FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
May 10, 2017

As filed with the Securities and Exchange Commission on May 10, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
Commission File Number 001-14951

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

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

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

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if smaller reporting company)		
		Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
As of May 1, 2017, the registrant had outstanding 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock, and 9,066,370 shares of Class C Non-Voting Common Stock.

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PART I

Item 1. Financial Statements

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

	As of March 31, 2017	December 31, 2016
	(in thousands)	
Assets:		
Cash and cash equivalents	$313,641	$265,229
Investment securities:		
Available-for-sale, at fair value	2,479,244	2,515,851
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	5,243,046	4,853,685
Held-to-maturity, at amortized cost	1,074,686	1,149,231
Total Farmer Mac Guaranteed Securities	6,317,732	6,002,916
USDA Securities:		
Trading, at fair value	18,602	20,388
Held-to-maturity, at amortized cost	2,025,822	2,009,225
Total USDA Securities	2,044,424	2,029,613
Loans:		
Loans held for investment, at amortized cost	3,432,091	3,379,884
Loans held for investment in consolidated trusts, at amortized cost	1,208,950	1,132,966
Allowance for loan losses	(5,811)	(5,415)
Total loans, net of allowance	4,635,230	4,507,435
Real estate owned, at lower of cost or fair value	5,456	1,528
Financial derivatives, at fair value	2,674	23,182
Interest receivable (includes $8,163 and $12,584, respectively, related to consolidated trusts)	85,522	122,782
Guarantee and commitment fees receivable	38,748	38,871
Deferred tax asset, net	5,085	12,291
Prepaid expenses and other assets	4,001	86,322
Total Assets	$15,931,757	$15,606,020
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$7,616,431	$8,440,123
Due after one year	6,300,750	5,222,977
Total notes payable	13,917,181	13,663,100
Debt securities of consolidated trusts held by third parties	1,212,792	1,142,704
Financial derivatives, at fair value	32,054	58,152
Accrued interest payable (includes $6,771 and $10,881, respectively, related to consolidated trusts)	46,845	49,700
Guarantee and commitment obligation	36,802	37,282
Accounts payable and accrued expenses	18,234	9,415
Reserve for losses	1,827	2,020
Total Liabilities	15,265,735	14,962,373
Commitments and Contingencies (Note 6)		

Equity:		
Preferred stock:		
Series A, par value $25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	58,333
Series B, par value $25 per share, 3,000,000 shares authorized, issued and outstanding	73,044	73,044
Series C, par value $25 per share, 3,000,000 shares authorized, issued and outstanding	73,382	73,382
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 9,065,194 shares and 9,007,481 shares outstanding, respectively	9,065	9,008
Additional paid-in capital	118,386	118,655
Accumulated other comprehensive income, net of tax	41,544	33,758
Retained earnings	290,530	275,714
Total Stockholders' Equity	665,815	643,425
Non-controlling interest	207	222
Total Equity	666,022	643,647
Total Liabilities and Equity	$15,931,757	$15,606,020

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

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

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
	(in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	$7,243	$6,681
Farmer Mac Guaranteed Securities and USDA Securities	42,522	35,510
Loans	36,852	31,700
Total interest income	86,617	73,891
Total interest expense	49,546	40,251
Net interest income	37,071	33,640
Provision for loan losses	(637)	(49)
Net interest income after provision for loan losses	36,434	33,591
Non-interest income/(loss):		
Guarantee and commitment fees	3,844	3,626
Gains/(losses) on financial derivatives and hedging activities	2,486	(6,782)
(Losses)/gains on trading securities	(82)	358
Losses on sale of available-for-sale investment securities	—	(9)
Losses on sale of real estate owned	(5)	—
Other income	553	101
Non-interest income/(loss)	6,796	(2,706)
Non-interest expense:		
Compensation and employee benefits	6,317	5,774
General and administrative	3,800	3,526
Regulatory fees	625	613
Real estate owned operating costs, net	—	39
(Release of)/provision for reserve for losses	(193)	14
Non-interest expense	10,549	9,966
Income before income taxes	32,681	20,919
Income tax expense	10,786	7,335
Net income	21,895	13,584
Less: Net loss attributable to non-controlling interest	15	28
Net income attributable to Farmer Mac	21,910	13,612
Preferred stock dividends	(3,295)	(3,295)
Net income attributable to common stockholders	$18,615	$10,317
Earnings per common share and dividends:		
Basic earnings per common share	$1.76	$0.99
Diluted earnings per common share	$1.73	$0.94
Common stock dividends per common share	$0.36	$0.26

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

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

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
	(in thousands)	
Net income	$21,895	$13,584
Other comprehensive income/(loss) before taxes:		
Net unrealized gains/(losses) on available-for-sale securities	14,838	(6,377)
Net changes in held-to-maturity securities	(3,487)	(1,011)
Net unrealized gains/(losses) on cash flow hedges	629	(4,763)
Other comprehensive income/(loss) before tax	11,980	(12,151)
Income tax (expense)/benefit related to other comprehensive income	(4,194)	4,253
Other comprehensive income/(loss), net of tax	7,786	(7,898)
Comprehensive income	29,681	5,686
Less: comprehensive loss attributable to non-controlling interest	15	28
Comprehensive income attributable to Farmer Mac	$29,696	$5,714

