allowances were partially offset by a decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries. As of December 31, 2013, Farmer Mac's total allowance for loan losses was $6.9 million, compared to $11.4 million as of December 31, 2012. See "—Risk Management—Credit Risk – Loans and Guarantees."

Provision for and Release of Reserve for Losses. During 2013, Farmer Mac recorded provisions to its reserve for losses of $0.9 million, compared to releases of $1.8 million for 2012 and $3.0 million for 2011. The provisions recorded in 2013 were primarily attributable to increased estimated probable losses inherent in Farmer Mac's non-ethanol related Ag. Storage and Processing loans (e.g., grain elevators and cold storage) due to an enhancement in Farmer Mac's loss methodology that takes into consideration the more developed and specialized nature of these types of properties. The releases recorded during 2012 primarily resulted from the purchase of one defaulted ethanol loan, pursuant to the terms of an LTSPC agreement during fourth quarter 2012. The purchase of that individual defaulted ethanol loan resulted in a specific release from the reserve for losses in the amount of $3.2 million described above, offset partially by increases to the reserve for losses during 2012. The releases recorded in 2011 primarily resulted from the purchase of two defaulted loans under the terms of an LTSPC agreement combined with a decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries. The purchase of those two individual defaulted loans resulted in a specific release from the reserve for losses in the amount of $1.8 million, described above. As of December 31, 2013, Farmer Mac's reserve for losses was $6.5 million, compared to $5.5 million as of December 31, 2012. See "—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 Farmer Mac Guaranteed Securities and LTSPCs, were $27.0 million for 2013, compared to $25.0 million for 2012 and $24.8 million for 2011. The increase in guarantee and commitment fees was primarily attributable to new business volume of Farm & Ranch loans placed under LTSPCs throughout 2012 and 2013 and the deconsolidation of $460.3 million of Farm & Ranch Guaranteed Securities in second quarter 2012 because of a change in related party status, when former director Ernest Hodges (an employee of Farm Credit West, ACA) retired from Farmer Mac's board of directors.

Gains and 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 gains of $31.8

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million for 2013, compared to net losses of $19.8 million for 2012 and $92.6 million for 2011. Farmer Mac has designated certain interest rate swaps in fair value hedge relationships.

The components of gains and losses on financial derivatives and hedging activities for the years ended December 31, 2013, 2012, and 2011 are summarized in the following table:

Table 5

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Fair value hedges:			
Unrealized gains/(losses) due to fair value changes:			
Financial derivatives (1)	$29,538	$(404)	$—
Hedged items	(18,230)	6,388	—
Gains on hedging activities	11,308	5,984	—
No hedge designation:			
Unrealized gains due to fair value changes	33,873	669	(47,578)
Realized:			
Expense related to financial derivatives	(12,325)	(25,596)	(38,663)
Losses due to terminations or net settlements	(1,092)	(886)	(6,404)
Gains/(losses) on financial derivatives not designated in hedging relationships	20,456	(25,813)	(92,645)
Gains/(losses) on financial derivatives and hedging activities	$31,764	$(19,829)	$(92,645)

(1) Included in the assessment of hedge effectiveness at December 31, 2013, but excluded from the amounts in the table, were losses of $11.8 million for 2013, 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 December 31, 2013 were gains of $0.5 million. The comparable amounts at December 31, 2012 were losses of $6.1 million attributable to the fair value of the swaps at the inception of the hedging relationship and gains of $0.1 million 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 gains/(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 hedges, changes in the fair values of the hedged items attributable to the hedged risk are also included in the table above in unrealized gains/(losses) 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 hedging 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 hedging relationships are included in losses due to terminations or net settlements.

For the years ended December 31, 2013, 2012, and 2011, Farmer Mac was a party to interest rate swaps with one related party, Zions First National Bank. Farmer Mac realized losses of $0.6 million, $1.0 million, and $1.9 million during 2013, 2012, and 2011, respectively, related to these interest rate swaps with Zions. Farmer Mac recognized unrealized gains of $0.5 million, $0.6 million, and $2.1 million during 2013, 2012, and 2011, respectively, due to changes in the fair values of these interest rate swaps with Zions. See Note 3 to the consolidated financial statements for more information on related party transactions.

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Losses and Gains on Trading Assets. During 2013, Farmer Mac recorded unrealized losses on trading assets of $0.8 million, compared to unrealized gains of $0.3 million and $3.5 million, during 2012 and 2011, respectively. Of the total unrealized losses recognized during 2013, $1.3 million related to assets selected for the fair value option. Of the total unrealized gains recognized during 2012 and 2011, $44,000 and $2.2 million, respectively, related to assets selected for the fair value option. Farmer Mac has not made any fair value option elections since 2008.

Gains on Sales of Available-for-Sale Investment Securities. During 2013, 2012, and 2011, Farmer Mac realized net gains of $2.1 million, $18,000, and $0.3 million, respectively. The gains in 2013 and 2011 primarily were the result of sales of GSE guaranteed mortgage-backed securities from Farmer Mac's available for-sale investment portfolio.

Gains on the repurchase of debt. During 2013, Farmer Mac repurchased $29.1 million of outstanding debt at a gain of $1.5 million; no debt repurchases were made in 2012 or 2011.

Gains on Sales of Real Estate Owned. During 2013, 2012, and 2011, Farmer Mac realized gains of $1.2 million, $0.9 million, and $1.0 million, respectively, from the sales of real estate owned properties.

Lower of Cost or Fair Value Adjustment on Loans Held for Sale. During 2012, Farmer Mac recorded unrealized losses of $5.9 million, compared to unrealized gains of $8.9 million for 2011. The unrealized losses recorded in 2012 primarily resulted from a decline in the fair value of certain loans held for sale as mortgage spreads widened and long-term interest rates increased at the end of fourth quarter 2012. The unrealized gains recorded during 2011 resulted from the reversal of previously recognized unrealized losses as the fair value of these loans increased above their cost amounts. Effective January 1, 2013, Farmer Mac transferred $674.0 million of loans from held for sale to held for investment because it intends to hold those loans for the foreseeable future.

Other Income. Other income totaled $3.1 million in 2013, compared to $3.3 million and $6.9 million in 2012 and 2011, respectively. Other income during 2013, 2012, and 2011 included the recognition of $1.2 million, $1.8 million, and $5.2 million, respectively, of gains 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.

Compensation and Employee Benefits. Compensation and employee benefits were $17.8 million in 2013 compared to $19.2 million and $17.9 million in 2012 and 2011, respectively. The decrease in compensation and employee benefits during 2013 compared to 2012 was due primarily to a severance payment in fourth quarter 2012 to the former President and Chief Executive Officer, offset partially by increases in employee headcount and in the cost of employee health insurance.