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

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Non-controlling Interest	Total Equity
(in thousands)									
Balance as of December 31, 2015	8,400	$204,759	10,687	$10,687	$117,862	$(11,019)	$231,228	$ 203	$553,720
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	13,612	—	13,612
Attributable to non-controlling interest	—	—	—	—	—	—	—	(28)	(28)
Other comprehensive loss, net of tax	—	—	—	—	—	(7,898)	—	—	(7,898)
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(3,295)	—	(3,295)
Common stock	—	—	—	—	—	—	(2,702)	—	(2,702)
Issuance of Class C Common Stock	—	—	71	71	98	—	—	—	169
Repurchase of Class C Common Stock	—	—	(307)	(307)	—	—	(8,781)	—	(9,088)
Stock-based compensation cost	—	—	—	—	1,027	—	—	—	1,027
Other stock-based award activity	—	—	—	—	(1,553)	—	—	—	(1,553)
Investment in subsidiary - non-controlling interest	—	—	—	—	—	—	—	52	52
Balance as of March 31, 2016	8,400	$204,759	10,451	$10,451	$117,434	$(18,917)	$230,062	$ 227	$544,016
Balance as of December 31, 2016	8,400	$204,759	10,539	$10,539	$118,655	$ 33,758	$275,714	$ 222	$643,647
Net income/(loss):									
Attributable to Farmer Mac	—	—	—	—	—	—	21,910		21,910
Attributable to non-controlling interest	—	—	—	—	—	—	—	(15)	(15)
Other comprehensive income, net of tax	—	—	—	—	—	7,786	—	—	7,786
Cash dividends:									
Preferred stock	—	—	—	—	—	—	(3,295)	—	(3,295)
Common stock	—	—	—	—	—	—	(3,799)	—	(3,799)

Issuance of Class C Common Stock	—	—	57	57	144	—	—	—	201
Stock-based compensation cost	—	—	—	—	981	—	—	—	981
Other stock-based award activity	—	—	—	—	(1,394)	—	—	—	(1,394)
Investment in subsidiary - non-controlling interest	—	—	—	—	—	—	—	—	—
Balance as of March 31, 2017	8,400	$204,759	10,596	$10,596	$118,386	$41,544	$290,530	$207	$666,022

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

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

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
	(in thousands)	
Cash flows from operating activities:		
Net income	$21,895	$13,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums, and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Securities	181	501
Amortization of debt premiums, discounts and issuance costs	5,656	7,643
Net change in fair value of trading securities, hedged assets, and financial derivatives	525	2,631
Losses on sale of available-for-sale investment securities	—	9
Losses on sale of real estate owned	5	—
Total provision for losses	444	63
Excess tax benefits related to stock-based awards	679	—
Deferred income taxes	1,419	(1,483)
Stock-based compensation expense	981	1,027
Proceeds from repayment of trading investment securities	—	205
Proceeds from repayment of loans purchased as held for sale	25,928	28,794
Net change in:		
Interest receivable	37,292	37,633
Guarantee and commitment fees receivable	(357)	800
Other assets	2,236	(31,021)
Accrued interest payable	(2,855)	(9,469)
Other liabilities	8,605	2,495
Net cash provided by operating activities	102,634	53,412
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(66,561)	(341,099)
Purchases of Farmer Mac Guaranteed Securities and USDA Securities	(692,245)	(1,026,187)
Purchases of loans held for investment	(341,702)	(208,215)
Purchases of defaulted loans	(311)	(1,415)
Proceeds from repayment of available-for-sale investment securities	183,749	455,315
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Securities	338,063	676,858
Proceeds from repayment of loans purchased as held for investment	182,790	132,652
Proceeds from sale of available-for-sale investment securities	—	186,769
Proceeds from sale of Farmer Mac Guaranteed Securities	149,607	139,561
Payments from sale of real estate owned	697	—
Net cash (used)/provided by investing activities	(245,913)	14,239
Cash flows from financing activities:		
Proceeds from issuance of discount notes	13,618,574	23,089,113
Proceeds from issuance of medium-term notes	2,251,535	1,207,092
Payments to redeem discount notes	(14,766,905)	(22,873,972)
Payments to redeem medium-term notes	(856,300)	(921,000)
Excess tax benefits related to stock-based awards	—	234
Payments to third parties on debt securities of consolidated trusts	(46,926)	(33,010)

Proceeds from common stock issuance	148	101
Tax payments related to share-based awards	(1,341)	(1,499)
Common stock repurchased	—	(9,286)
Investment in subsidiary - non-controlling interest	—	52
Dividends paid on common and preferred stock	(7,094)	(5,997)
Net cash provided by financing activities	191,691	451,828
Net increase in cash and cash equivalents	48,412	519,479
Cash and cash equivalents at beginning of period	265,229	1,210,084
Cash and cash equivalents at end of period	$313,641	$1,729,563

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac") and subsidiaries have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2016 consolidated balance sheet presented in this report has been derived from Farmer Mac's audited 2016 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2016 consolidated financial statements of Farmer Mac and subsidiaries included in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 9, 2017. That Form 10-K describes Farmer Mac's significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents and Statements of Cash Flows; Transfers of Financial Assets and Liabilities; Investment Securities, Farmer Mac Guaranteed Securities, and USDA Securities; Loans; Securitization of Loans; Real Estate Owned; Financial Derivatives; Notes Payable; Allowance for Loan Losses and Reserve for Losses; Earnings Per Common Share; Income Taxes; Stock-Based Compensation; Comprehensive Income; Long-Term Standby Purchase Commitments; Fair Value Measurement; and Consolidation of Variable Interest Entities ("VIEs"). Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Presented below are Farmer Mac's significant accounting policies that contain updated information for the three months ended March 31, 2017.

Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its three subsidiaries: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities; (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the USDA Guarantees line of business – primarily the acquisition of USDA Securities; and (3) Contour Valuation Services, LLC (which began doing business as AgVisory during first quarter 2016), whose principal activity is to appraise agricultural real estate. As of May 1, 2017, Farmer Mac transferred its entire 65% ownership interest in AgVisory back to the limited liability company as a company redemption in exchange for $5,000. Farmer Mac recognized a loss of approximately $0.1 million after-tax upon the transfer, which will be reflected in Farmer Mac's financial results for second quarter 2017. The consolidated financial statements also include the accounts of VIEs in which Farmer Mac determined itself to be the primary beneficiary.

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

Table 1.1

	Consolidation of Variable Interest Entities As of March 31, 2017					
	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Total
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	$1,208,950	$ —	$ —	$ —	$ —	$1,208,950
Debt securities of consolidated trusts held by third parties (1)	1,212,792	—	—	—	—	1,212,792
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value (2)	—	41,130	—	30,054	—	71,184
Maximum exposure to loss (3)	—	40,734	—	30,000	—	70,734
Investment securities:						
Carrying value (4)	—	—	—	—	809,988	809,988
Maximum exposure to loss (3) (4)	—	—	—	—	808,155	808,155
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss (3) (5)	387,272	135,334	—	970,000	—	1,492,606

(1) Includes borrower remittances of $3.8 million. The borrower remittances had not been passed through to third party investors as of March 31, 2017.

(2) Includes $0.4 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of $0.1 million.

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

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

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

Consolidation of Variable Interest Entities
As of December 31, 2016

	Farm & Ranch	USDA Guarantees	Rural Utilities	Institutional Credit	Corporate	Total
	(in thousands)					
On-Balance Sheet:						
Consolidated VIEs:						
Loans held for investment in consolidated trusts, at amortized cost	$1,132,966	$ —	$ —	$ —	$ —	$1,132,966
Debt securities of consolidated trusts held by third parties (1)	1,142,704	—	—	—	—	1,142,704
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Carrying value (2)	—	36,042	—	30,347	—	66,389
Maximum exposure to loss (3)	—	35,599	—	30,000	—	65,599
Investment securities:						
Carrying value (4)	—	—	—	—	827,874	827,874
Maximum exposure to loss (3) (4)	—	—	—	—	825,909	825,909
Off-Balance Sheet:						
Unconsolidated VIEs:						
Farmer Mac Guaranteed Securities:						
Maximum exposure to loss (3) (5)	415,441	103,976	—	970,000	—	1,489,417

(1) Includes borrower remittances of $9.7 million, which have not been passed through to third party investors as of December 31, 2016.

(2) Includes $0.4 million of unamortized premiums and discounts and fair value adjustments related to the USDA Guarantees line of business. Includes fair value adjustments related to the Institutional Credit line of business of $0.3 million.

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

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

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

(a) Statements of Cash Flows

The following table sets forth information regarding certain cash and non-cash transactions for the three months ended March 31, 2017 and 2016:

Table 1.2

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
	(in thousands)	
Non-cash activity:		
Real estate owned acquired through loan liquidation	4,630	—

Loans acquired and securitized as Farmer Mac Guaranteed Securities	149,607	139,561
Consolidation of Farm & Ranch Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts and to debt securities of consolidated trusts held by third parties	117,018	135,913

(b) Earnings Per Common Share

Basic earnings per common share ("EPS") is based on the weighted-average number of shares of common stock outstanding. Diluted earnings per common share is based on the weighted-average number of shares of common stock outstanding adjusted to include all potentially dilutive common stock options, stock appreciation rights ("SARs"), and non-vested restricted stock awards. The following schedule reconciles basic and diluted EPS for the three months ended March 31, 2017 and 2016:

Table 1.3

	For the Three Months Ended					
	March 31, 2017[1]			March 31, 2016		
	Net Income	Weighted-Average Shares	$ per Share	Net Income	Weighted-Average Shares	$ per Share
	(in thousands, except per share amounts)					
Basic EPS						
Net income attributable to common stockholders	$18,615	10,551	$1.76	$10,317	10,465	$0.99
Effect of dilutive securities[2]						
Stock options, SARs and restricted stock	—	231	(0.03)	—	538	(0.05)
Diluted EPS	$18,615	10,782	$1.73	$10,317	11,003	$0.94

(1) For the effect of the adoption of the new Accounting Standard Update 2016-09 "Improvements to Employee Share-Based Payment Accounting" on Basic and Diluted EPS, see Note 1(d) "New Accounting Standards."