General and Administrative Expenses. General and administrative expenses, including legal, audit, and consulting fees, were $11.6 million, $11.1 million, and $9.7 million in 2013, 2012, and 2011, respectively. The increase in general and administrative expenses in 2013 compared to 2012 was primarily attributable to higher costs for consulting and information technology associated with general corporate activities.

Regulatory Fees. Regulatory fees were $2.4 million for 2013, and $2.3 million for both 2012 and 2011. FCA has advised Farmer Mac that its estimated fees for the federal fiscal year ending September 30, 2014 will be $2.4 million, which will not be a material increase from the prior federal fiscal year. After the end

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of a federal government fiscal year, FCA may revise its prior year estimated assessments to reflect actual costs incurred, and has issued both additional assessments and refunds in the past.

Other Expense. During 2011, Farmer Mac recorded $0.9 million of expense related to the termination of an agreement with a third party that previously provided services related to loan and security administration for certain Farm & Ranch assets. Farmer Mac is currently performing those services internally and expects to continue to do so in the future. Since then, Farmer Mac has not incurred any comparable termination charges.

Income Tax Expense. Income tax expense totaled $33.8 million in 2013, compared to $22.2 million and $5.8 million in 2012 and 2011, respectively. The consolidated tax benefit of the dividends declared on Farmer Mac II LLC Preferred Stock, which is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the consolidated statements of operations on a pre-tax basis, was the primary reason Farmer Mac's effective tax rate was lower than the statutory federal rate of 35 percent.
Farmer Mac carried a valuation allowance of $37.9 million as of December 31, 2013 and $40.6 million as of December 31, 2012 against the deferred tax assets arising primarily from capital loss carryforwards related to capital losses incurred during 2009 on Farmer Mac's investments in Fannie Mae preferred stock, Lehman Brothers Holdings Inc. senior debt securities, and other GSE preferred stock. Because these losses were capital in nature, tax benefits can only be realized to the extent Farmer Mac would have offsetting capital gains. The valuation allowance as of December 31, 2013 reflected a reduction of $2.1 million from the expected implementation of tax planning strategies in 2014. Farmer Mac does not currently expect to produce sufficient capital gains within the five year carryforward period to recognize a significant portion of the tax benefits related to these capital losses. For more information about income taxes, see Note 10 to the consolidated financial statements.

Business Volume. During 2013, Farmer Mac added $3.1 billion of new business volume, compared to $2.9 billion in 2012, and $3.4 billion in 2011. Farmer Mac's outstanding program volume as of December 31, 2013 was $14.0 billion, compared to $13.0 billion and $11.9 billion as of December 31, 2012 and 2011, respectively. During 2013, Farmer Mac:

- purchased $824.9 million of newly originated Farm & Ranch loans;
- added $540.8 million of Farm & Ranch loans under LTSPCs;
- purchased $453.5 million of Farm & Ranch AgVantage securities;
- purchased $361.9 million of USDA Securities;
- purchased $87.0 million of Rural Utilities loans; and
- purchased $820.0 million of Rural Utilities AgVantage securities.

Farmer Mac's outstanding business volume was $14.0 billion as of December 31, 2013, an increase of $1.0 billion from December 31, 2012, as new volume exceeded maturities and principal paydowns on existing eligible loan assets during the year. The new program volume in 2013 included $400.0 million of Farm & Ranch AgVantage securities purchased from Rabo Agrifinance Inc. and $820.0 million of Rural Utilities AgVantage securities purchased from CFC. Aggregate repayments (principal paydowns and maturities) were $2.1 billion in 2013 compared to $1.8 billion in 2012. Repayments in 2013 included $253.1 million related to Farm & Ranch AgVantage securities and $593.0 million related to Rural Utilities AgVantage securities.

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The following table sets forth purchases of non-delinquent eligible loans and AgVantage securities, new LTSPCs, and new guarantees during the periods indicated in the Farm & Ranch, USDA Guarantees, and Rural Utilities lines of business:

Table 6

Farmer Mac New Purchases, Guarantees, and LTSPCs

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Farm & Ranch:			
Loans	$824,881	$570,346	$495,455
LTSPCs	540,798	744,110	471,994
AgVantage Securities	453,500	601,000	1,801,500
USDA Guarantees:			
USDA Securities	361,894	479,324	404,445
Farmer Mac Guaranteed USDA Securities	—	5,327	3,268
Rural Utilities:			
Loans	86,965	166,117	203,789
AgVantage Securities	820,000	383,406	2,796
Total purchases, guarantees, and LTSPCs	$3,088,038	$2,949,630	$3,383,247

The increase in Farm & Ranch loan purchase volume from prior years primarily resulted from more borrowers seeking longer-term financing at fixed rates or longer-term adjustable rate mortgages, and the decrease in Farm & Ranch LTSPC volume primarily resulted from decreased participation in the LTSPC product among Farmer Mac's existing customer base. The decrease in USDA Securities volume was driven primarily by reduced supplemental federal funding for USDA-guaranteed loans later in the 2013 federal fiscal year due to budget constraints. The decrease in Rural Utilities loan volume resulted primarily from decreased demand for financing in the rural utilities industry, driven partially by continued weakness in the domestic economy. The uneven distribution in annual AgVantage securities volume is primarily driven by the generally larger transaction sizes for that product and the fluctuating funding and liquidity needs of Farmer Mac's customer network.

The purchase price of non-delinquent eligible loans and portfolios is the fair value based on current market interest rates and Farmer Mac's target net yield. The purchase price includes an amount to compensate Farmer Mac for credit risk that is similar to the guarantee or commitment fees it receives for assuming credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs. Based on market conditions, Farmer Mac either retains the loans it purchases or securitizes them and retains or sells Farmer Mac Guaranteed Securities backed by those loans. Historically, Farmer Mac has retained the vast majority of loans it has purchased. The weighted-average age of the Farm & Ranch non-delinquent eligible loans purchased and retained (excluding the purchases of defaulted loans) during 2013 and 2012 was less than one year. Of those loans, 66 percent and 57 percent had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 17.2 years and 16.8 years, respectively.

During 2013, 2012, and 2011, Farmer Mac securitized loans it had purchased and sold the resulting Farmer Mac Guaranteed Securities in the amount of $150.4 million, $32.7 million, and $22.4 million, respectively. Farmer Mac consolidates these loans and presents them as "Loans held for investment in

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consolidated trusts, at amortized cost" on the consolidated balance sheet. In 2013 and 2012, $120.4 million and $5.3 million, respectively, of securities were sold to Zions First National Bank ("Zions"), which is a related party to Farmer Mac. See Note 3 to the consolidated financial statements for more information about related party transactions.