(2) For the three months ended March 31, 2017 and 2016, stock options and SARs of 50,757 and 201,401, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because they were anti-dilutive. For the three months ended March 31, 2017 and 2016, contingent shares of non-vested restricted stock of 32,892, and 37,284, respectively, were outstanding but not included in the computation of diluted earnings per share of common stock because performance conditions had not yet been met.

(c) Comprehensive Income

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

The following table presents the changes in accumulated other comprehensive income ("AOCI"), net of tax, by component for the three months ended March 31, 2017 and 2016:

Table 1.4

	For the Three Months Ended March 31, 2017				March 31, 2016			
	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total	Available-for-Sale Securities	Held-to-Maturity Securities	Cash Flow Hedges	Total
	(in thousands)							
For the Three Months Ended:								
Beginning Balance	$(14,387)	$ 45,752	$2,393	$33,758	$(10,035)	$ (476)	$(508)	$(11,019)
Other Comprehensive Income Before Reclassifications	12,223	—	76	12,299	(1,769)	—	(3,395)	(5,164)
Amounts reclassified from AOCI	(2,578)	(2,267)	332	(4,513)	(2,376)	(657)	299	(2,734)
Net Comprehensive Income	9,645	(2,267)	408	7,786	(4,145)	(657)	(3,096)	(7,898)
Ending Balance	$(4,742)	$ 43,485	$2,801	$41,544	$(14,180)	$ (1,133)	$(3,604)	$(18,917)

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The following table presents other comprehensive income activity, the impact on net income of amounts reclassified from each component of AOCI, and the related tax impact for the three months ended March 31, 2017 and 2016:

Table 1.5

	For the Three Months Ended					
	March 31, 2017			March 31, 2016		
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
	(in thousands)					
Other comprehensive income:						
Available-for-sale-securities:						
Unrealized holding gains/(losses) on available-for-sale-securities	$18,804	$6,581	$12,223	$(2,722)	$(953)	$(1,769)
Less reclassification adjustments included in:						
Gains/(losses) on financial derivatives and hedging activities(1)	(3,959)	(1,386)	(2,573)	(3,923)	(1,373)	(2,550)
Losses on sale of available-for-sale investment securities(2)	—	—	—	9	3	6
Other income(3)	(7)	(2)	(5)	259	91	168
Total	$14,838	$5,193	$9,645	$(6,377)	$(2,232)	$(4,145)
Held-to-maturity securities:						
Less reclassification adjustments included in:						
Net interest income(4)	$(3,487)	$(1,220)	$(2,267)	$(1,011)	$(354)	$(657)
Total	$(3,487)	$(1,220)	$(2,267)	$(1,011)	$(354)	$(657)
Cash flow hedges						
Unrealized gains/(losses) on cash flow hedges	$117	$41	$76	$(5,222)	$(1,827)	$(3,395)
Less reclassification adjustments included in:						
Net interest income(5)	512	180	332	459	160	299
Total	$629	$221	$408	$(4,763)	$(1,667)	$(3,096)
Other comprehensive income/(loss)	$11,980	$4,194	$7,786	$(12,151)	$(4,253)	$(7,898)

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

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

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

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

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

(d) New Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting," which provides new guidance intended to simplify several aspects of accounting and presentation for employee share-based payment transactions. The ASU became effective for Farmer Mac on January 1, 2017. The adoption of the new guidance had the following effect on Farmer Mac's financial position, results of operations, and cash flows:

- Consolidated Statements of Operations - The ASU requires the recognition of all net tax benefits related to share-based compensation awards in the income tax provision. Previously, these amounts were recognized in additional paid-in capital. Net tax benefits related to share-based compensation awards of $0.7 million were recognized as a reduction to income tax expense in the three months ended March 31, 2017 in the consolidated statement of operations. Net tax benefits result from the excess of the tax deduction over the compensation expense recognized under GAAP for share-based compensation awards. That excess arises because the tax deduction is based upon the value of share-based awards upon their exercise (or vesting, in the case of restricted stock units), whereas the compensation expense under GAAP is based upon the value of the share-based awards upon their grant date.

The ASU also changed the calculation of diluted earnings per share. GAAP requires the "treasury stock method" to determine the number of dilutive securities in calculating diluted earnings per share. The ASU changed the calculation of "assumed proceeds" under the treasury stock method to exclude the amount of net tax benefits that would have been recognized in additional paid-in capital under the previous accounting standard. This change in the calculation reduces the amount of shares assumed to have been repurchased under the treasury stock method, thus increasing the number of dilutive shares.

Both of these changes in the guidance were applied prospectively beginning January 1, 2017 and for the three months ended March 31, 2017. The change in the recognition of all net tax benefits related to share-based compensation awards in the income tax provision resulted in an increase of $0.06 in both basic earnings per share and diluted earnings per share for the three months ended March 31, 2017. The change in the guidance for the calculation of diluted earnings per share had an immaterial impact on diluted earnings per share.

Additionally, the ASU allows companies to choose to either include an estimate of forfeitures expected to occur in share-based compensation expense or account for them as they occur. Previously, GAAP required companies to include an estimate of forfeitures expected to occur in their share-based compensations expense. Farmer Mac has elected to account for forfeitures in compensation expense as they occur. The cumulative impact of the change in the treatment of forfeitures was not material for the three months ended March 31, 2017.

- Consolidated Statements of Cash Flows - The ASU requires excess tax benefits from share-based employee awards to be reported within operating activities. Previously, these cash flows were reported within financing activities. Farmer Mac has applied this guidance prospectively, resulting in an increase in net cash provided by operating activities and a corresponding decrease in net cash provided by financing activities of $0.7 million for the three months ended March 31, 2017.

The ASU requires employee taxes paid when an employer withholds shares for tax purposes to be reported within financing activities. Under the previous guidance, these cash flows were included in operating activities. These changes were required to be applied on a retrospective basis. As a result, the consolidated statement of cash flows for prior periods was revised, resulting in an increase in net cash provided by operating activities and a decrease in net cash provided by financing activities of $1.5 million for the three months ended March 31, 2016, compared to previously reported amounts. The amount of employee taxes paid for shares withheld was $1.3 million for the three months ended March 31, 2017.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses," which will require entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will be required to use forward-looking information to form their credit loss estimates. The ASU will also require enhanced disclosures to help users of financial statements better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Farmer Mac is currently evaluating the impact that the new guidance will have on its consolidated financial statements. That impact will primarily be from the new requirement to recognize all expected losses rather than just incurred losses as of the reporting date.

In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Farmer Mac does not expect that adoption of the new guidance will have a material effect on Farmer Mac's financial position, results of operations, or cash flows.

(e) Reclassifications

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

2. INVESTMENT SECURITIES

The following tables set forth information about Farmer Mac's investment securities as of March 31, 2017 and December 31, 2016:

Table 2.1

	As of March 31, 2017					
	Amount Outstanding	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$19,700	$ —	$19,700	$ —	$(1,576)	$18,124
Floating rate asset-backed securities	40,825	(189)	40,636	—	(266)	40,370
Floating rate corporate debt securities	10,000	—	10,000	60	—	10,060
Floating rate Government/GSE guaranteed mortgage-backed securities	1,342,378	2,637	1,345,015	2,494	(2,819)	1,344,690
Fixed rate GSE guaranteed mortgage-backed securities(1)	514	2,469	2,983	2,394	—	5,377
Floating rate GSE subordinated debt	70,000	—	70,000	—	(2,424)	67,576
Fixed rate senior agency debt	187,295	53	187,348	—	(283)	187,065
Fixed rate U.S. Treasuries	806,493	233	806,726	7	(751)	805,982
Total available-for-sale	2,477,205	5,203	2,482,408	4,955	(8,119)	2,479,244
Total investment securities	$2,477,205	$ 5,203	$2,482,408	$ 4,955	$(8,119)	$2,479,244

(1) Fair value includes $4.8 million of an interest-only security with a notional amount of $145.5 million.

	As of December 31, 2016					
	Amount Outstanding	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$19,700	$ —	$19,700	$ —	$(1,970)	$17,730
Floating rate asset-backed securities	44,442	(202)	44,240	1	(390)	43,851
Floating rate corporate debt securities	10,000	—	10,000	41	—	10,041
Floating rate Government/GSE guaranteed mortgage-backed securities	1,359,700	2,827	1,362,527	1,768	(3,266)	1,361,029
Fixed rate GSE guaranteed mortgage-backed securities(1)	538	2,582	3,120	4,505	—	7,625
Floating rate GSE subordinated debt	70,000	—	70,000	—	(3,047)	66,953
Fixed rate senior agency debt	187,295	106	187,401	—	(268)	187,133
Fixed rate U.S. Treasuries	821,619	359	821,978	47	(536)	821,489
Total available-for-sale	2,513,294	5,672	2,518,966	6,362	(9,477)	2,515,851
Total investment securities	$2,513,294	$ 5,672	$2,518,966	$ 6,362	$(9,477)	$2,515,851

(1) Fair value includes $7.0 million of an interest-only security with a notional amount of $146.1 million.

Farmer Mac did not sell any securities from its available-for-sale investment portfolio during the three months ended March 31, 2017. During the three months ended March 31, 2016, Farmer Mac received proceeds of $186.8 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.1 million and gross realized losses of $0.1 million.