The following table sets forth information regarding the Farmer Mac Guaranteed Securities issued during the periods indicated:

Table 7

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Loans securitized and sold as Farm & Ranch Guaranteed Securities	$150,417	$32,736	$22,406
Farmer Mac Guaranteed USDA Securities	—	5,327	3,268
Farm & Ranch AgVantage Securities	453,500	601,000	1,801,500
Rural Utilities AgVantage Securities	820,000	383,406	2,796
Total Farmer Mac Guaranteed Securities Issuances	$1,423,917	$1,022,469	$1,829,970

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The following table sets forth information regarding outstanding volume in each of Farmer Mac's three lines of business as of the dates indicated:

Table 8

Outstanding Balance of Loans, Loans Underlying Off-Balance Sheet Farmer Mac Guaranteed Securities
and LTSPCs, AgVantage Securities, USDA Securities, and Farmer Mac Guaranteed USDA Securities

	As of December 31,		
	2013	2012	2011
	(in thousands)		
Farm & Ranch:			
Loans	$1,875,958	$1,519,415	$1,251,370
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	—	39	181
Beneficial interests owned by third party investors	259,509	160,397	696,554
Guaranteed Securities	765,751	911,370	621,871
AgVantage Securities	4,509,650	4,309,200	3,711,000
LTSPCs	2,261,862	2,156,068	1,776,051
USDA Guarantees:			
USDA Guaranteed Securities	1,645,806	1,559,683	1,435,679
Farmer Mac Guaranteed USDA Securities	41,311	55,896	77,498
Rural Utilities:			
Loans	698,010	663,097	529,227
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	354,241	368,848	386,800
AgVantage Securities	1,538,214	1,311,175	1,427,071
Total	$13,950,312	$13,015,188	$11,913,302

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The following table summarizes by maturity date the scheduled principal amortization of loans held, loans underlying off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs, USDA Securities, and Farmer Mac Guaranteed USDA Securities as of December 31, 2013:

Table 9

Schedule of Principal Amortization of Loans Held, Loans Underlying Off-Balance Sheet Farmer Mac Guaranteed Securities and LTSPCs, USDA Securities, and Farmer Mac Guaranteed USDA Securities

	Loans Held	Loans Underlying Off-Balance Sheet Farmer Mac Guaranteed Securities and LTSPCs	USDA Securities and Farmer Mac Guaranteed USDA Securities	Total
	(in thousands)			
2014	$320,056	$281,527	$208,247	$809,830
2015	163,474	243,802	121,951	529,227
2016	156,948	230,325	144,055	531,328
2017	156,898	213,630	114,150	484,678
2018	177,584	205,233	116,516	499,333
Thereafter	2,212,758	1,853,096	982,198	5,048,052
Total	$3,187,718	$3,027,613	$1,687,117	$7,902,448

Of the $14.0 billion outstanding principal balance of volume included in Farmer Mac's three lines of business as of December 31, 2013, $6.0 billion were Farmer Mac Guaranteed Securities structured as AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Unlike business volume in the form of purchased loans, USDA Securities, and loans underlying LTSPCs and non-AgVantage Farmer Mac Guaranteed Securities, most of the Farmer Mac Guaranteed Securities structured as AgVantage securities do not require periodic payments of principal based on amortization schedules and instead have fixed maturity dates when the secured general obligation is due.

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The following table summarizes by maturity date the outstanding principal amount of both on- and off-balance sheet AgVantage securities as of December 31, 2013:

Table 10

AgVantage Balances by Year of Maturity

	As of December 31, 2013 (in thousands)
2014	$921,379
2015	676,459
2016	1,329,067
2017	1,378,456
2018	784,774
Thereafter (1)	957,729
Total	$6,047,864

(1) Includes various maturities ranging from 2019 to 2024.

The weighted-average remaining maturity of the outstanding $6.0 billion of AgVantage securities shown in the table above was 3.4 years as of December 31, 2013. Farmer Mac replaced $170.0 million of AgVantage securities scheduled to mature in 2014 through a series of agreements whereby Farmer Mac purchased new AgVantage securities from the issuer of the maturing securities in transactions that closed in January 2014 and February 2014. Farmer Mac's purchases of these new AgVantage securities closed prior to the maturity dates of the original AgVantage securities being replaced. The new securities are scheduled to mature in January 2022 and February 2022. As a general matter, if maturing AgVantage securities are not replaced by new AgVantage securities, either from the same issuer or from new business, or if the net interest margin earned by Farmer Mac on new AgVantage securities that replace maturing AgVantage securities is lower than the margin earned on the maturing securities, Farmer Mac's income could be adversely affected.

As part of fulfilling its guarantee obligations for Farm & Ranch Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90-days delinquent or in material non-monetary default at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet. The purchase price for a defaulted loan purchased out of a pool of loans backing Farm & Ranch Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for a defaulted loan purchased under an LTSPC is the then-current outstanding principal balance of the loan, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received. The purchase price of a defaulted loan is not an indicator of the expected loss on that loan; many other factors affect expected loss, if any, on any loan so purchased. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs was 11 years during 2013 and 5 years during 2012 and 2011. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees."

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The following table presents Farmer Mac's purchases of defaulted loans underlying Farm & Ranch Guaranteed Securities and LTSPCs for the periods indicated:

Table 11

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Defaulted loans purchased underlying Farm & Ranch Guaranteed Securities owned by third party investors	6,667	8,933	7,471
Defaulted loans purchased underlying LTSPCs	37	8,091	14,192
Total loan purchases	$6,704	$17,024	$21,663

For information regarding eligible participants in the Farm & Ranch and USDA Guarantees lines of business, see "Business—Farmer Mac Lines of Business—Farm & Ranch—Approved Lenders" and "Business—Farmer Mac Lines of Business—USDA Guarantees—United States Department of Agriculture Guaranteed Loan Programs."

Farmer Mac II LLC. In January 2010, Farmer Mac contributed substantially all of the assets comprising the USDA Guarantees line of business (in excess of $1.1 billion) to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA Securities that had not been securitized by Farmer Mac but also included $35.0 million of Farmer Mac Guaranteed Securities. Farmer Mac did not and will not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA Securities. The financial information presented in this report reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, Farmer Mac's reportable operating segments presented in this report will differ from the stand-alone financial statements of Farmer Mac II LLC. Those separate financial statements are available on the website of Farmer Mac II LLC and are not incorporated by reference into this report.

The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. As of December 31, 2013, Farmer Mac II LLC held assets with a fair value of $1.7 billion, had debt outstanding to Farmer Mac of $375.0 million, had preferred stock outstanding with a liquidation preference of $250.0 million, and had $1.0 billion of common stock outstanding held by Farmer Mac. For more information about the formation and operations of Farmer Mac II LLC and the features of the preferred stock issued by Farmer Mac II LLC in January 2010, see Notes 9 and 14 to the consolidated financial statements.