As of March 31, 2017 and December 31, 2016, unrealized losses on available-for-sale investment securities were as follows:

Table 2.2

	As of March 31, 2017			
	Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$ 18,124	$ (1,576)
Floating rate asset-backed securities	—	—	35,514	(266)
Floating rate Government/GSE guaranteed mortgage-backed securities	241,188	(608)	409,002	(2,211)
Floating rate GSE subordinated debt	—	—	67,576	(2,424)
Fixed rate U.S. Treasuries	776,996	(751)	—	—
Fixed rate senior agency debt	187,066	(283)	—	—
Total	$ 1,205,250	$ (1,642)	$ 530,216	$ (6,477)

	As of December 31, 2016			
	Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Floating rate auction-rate certificates backed by Government guaranteed student loans	$—	$—	$ 17,730	$ (1,970)
Floating rate asset-backed securities	4,654	(10)	38,077	(380)
Floating rate Government/GSE guaranteed mortgage-backed securities	384,586	(1,030)	442,041	(2,236)
Floating rate GSE subordinated debt	—	—	66,953	(3,047)
Fixed rate U.S. Treasuries	732,371	(536)	—	—
Fixed rate senior agency debt	187,133	(268)	—	—
Total	$ 1,308,744	$ (1,844)	$ 564,801	$ (7,633)

The unrealized losses presented above are principally due to a general widening of market spreads and an increase in the levels of interest rates from the dates of acquisition to March 31, 2017 and December 31, 2016, as applicable. The resulting decrease in fair values reflects an increase in the perceived risk by the financial markets related to those securities. As of March 31, 2017, all of the investment securities in an unrealized loss position either were backed by the full faith and credit of the U.S. government or had credit ratings of at least "AA+," except one that was rated "A-." As of December 31, 2016, all of the investment securities in an unrealized loss position either were backed by the full faith and credit of the U.S. government or had credit ratings of at least "AA+," except one that was rated "A-." The unrealized losses were on 96 and 97 individual investment securities as of March 31, 2017 and December 31, 2016, respectively.

As of March 31, 2017, 40 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $6.5 million. As of December 31, 2016, 36 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $7.6 million. Securities in unrealized loss positions for 12 months or longer have a fair value as of March 31, 2017 that is, on average, approximately 99 percent of their amortized cost basis. Farmer Mac believes that all of these unrealized losses are recoverable within a reasonable period of time by way of maturity or changes in credit spreads. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities are other-than-temporary impairment as of March 31, 2017 and December 31, 2016.

Farmer Mac did not own any held-to-maturity or trading investment securities as of March 31, 2017 and December 31, 2016.

The amortized cost, fair value, and weighted-average yield of available-for-sale investment securities by remaining contractual maturity as of March 31, 2017 are set forth below. Asset-backed and mortgage-backed securities are included based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

Table 2.3

	As of March 31, 2017		
	Available-for-Sale Securities		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$988,363	$987,343	0.77%
Due after one year through five years	227,113	227,471	1.42%
Due after five years through ten years	437,367	438,280	1.54%
Due after ten years	829,565	826,150	1.42%
Total	$2,482,408	$2,479,244	1.18%

3. FARMER MAC GUARANTEED SECURITIES AND USDA SECURITIES

The following tables set forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Securities as of March 31, 2017 and December 31, 2016:

Table 3.1

	As of March 31, 2017					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	$1,035,587	$ (2,031)	$1,033,556	$ 6,290	$(3,115)	$1,036,731
Farmer Mac Guaranteed USDA Securities	40,734	396	41,130	293	(5)	41,418
Total Farmer Mac Guaranteed Securities	1,076,321	(1,635)	1,074,686	6,583	(3,120)	1,078,149
USDA Securities	1,955,868	69,954	2,025,822	1	(66,210)	1,959,613
Total held-to-maturity	$3,032,189	$ 68,319	$3,100,508	$ 6,584	$(69,330)	$3,037,762
Available-for-sale:						
AgVantage	$5,266,782	$ (258)	$5,266,524	$ 33,450	$(56,928)	$5,243,046
Trading:						
USDA Securities	$17,760	$ 1,274	$19,034	$ 56	$(488)	$18,602

	As of December 31, 2016					
	Unpaid Principal Balance	Unamortized Premium/(Discount)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)					
Held-to-maturity:						
AgVantage	$1,115,465	$ (2,276)	$1,113,189	$ 7,187	$(3,175)	$1,117,201
Farmer Mac Guaranteed USDA Securities	35,599	443	36,042	5	(239)	35,808
Total Farmer Mac Guaranteed Securities	1,151,064	(1,833)	1,149,231	7,192	(3,414)	1,153,009
USDA Securities	1,935,440	73,785	2,009,225	—	(95,590)	1,913,635
Total held-to-maturity	$3,086,504	$ 71,952	$3,158,456	$ 7,192	$(99,004)	$3,066,644
Available-for-sale:						
AgVantage	$4,889,007	$ (103)	$4,888,904	$ 28,715	$(63,934)	$4,853,685
Trading:						
USDA Securities	$19,360	$ 1,377	$20,737	$ 41	$(390)	$20,388

On October 1, 2016, Farmer Mac transferred $2.0 billion of USDA Securities and $32.8 million of Farmer Mac Guaranteed USDA Securities from available-for-sale to held-to-maturity to reflect Farmer Mac's positive intent and ability to hold these securities until maturity or payoff. Farmer Mac transferred these securities at fair value as of the date of the transfer, which included a cost basis adjustment of unrealized appreciation in the amount of $73.1 million for the USDA Securities and $0.7 million for the Farmer Mac Guaranteed USDA Securities. The accumulated unrealized appreciation was retained in accumulated other comprehensive income in the amount of $73.8 million, pre-tax. Farmer Mac accounts for held-to-maturity securities at amortized cost. Both the cost basis adjustment and accumulated unrealized appreciation will be amortized as an adjustment to the yield on the held-to-maturity USDA Securities over the remaining term of the transferred securities.

As of March 31, 2017 and December 31, 2016, unrealized losses on held-to-maturity and available-for-sale on-balance sheet Farmer Mac Guaranteed Securities and USDA Securities were as follows:

Table 3.2

	As of March 31, 2017 Held-to-Maturity and Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Held-to-maturity:				
AgVantage	$358,636	$(3,115)	$—	$—
Farmer Mac Guaranteed USDA Securities	279	(5)	—	—
USDA Securities	1,865,182	(66,194)	93,978	(16)
Total held-to-maturity	$2,224,097	$(69,314)	$93,978	$(16)
Available-for-sale:				
AgVantage	$1,149,984	$(26,036)	$1,020,572	$(30,892)

	As of December 31, 2016 Available-for-Sale Securities			
	Unrealized loss position for less than 12 months		Unrealized loss position for more than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)			
Held-to-maturity:				
AgVantage	$358,575	$(3,175)	$—	$—
Farmer Mac Guaranteed USDA Securities	30,575	(239)	—	—
USDA Securities	1,816,366	(95,582)	97,270	(8)
Total held-to-maturity	$2,205,516	$(98,996)	$97,270	$(8)
Available-for-sale:				
AgVantage	$982,538	$(18,482)	$1,131,930	$(45,452)

The unrealized losses presented above are principally due to higher interest rates from the date of acquisition to March 31, 2017 and December 31, 2016, as applicable. In addition, the unrealized losses on the held-to-maturity USDA Securities as of December 31, 2016 reflect their increased cost basis resulting from their transfer to held-to-maturity as of October 1, 2016, as described above. The credit exposure related to Farmer Mac's USDA Guarantees line of business is covered by the full faith and credit guarantee of the United States. The unrealized losses from AgVantage securities were on 21 available-for-sale securities as of March 31, 2017. There were 7 held-to-maturity AgVantage securities with an unrealized loss as of March 31, 2017. The unrealized losses from AgVantage securities were on 22 available-for-sale securities as of December 31, 2016. There were 7 unrealized losses from held-to-maturity securities as of December 31, 2016. As of March 31, 2017, 8 available-for-sale

AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of $30.9 million. As of December 31, 2016, 10 available-for-sale AgVantage securities had been in a loss position for more than 12 months with a total unrealized loss of $45.5 million. Farmer Mac has concluded that none of the unrealized losses on its held-to-maturity Farmer Mac Guaranteed Securities and USDA Securities and available-for-sale Farmer Mac Guaranteed Securities are other-than-temporary impairment as of either March 31, 2017 or December 31, 2016. Farmer Mac does not intend to sell these securities, and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

During the three months ended March 31, 2017 and 2016, Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Securities.

The amortized cost, fair value, and weighted-average yield of available-for-sale and held-to-maturity Farmer Mac Guaranteed Securities and USDA Securities by remaining contractual maturity as of March 31, 2017 are set forth below. The balances presented are based on their final maturities, although the actual maturities may differ due to prepayments of the underlying assets.

Table 3.3

	As of March 31, 2017 Available-for-Sale Securities		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$541,181	$542,582	1.65 %
Due after one year through five years	2,852,298	2,866,585	1.95 %
Due after five years through ten years	838,374	839,129	2.61 %
Due after ten years	1,034,671	994,750	1.66 %
Total	$5,266,524	$5,243,046	1.97 %
	As of March 31, 2017 Held-to-Maturity Securities		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$275,696	$276,572	2.21 %
Due after one year through five years	829,335	829,694	2.16 %
Due after five years through ten years	179,240	174,029	2.97 %
Due after ten years	1,816,237	1,757,467	3.29 %
Total	$3,100,508	$3,037,762	2.86 %

As of March 31, 2017, Farmer Mac owned trading USDA Securities with an amortized cost of $19.0 million, a fair value of $18.6 million, and a weighted-average yield of 5.40 percent. As of December 31, 2016, Farmer Mac owned trading USDA Securities with an amortized cost of $20.7 million, a fair value of $20.4 million, and a weighted-average yield of 5.44 percent.

In April 2017, Farmer Mac purchased and retained $1.0 billion of AgVantage securities that refinanced an AgVantage security of the same amount that matured in April 2017. Previously, Farmer Mac held $30.0 million of the $1.0 billion AgVantage security that matured in April 2017 in its on-balance sheet portfolio. The remaining $970.0 million of the $1.0 billion AgVantage security that matured in April 2017 had

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previously been sold to third parties and accounted for as off-balance sheet commitment. Farmer Mac holds the newly purchased $1.0 billion in AgVantage securities entirely within its on-balance sheet portfolio.