Related Party Transactions. As provided by Farmer Mac's statutory charter, only banks, insurance companies, and other financial institutions or similar entities may hold Farmer Mac's Class A voting common stock, and only institutions of the FCS may hold Farmer Mac's Class B voting common stock. Farmer Mac's charter also provides that holders of Class A voting common stock elect five members of Farmer Mac's 15-member board of directors and that holders of Class B voting common stock elect five members of the board of directors. The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 45 percent of the Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Approximately 97 percent of the Class B voting common stock is held by five FCS institutions (two of which are related to each other through a parent-subsidiary relationship).

Unlike some other GSEs, specifically other FCS institutions and the Federal Home Loan Banks, Farmer Mac is not structured as a cooperative owned exclusively by member institutions and established to provide services exclusively to its members. Farmer Mac, as a stockholder-owned, publicly-traded corporation, seeks to fulfill its mission of serving the financing needs of agriculture and rural America in a manner that is consistent with providing a return on the investment of its stockholders, including those who do not directly participate in the secondary market provided by Farmer Mac. Farmer Mac's policy is to require financial institutions to own a requisite amount of common stock, based on the size and type of institution, to participate in the Farm & Ranch line of business. As a result of this requirement, coupled with the ability of holders of Class A and Class B voting common stock to elect two-thirds of Farmer Mac's board of directors, Farmer Mac regularly conducts business with "related parties," including institutions affiliated with members of Farmer Mac's board of directors and institutions that own large amounts of Farmer Mac's voting common stock. Farmer Mac has adopted a Code of Business Conduct and Ethics that governs any conflicts of interest that may arise in these transactions, and Farmer Mac's policy is to require that any transactions with related parties be conducted in the ordinary course of business, with terms and conditions comparable to those available to any other counterparty not related to Farmer Mac.

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The following table summarizes the material relationships between Farmer Mac and certain related parties. The related parties listed in the table below consist of (1) all holders of at least five percent of a class of Farmer Mac voting common stock as of December 31, 2013 and (2) other institutions that are considered "related parties" through an affiliation with a Farmer Mac director and that have conducted business with Farmer Mac during the two years ended December 31, 2013. The table below does not specify any relationships based on the ownership of non-voting common or preferred stock, such as Farmer Mac's investments in preferred stock issued by CoBank or the investments of related parties in Farmer Mac's Class C non-voting common stock or Farmer Mac's Series A Preferred Stock.

Table 12

Name of Institution	Ownership of Farmer Mac Voting Common Stock	Affiliation with Any Farmer Mac Directors	Primary Aspects of Institution's Business Relationship with Farmer Mac
AgFirst Farm Credit Bank	84,024 shares of Class B voting common stock (16.79% of outstanding Class B stock and 5.49% of total voting common stock outstanding)	None	In 2013 and 2012, Farmer Mac earned approximately $1.2 million and $1.3 million, respectively, in fees attributable to transactions with AgFirst, primarily commitment fees for LTSPCs.
AgGeorgia Farm Credit, ACA	Less than 5% ownership	Farmer Mac director Dan Raines, Jr. is a director of AgGeorgia.	Farmer Mac entered into $27.5 million and $51.5 million of new LTSPCs with AgGeorgia during 2013 and 2012, respectively. Farmer Mac received $0.1 million of commitment fees during both 2013 and 2012.
AgriBank, FCB	201,621 shares of Class B voting common stock (40.30% of outstanding Class B stock and 13.17% of total voting common stock outstanding)	Farmer Mac directors Richard H. Davidson and James B. McElroy are directors of AgriBank. Brian O'Keane, who served on Farmer Mac's board of directors from June 2008 to June 2012, is the Executive Vice President, Banking and Finance, and Chief Financial Officer of AgriBank.	No Farmer Mac business through any of its lines of business was conducted between the parties.
Bath State Bank	Less than 5% ownership	Farmer Mac director Dennis L. Brack is a director of Bath State Bank and Bath State Bancorp, the holding company of Bath State Bank.	Farmer Mac purchased $9.3 million and $4.4 million in USDA Securities from Bath State Bank in 2013 and 2012, respectively.

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Name of Institution	Ownership of Farmer Mac Voting Common Stock	Affiliation with Any Farmer Mac Directors	Primary Aspects of Institution's Business Relationship with Farmer Mac
CoBank, ACB	163,253 shares of Class B voting common stock (32.63% of outstanding Class B stock and 10.66% of total voting common stock outstanding)	Farmer Mac director Douglas E. Wilhelm served as an executive officer of CoBank until June 30, 2012. Mr. Wilhelm is also currently a party to a services agreement with CoBank, under which he serves as an employee of CoBank.	No Farmer Mac business through any of its lines of business was conducted between the parties.
Farm Credit Bank of Texas (FCBT)	38,503 shares of Class B voting common stock (7.70% of outstanding Class B stock and 2.52% of total voting common stock outstanding)	Farmer Mac director Thomas W. Hill served as an executive officer of FCBT until November 2010. Mr. Hill is also currently a party to a services agreement with FCBT, under which he serves as an employee of FCBT.	In 2013 and 2012, Farmer Mac earned approximately $0.2 million and $0.3 million, respectively, in fees attributable to transactions with FCBT, primarily commitment fees for LTSPCs. In 2013 and 2012, Farmer Mac paid FCBT approximately $0.5 million and $0.6 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.
First Dakota National Bank (Dakota Mac)	Less than 5% ownership	Farmer Mac director Dennis Everson is a director of Dakota Mac and also served as Branch Administration Director of Dakota Mac until December 2012.	Farmer Mac purchased $61.6 million and $37.1 million in loans from Dakota Mac in 2013 and 2012, respectively, and entered into $1.0 million of new LTSPCs with Dakota Mac in 2013.
Farm Credit West, ACA (FCW)	750 shares of Class B voting common stock (0.15% of outstanding Class B stock and 0.05% of total voting common stock outstanding)	Ernest M. Hodges, who served on Farmer Mac's board of directors from June 2005 to June 2012, is an Executive Vice President of Farm Credit West.	In 2012, Farmer Mac received approximately $2.2 million in fees attributable to transactions with FCW, primarily guarantee fees for Farm & Ranch Guaranteed Securities and commitment fees for LTSPCs. In 2012, FCW retained approximately $0.9 million in servicing fees for its work as a Farmer Mac central servicer. FCW

was not a related party during 2013.

Name of Institution	Ownership of Farmer Mac Voting Common Stock	Affiliation with Any Farmer Mac Directors	Primary Aspects of Institutions Business Relationship with Farmer Mac
National Rural Utilities Cooperative Finance Corporation (CFC)	81,500 shares of Class A voting common stock (7.91% of outstanding Class A stock and 5.32% of total voting common stock outstanding)	None	Transactions with CFC represent 100 percent of business volume under the Rural Utilities line of business since its inception in 2008.
			Transactions with CFC during 2013 and 2012 represented 29.4 percent and 18.6 percent, respectively, of Farmer Mac's total new eligible loan volume for those years. Transactions with CFC represented 18.6 percent and 18.0 percent, respectively, of Farmer Mac's total outstanding eligible loan assets as of December 31, 2013 and 2012. In 2013and 2012, Farmer Mac earned guarantee fees of approximately $4.1 million and $4.4 million, respectively, attributable to transactions with CFC. In 2013 and 2012, Farmer Mac earned interest income of $23.7 million and $28.0 million, respectively, attributable to AgVantage transactions with CFC. CFC is currently the only servicer of rural utilities loans in the Rural Utilities line of business.
The Vanguard Group, Inc.	56,295 shares of Class A voting common stock (5.46% of outstanding Class A stock and 3.68% of total voting common stock outstanding)	None	No Farmer Mac business through any of its lines of business was conducted between the parties.
Zions First National Bank	322,100 shares of Class A voting common stock (31.25% of outstanding Class A stock and 21.04% of total voting common stock outstanding)	None	In 2013 and 2012, Farmer Mac's purchases of loans from Zions under the Farm & Ranch line of business represented approximately 25.5 percent and 29.6 percent, respectively, of Farm & Ranch loan purchase volume for those years. Those purchases represented 11.5 percent and 8.8 percent, respectively, of total Farm & Ranch business volume for those years. The purchases of USDA Securities from Zions under the USDA Guarantees line of business represented approximately 3.6 percent and 3.0 percent, respectively, of that program's purchases for the year ended

December 31, 2013 and 2012. Transactions with Zions represented 5.1 percent and 4.7 percent, respectively, of Farmer Mac's total outstanding eligible loan assets as of December 31, 2013 and 2012.

In 2013 and 2012, Farmer Mac received approximately $0.4 million and $0.6 million, respectively, in guarantee fees attributable to transactions with Zions.

In 2013 and 2012, Zions retained approximately $2.0 million in servicing fees for its work as a Farmer Mac central servicer.

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As discussed in more detail in Note 2(q) to the consolidated financial statements, Farmer Mac's consolidated financial statements include the accounts of VIEs in which Farmer Mac determines itself to be the primary beneficiary, including securitization trusts where Farmer Mac shares the power to make decisions regarding default mitigation with a related party. In the event that related party status changes, consolidation or deconsolidation of securitization trusts may occur. For more information about related party transactions, see Note 3 to the consolidated financial statements.

Outlook

Farmer Mac continues to provide a stable source of liquidity, capital, and risk management tools to help rural lenders meet the financing needs of their customers, and expects to continue to be able to meet future business opportunities as they arise. While the pace of Farmer Mac's growth will depend on the capital and liquidity needs of lenders, as well as Farmer Mac's ability to continue to increase its lender network, Farmer Mac foresees opportunities for continued growth in eligible loan assets. More specifically, Farmer Mac believes that its Farm & Ranch, USDA Guarantees, and Rural Utilities lines of business have opportunities for growth, driven by several key factors:

- As agricultural lenders face increased equity capital requirements under new regulatory frameworks, or seek to reduce exposure due to lending limits or concentration limits, Farmer Mac can provide relief for those institutions under those circumstances through loan purchases, guarantees, or LTSPCs.
- As borrowers expect interest rates to increase in the future and seek longer-term, fixed rate loans, Farmer Mac can assist lenders in managing their interest rate risk for those longer-term assets, which may not match well with the lenders' shorter-term deposit funding or other funding sources.
- As the overall economy recovers, rural utilities generally may experience an increase in demand for power, which can lead to more investment and borrowing needs in that industry.

Farmer Mac believes that these growth opportunities will be important in replacing income earned on the eligible loan and investment portfolio assets that are scheduled to mature, pay down, or be reinvested at lower spreads over the next several years. Maturing AgVantage securities and the scheduled principal amortization of other eligible loan assets are discussed in "—Results of Operations—Business Volume." Farmer Mac also currently owns in its liquidity investment portfolio $78.5 million par amount of preferred stock issued by CoBank that currently pays an 11 percent annual dividend, from which Farmer Mac earns approximately $7.7 million ($0.69 per diluted share in 2013) annually in after-tax dividend income. CoBank has the option to call these securities beginning in October 2014, and Farmer Mac believes it is likely that CoBank will do so. Farmer Mac expects to hold these securities until they mature or are called.

Agricultural Sector. The agricultural sector includes many diverse industries that respond in different ways to changes in economic conditions. Those individual industries often are affected differently, sometimes positively and sometimes negatively, by prevailing domestic and global economic factors and regional weather conditions. This results in cycles where one or more industries may be under stress at the same time that others are not. In addition, borrowers that rely on non-farm sources of income as a significant percentage of overall income may experience stress associated with weakness in the general economy. The profitability of agricultural industries is also affected by commodity inventories and their associated market prices, which can vary largely as a result of weather patterns, access to water supply, and harvest conditions that may affect supply.

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While agricultural land values have increased over the past several years, recent market activity suggests that land values may have moderated, most notably in those areas that have experienced the greatest increase, such as the Midwestern region. While the increase in land values has varied by geographic region, it appears to have been primarily spurred by the combination of high commodity prices, particularly for corn, soybeans, and wheat, and low interest rates. As those commodity prices continue to adjust to align more closely with traditional supply and demand economics, land values have also begun to moderate in some areas. Increases in interest rates also could put downward pressure on the discounted cash flow values of farmland, which could negatively affect the appraised values of farmland. Farmer Mac's overall portfolio remains diverse both geographically and by commodity, and Farmer Mac continues to closely monitor sector profitability, economic conditions, and agricultural land value and geographic trends to tailor underwriting practices to changing conditions. For a discussion of the average outstanding loan volume and weighted average original loan-to-value ratios for non-AgVantage Farm & Ranch loans in Farmer Mac's portfolio as of December 31, 2013, please see "—Risk Management—Credit Risk – Loans and Guarantees."

The western part of the United States, including California, is currently experiencing drought conditions, with the water level in many California reservoirs at just over half of their average year-to-date water storage levels and the end of the rainy season forecast to conclude by the end of March. Much of the snowpack in the higher elevations is also at less than normal levels, which indicates that the runoff from melted snow will not replenish the low reservoir levels. Though many farm irrigation districts will receive little or no water from the governing water authorities, the impact on individual farmers will vary due to alternative water sources the farmer may have in place. These alternative water sources include underground sources (well water) and any water that may have been “banked” by the farmer in years where water was more plentiful. Farmer Mac has not observed any material effect on its portfolio due to these drought conditions as of December 31, 2013, but any protraction of extreme or exceptional drought conditions beyond the 2014 water year could have an adverse effect on Farmer Mac’s loss or delinquency rates. This is particularly true in the permanent plantings sector, where the value of the related collateral is closely tied to the production value and capability of the permanent plantings, and in the dairy sector, which may experience increased feed costs as water is diverted away from hay acreage commonly relied upon by dairy producers and toward land supporting other agricultural commodities. Farmer Mac believes that it remains well-collateralized on loans in its Farm & Ranch line of business, including its permanent planting and dairy portfolios.

Farmer Mac also continues to monitor the establishment and evolution of legislation and regulations that affect farmers, ranchers, and rural lenders. Many federal agricultural policies previously in effect have been altered with the recent enactment of the Agricultural Act of 2014, including those affecting crop subsidies, crop insurance, and other aspects of agricultural production. Farmer Mac will continue to monitor the effects of these altered federal agricultural policies as the USDA engages in the process of promulgating regulations intended to implement the Agricultural Act of 2014.

Farmer Mac's marketing efforts directed towards the Farm & Ranch line of business focus on lenders that have demonstrated a commitment to agricultural lending based on their lending history. Farmer Mac directs its outreach efforts to these lenders through direct personal contact, which is facilitated through Farmer Mac's frequent participation in state and national banking conferences, its alliances with the American Bankers Association and the Independent Community Bankers of America, and its business relationships with members of the Farm Credit System. Farmer Mac continues to observe significant demand for its longer-term fixed rate loan products in its Farm & Ranch line of business. Demand for Farmer Mac's secondary market tools could also increase as rural lenders adapt to new and changing regulations, which may require lenders to obtain more liquidity and capital to continue their lending practices.

Farmer Mac continues to monitor developments in the ethanol industry and evaluate their potential impact on the overall performance of Farmer Mac's portfolio. After having experienced narrow margins over the last several years, overall the industry appears to experiencing a return to profitability as corn prices have decreased compared to prior years. The renewable fuel standard regulated by the U.S. Environmental Protection Agency (EPA) currently mandates targeted use of fuel from renewable sources, including ethanol, though this mandate, including a potential reduction in the targeted percentage of ethanol that is required to be blended into gasoline, is currently being considered for modification by the EPA. The ethanol loans in Farmer Mac's portfolio have decreased in recent years both in dollar amount ($88.4 million as of December 31, 2013) and as a percentage of portfolio volume (1.7 percent of the non-AgVantage Farm & Ranch portfolio as of December 31, 2013). As of December 31, 2012 and 2011, the dollar amount of Farmer Mac's ethanol portfolio was $144.9 million (3.1 percent) and $161.4 million (3.7 percent), respectively. Other than $21.3 million of undisbursed commitments on existing ethanol loans, Farmer Mac does not expect to add additional ethanol loans to its portfolio.

Rural Utilities Industry. Historically, the demand of the rural utilities industry for capital and financing tends to follow the state of the general economy and applicable environmental regulations. Continued weakness in the general economy has reduced the demand for rural electric power and, consequently, the need for rural utilities cooperatives to expand. This lower demand within the industry has increased competition for Farmer Mac's customer base from lenders that are not eligible to, or for other reasons do not, participate in Farmer Mac's Rural Utilities line of business, and is the primary reason for the slower rate of growth in Farmer Mac's Rural Utilities line of business compared to its other lines of business over the past few years. Domestic economic indicators continue to show modest growth, and Farmer Mac and industry sources expect that demand for rural utilities loans will increase as the economy eventually strengthens.

Farmer Mac believes that the rural utilities industry will have significant needs for financing over the course of the next decade, as capital will be needed for growth and modernization, including G&T and distribution system improvements and demand-side management. In addition, the industry will also require capital to comply with any future public policy initiatives such as environmental regulations and clean energy initiatives. For example, in response to low natural gas fuel costs, many power generators are building environmentally cleaner natural gas-fired generating projects to replace their aging coal-fired plants. Expanded federal financing for G&T systems and a corresponding increase in rural utilities cooperatives' demand for G&T loans could result in increased business volume for Farmer Mac in its Rural Utilities line of business.

Balance Sheet Review

Assets. Farmer Mac's total assets as of December 31, 2013 were $13.4 billion, compared to $12.6 billion as of December 31, 2012. The increase in total assets was driven primarily by net new purchases of Farm & Ranch AgVantage securities and loans and Rural Utilities AgVantage securities.

As of December 31, 2013, Farmer Mac had $749.3 million of cash and cash equivalents and $2.5 billion of investment securities, compared to $785.6 million of cash and cash equivalents and $2.5 billion of investment securities as of December 31, 2012. As of December 31, 2013, Farmer Mac had $5.1 billion of Farmer Mac Guaranteed Securities, $1.6 billion of USDA Securities, and $3.2 billion of loans, net of

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allowance. This compares to $4.8 billion of Farmer Mac Guaranteed Securities, $1.6 billion of USDA Securities, and $2.7 billion of loans, net of allowance, as of December 31, 2012.

Liabilities. Farmer Mac's total liabilities increased to $12.8 billion as of December 31, 2013 from $12.0 billion as of December 31, 2012. The increase in liabilities was primarily due to an increase in notes payable used to purchase program assets.

Equity. As of December 31, 2013, Farmer Mac had total equity of $574.5 million comprised of stockholders' equity of $332.6 million and non-controlling interest – preferred stock of $241.9 million. As of December 31, 2012, Farmer Mac had total equity of $593.0 million comprised of stockholders' equity of $351.1 million and non-controlling interest – preferred stock of $241.9 million. The decrease in total equity during 2013 was the result of a decrease in accumulated other comprehensive income due to decreases in the fair value of available-for-sale securities, partially offset by increased retained earnings. These decreases in the fair value of available-for-sale securities were driven primarily by higher U.S. Treasury rates.

Risk Management

Credit Risk – Loans and Guarantees. Farmer Mac is exposed to credit risk resulting from the inability of borrowers to repay their loans in conjunction with a deficiency in the value of the collateral relative to the outstanding balance of the loan and the costs of liquidation. Farmer Mac is exposed to credit risk on:

- loans held;
- loans underlying Farmer Mac Guaranteed Securities; and
- loans underlying LTSPCs.

Farmer Mac generally assumes 100 percent of the credit risk on loans held and loans underlying Farm & Ranch Guaranteed Securities, LTSPCs, and Rural Utilities Guaranteed Securities. Farmer Mac has direct credit exposure to loans in non-AgVantage transactions and indirect credit exposure to loans that secure AgVantage transactions, which are a type of Farmer Mac Guaranteed Securities that represent a general obligation of a lender secured by qualified loans. The credit exposure of Farmer Mac and Farmer Mac II LLC on USDA Securities, including those underlying Farmer Mac Guaranteed Securities, is covered by the full faith and credit of the United States. Farmer Mac believes that Farmer Mac and Farmer Mac II LLC have little or no credit risk exposure in the USDA Guarantees line of business because of the USDA guarantee. As of December 31, 2013, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any business under the USDA Guarantees line of business and does not expect that Farmer Mac or Farmer Mac II LLC will incur any such losses in the future.

Farmer Mac has established underwriting, collateral valuation, and documentation standards for agricultural real estate mortgage loans and rural utilities loans. Farmer Mac believes that these standards mitigate the risk of loss from borrower defaults and provide guidance about the management, administration, and conduct of underwriting and appraisals to all participating and potential lenders. These standards were developed on the basis of industry norms for agricultural real estate mortgage loans and rural utilities loans and are designed to assess the creditworthiness of the borrower, as well as the value of the collateral securing the loan. Farmer Mac evaluates and adjusts these standards on an ongoing basis based on current and anticipated market conditions. For more information about Farmer Mac's underwriting and collateral valuation standards, see "Business—Farmer Mac Lines of

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Business—Farm & Ranch—Underwriting and Collateral Valuation (Appraisal) Standards" and "Business—Farmer Mac Lines of Business—Rural Utilities—Underwriting."

Farmer Mac requires approved lenders to make representations and warranties regarding the conformity of eligible agricultural mortgage and rural utilities loans to Farmer Mac's standards, the accuracy of loan data provided to Farmer Mac, and other requirements related to the loans. Sellers are responsible to Farmer Mac for breaches of those representations and warranties, and Farmer Mac has the ability to require a seller to cure, replace, or repurchase a loan sold or transferred to Farmer Mac if any breach of a representation or warranty is discovered that was material to Farmer Mac's decision to purchase the loan or that directly or indirectly causes a default or potential loss on a loan sold or transferred by the seller to Farmer Mac. Farmer Mac has not required a seller to cure or repurchase a loan purchased by Farmer Mac for breach of a representation or warranty in the last three years. In addition to relying on the representations and warranties of lenders, Farmer Mac also underwrites all of the agricultural mortgage loans (other than rural housing and part-time farm mortgage loans) and rural utilities loans that it holds in its portfolio. For rural housing and part-time farm mortgage loans, Farmer Mac relies on representations and warranties from the seller that those loans conform to Farmer Mac's specified underwriting criteria without exception. For more information about Farmer Mac's lender eligibility requirements, see "Business—Farmer Mac Lines of Business—Farm & Ranch—Approved Lenders" and "Business—Farmer Mac Lines of Business—Rural Utilities—Approved Lenders."

Under contracts with Farmer Mac and in consideration for servicing fees, Farmer Mac-approved central servicers service loans in accordance with Farmer Mac's requirements. Central servicers are responsible to Farmer Mac for serious errors in the servicing of those loans. If a central servicer materially breaches the terms of its servicing agreement with Farmer Mac, such as failing to forward payments received or releasing collateral without Farmer Mac's consent, or experiences insolvency or bankruptcy, Farmer Mac has the right to terminate the servicing relationship for a particular loan or the entire portfolio serviced by the central servicer. In addition, Farmer Mac can proceed against the central servicer in arbitration or exercise any remedies available to it under law. In the last three years, Farmer Mac has not exercised any remedies or taken any formal action against any central servicers. For more information about Farmer Mac's servicing requirements, see "Business—Farmer Mac Lines of Business—Farm & Ranch—Servicing" and "Business—Farmer Mac Lines of Business—Rural Utilities—Servicing."

Farmer Mac AgVantage securities are general obligations of institutions approved by Farmer Mac and are secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As such, all AgVantage securities are secured by current loans representing at least 100 percent of the outstanding amount of these securities. As of December 31, 2013, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. See "—Credit Risk – Institutional" for more information about Farmer Mac's credit risk on AgVantage securities.

Farmer Mac has developed different underwriting standards for rural utilities loans that depend on whether direct or indirect credit exposure is assumed on a loan and whether the borrower is an electric distribution cooperative or a G&T cooperative. As of December 31, 2013, there were no delinquencies in Farmer Mac's portfolio of rural utilities loans, which includes rural utilities loans held and rural utilities loans underlying or securing Rural Utilities Guaranteed Securities. Farmer Mac's direct credit exposure to rural utilities loans as of December 31, 2013 was $1.1 billion, of which $1.0 billion were loans to

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electric distribution cooperatives and $35.3 million were loans to G&T cooperatives. Farmer Mac also had indirect credit exposure to the rural utilities loans securing Rural Utilities Guaranteed Securities structured as AgVantage securities, some of which were secured by loans to G&T cooperatives. For more information, see "—Credit Risk – Institutional."

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities. The methodology that Farmer Mac uses to determine the level of its allowances for losses is described in Note 2(j) to the consolidated financial statements. Management believes that this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs.

The following table summarizes the components of Farmer Mac's allowance for losses as of December 31, 2013 and 2012:

Table 13

	December 31, 2013	December 31, 2012
	(in thousands)	
Allowance for loan losses	$6,866	$11,351
Reserve for losses:		
Off-balance sheet Farm & Ranch Guaranteed Securities	356	556
LTSPCs	6,112	4,983
Total allowance for losses	$13,334	$16,890

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The following table summarizes the changes in the components of Farmer Mac's allowance for each year in the five-year period ended December 31, 2013:

Table 14

	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)		
Balance as of January 1, 2009	$10,929	$5,506	$16,435
Provision for losses	2,853	2,389	5,242
Charge-offs	(8,491)	—	(8,491)
Recoveries	1,001	—	1,001
Balance as of December 31, 2009	$6,292	$7,895	$14,187
Provision for losses	1,893	2,417	4,310
Charge-offs	(605)	—	(605)
Recoveries	2,223	—	2,223
Balance as of December 31, 2010	$9,803	$10,312	$20,115
Provision for/(releases of) losses	610	(2,957)	(2,347)
Charge-offs	(252)	—	(252)
Balance as of December 31, 2011	$10,161	$7,355	$17,516
Provision for/(releases of) losses	3,691	(1,816)	1,875
Charge-offs	(2,501)	—	(2,501)
Balance as of December 31, 2012	$11,351	$5,539	$16,890
(Releases of)/provision for losses	(481)	929	448
Charge-offs	(4,004)	—	(4,004)
Balance as of December 31, 2013	$6,866	$6,468	$13,334

Activity affecting the allowances for losses is discussed in "—Results of Operations—Income Statement Analysis." As of December 31, 2013, Farmer Mac's allowances for losses totaled $13.3 million, or 26 basis points, of the outstanding principal balance of loans held for investment and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities (excluding AgVantage securities), compared to $16.9 million, or 36 basis points, as of December 31, 2012.

As of December 31, 2013, Farmer Mac's 90-day delinquencies were $28.3 million (0.55 percent of the non-AgVantage Farm & Ranch portfolio), compared to $33.3 million (0.70 percent of the non-AgVantage Farm & Ranch portfolio) as of December 31, 2012. When analyzing the overall risk profile of its program business, Farmer Mac takes into account more than the Farm & Ranch loan delinquency percentages provided above. The total program business includes AgVantage securities and rural utilities loans, neither of which have any delinquencies, and USDA Securities, which are backed by the full faith and credit of the United States. Across all of Farmer Mac's lines of business, 90-day delinquencies represented 0.20 percent of total program business as of December 31, 2013, compared to 0.26 percent of total program business as of December 31, 2012.

As of December 31, 2013, Farmer Mac's ethanol exposure, which includes loans held and loans subject to LTSPCs, was $88.4 million (1.7 percent of the non-AgVantage Farm & Ranch portfolio) on 19 different plants, with an additional $21.3 million of undisbursed commitments. Other than the undisbursed commitments, Farmer Mac does not expect to add additional ethanol loans to its portfolio.

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As of December 31, 2013, Farmer Mac had no ethanol loans that were 90-days delinquent. For more information about the conditions facing ethanol producers, see "—Outlook."

The following table presents historical information regarding Farmer Mac's 90-day delinquencies in the Farm & Ranch line of business compared to the principal balance of all Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities (excluding AgVantage securities) and LTSPCs:

Table 15

	Outstanding Loans, Guarantees, and LTSPCs (1)	90-day Delinquencies	Percentage	
	(dollars in thousands)			
As of:				
December 31, 2013	$5,163,080	$28,296	0.55	%
September 30, 2013	5,035,748	33,042	0.66	%
June 30, 2013	4,917,489	33,922	0.69	%
March 31, 2013	4,782,609	39,663	0.83	%
December 31, 2012	4,747,289	33,263	0.70	%
September 30, 2012	4,402,957	40,797	0.93	%
June 30, 2012	4,403,212	47,026	1.07	%
March 31, 2012	4,372,483	53,119	1.21	%
December 31, 2011	4,349,163	40,622	0.93	%

(1) Excludes loans pledged to secure AgVantage securities.

The 90-day delinquency measure includes loans 90 days or more past due as well as loans in foreclosure, loans restructured after delinquency, and non-performing loans where the borrower is in bankruptcy.

As of December 31, 2013, Farmer Mac individually analyzed $32.0 million of the $97.1 million of recorded investment in impaired loans for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. For the remaining $65.1 million of impaired assets for which updated valuations were not available, Farmer Mac evaluated them in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac recorded specific allowances of $2.7 million for undercollateralized assets as of December 31, 2013. Farmer Mac's non-specific or general allowances were $10.6 million as of December 31, 2013.

Loans in the Farm & Ranch line of business are all secured by first liens on agricultural real estate. Accordingly, Farmer Mac's exposure on a loan is limited to the difference between (1) the total of the accrued interest, advances, and the principal balance of a loan and (2) the value of the property less the cost to sell. Measurement of that excess or shortfall is the best predictor and determinant of loss, compared to other measures that evaluate the efficiency of a particular farm operator. Debt service ratios depend upon farm operator efficiency and leverage, which can vary widely within a geographic region, commodity type, or an operator's business and farming skills. A loan's original loan-to-value ratio is one of many factors Farmer Mac considers in evaluating loss severity and are 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, updated appraised value at the time of guarantee, purchase, or commitment. Other factors include, but are not limited to, other underwriting standards, commodity and

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farming forecasts, and regional economic and agricultural conditions. Effective January 1, 2013, some states were reclassified to different regions of the United States as compared to prior periods.

Loan-to-value ratios depend upon the market value of a property, as determined in accordance with Farmer Mac's collateral valuation standards. As of December 31, 2013 and 2012, the average unpaid balance of loans outstanding in the Farm & Ranch line of business (excluding loans that secured AgVantage securities) was $426,000 and $392,000, respectively. For Farm & Ranch loan purchases made in 2013, the weighted average original loan-to-value ratio was 44 percent, compared to 45 percent in 2012 and 46 percent in 2011. The weighted average original loan-to-value ratio (based on original appraised value that has not been indexed to provide a current market value or reflect amortization of loans) for Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities (excluding AgVantage securities) and LTSPCs was approximately 49 percent as of December 31, 2013 and 52 percent as of December 31, 2012. The weighted average current loan-to-value ratio (based on original appraised value but which reflects loan amortization since purchase) for Farm & Ranch loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities (excluding AgVantage securities) and LTSPCs was approximately 38 percent as of December 31, 2013 and 2012. The weighted-average original loan-to-value ratio for all 90-day delinquencies was 45 percent as of December 31, 2013, and 59 percent as of December 31, 2012.

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The following table presents outstanding Farm & Ranch loans held and loans underlying LTSPCs and off-balance sheet Farm & Ranch Guaranteed Securities (excluding AgVantage securities) and 90-day delinquencies as of December 31, 2013 by year of origination, geographic region, commodity/collateral type, and original loan-to-value ratio:

Table 16
Farm & Ranch 90-Day Delinquencies as of December 31, 2013

	Distribution of Outstanding Loans, Guarantees, and LTSPCs		Outstanding Loans, Guarantees, and LTSPCs (1)	90-Day Delinquencies (2)	Percentage	
	(dollars in thousands)					
By year of origination:						
Before 2001	7	%	$342,884	$4,108	1.20	%
2001	2	%	122,141	1,360	1.11	%
2002	3	%	155,126	1,029	0.66	%
2003	3	%	178,043	3,605	2.02	%
2004	4	%	208,094	119	0.06	%
2005	5	%	282,698	997	0.35	%
2006	6	%	287,333	4,567	1.59	%
2007	5	%	258,759	10,425	4.03	%
2008	7	%	336,681	1,169	0.35	%
2009	5	%	233,694	185	0.08	%
2010	7	%	349,216	732	0.21	%
2011	9	%	469,951	—		