4. FINANCIAL DERIVATIVES

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

All financial derivatives are recorded on the balance sheet at fair value as a freestanding asset or liability. Changes in the fair values of financial derivatives not designated as cash flow hedges are reported in "Gains/(losses) on financial derivatives and hedging activities" in the consolidated statements of operations. For financial derivatives designated in fair value hedge accounting relationships, changes in the fair values of the hedged items, which are primarily fixed rate AgVantage securities and fixed rate medium-term notes, related to the risk being hedged are also reported in "Gains/(losses) on financial derivatives and hedging activities" in the consolidated statements of operations. Interest accruals on derivatives designated in fair value hedge accounting relationships are recorded in "Net interest income" in the consolidated statements of operations. For the three months ended March 31, 2017 and 2016, the amount of interest expense recognized on those derivatives was $3.2 million and $4.5 million, respectively. For financial derivatives designated in cash flow hedge accounting relationships, the effective portion of the derivative gain/loss is recorded in other comprehensive income and any ineffective portion is recognized immediately in "Gains/(losses) on financial derivatives and hedging activities" in the consolidated statements of operations. Because the hedging instrument is an interest rate swap and the hedged forecasted transactions are future interest payments on variable-rate debt, amounts recorded in accumulated other comprehensive income are reclassified to "Total interest expense" in conjunction with the recognition of interest expense on the debt. For both the three months ended March 31, 2017 and 2016, $0.5 million was reclassified out of accumulated other comprehensive income into interest expense. As of March 31, 2017, Farmer Mac expects to reclassify $1.2 million pretax, or $0.8 million after-tax, from accumulated other comprehensive income, net of tax, to earnings over the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to March 31, 2017. During the three months ended March 31, 2017 and 2016, there were no gains or losses from interest rate swaps designated as cash flow hedges reclassified to earnings because it became probable the original forecasted transaction would not occur.

The following tables summarize information related to Farmer Mac's financial derivatives on a gross basis without giving consideration to master netting arrangements as of March 31, 2017 and and December 31, 2016 and the effects of financial derivatives on the consolidated statements of operations for the three months ended March 31, 2017 and 2016:

Table 4.1

	As of March 31, 2017						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$1,808,581	$1,292	$(9,133)	1.77%	1.04%		4.75
Receive fixed non-callable	860,200	11	(1,815)	0.98%	1.39%		3.27
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	221,000	843	(290)	2.28%	1.34%		7.13
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	433,406	400	(20,912)	4.06%	1.04%		5.69
Receive fixed non-callable	4,262,401	69	—	0.82%	0.87%		0.79
Receive fixed callable	30,000	—	(10)	0.97%	0.58%		0.08
Basis swaps	865,000	51	(15)	0.93%	0.99%		0.93
Treasury futures	12,800	8	—			124.62	
Credit valuation adjustment		—	121				
Total financial derivatives	$8,493,388	$2,674	$(32,054)				
Collateral pledged		—	25,075				
Net amount		$2,674	$(6,979)				

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	As of December 31, 2016						
		Fair Value					
	Notional Amount	Asset	(Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Fair value hedges:							
Interest rate swaps:							
Pay fixed non-callable	$1,642,609	$18,508	$(18,909)	1.73%	0.90%		4.70
Cash flow hedges:							
Interest rate swaps:							
Pay fixed non-callable	207,000	3,706	(955)	2.18%	1.11%		7.28
No hedge designation:							
Interest rate swaps:							
Pay fixed non-callable	435,827	339	(32,951)	4.06%	0.89%		5.90
Receive fixed non-callable	4,991,821	607	(5,064)	0.74%	0.75%		0.60
Receive fixed callable	30,000	—	(33)	0.82%	0.58%		0.33
Basis swaps	765,000	36	(243)	0.78%	0.78%		0.87
Treasury futures	28,000	—	(155)			123.73	
Credit valuation adjustment		(14)	158				
Total financial derivatives	$8,100,257	$23,182	$(58,152)				
Collateral pledged		—	25,643				
Net amount		$23,182	$(32,509)				

Table 4.2

	Gains/(losses) on financial derivatives and hedging activities For the Three Months Ended	
	March 31, 2017	March 31, 2016
	(in thousands)	
Fair value hedges:		
Interest rate swaps(1)	$1,526	$(26,898)
Hedged items	(5,404)	29,787
Gains on fair value hedges	(3,878)	2,889
Cash flow hedges:		
Loss recognized (ineffective portion)	(29)	(149)
Losses on cash flow hedges	(29)	(149)
No hedge designation:		
Interest rate swaps	6,684	(8,142)

Agency forwards	(399)	(877)
Treasury futures	108	(503)
Gains/(losses) on financial derivatives not designated in hedging relationships	6,393	(9,522)
Gains/(losses) on financial derivatives and hedging activities	$2,486	$(6,782)

(1) Included in the assessment of hedge effectiveness as of March 31, 2017, but excluded from the amounts in the table, were gains of $3.6 million for the three months ended March 31, 2017, attributable to the fair value of the swaps at the inception of the hedging relationship. Accordingly, the amounts recognized as hedge ineffectiveness for three months ended March 31, 2017 were losses of $0.3 million. The comparable amounts as of March 31, 2016 were losses of $1.5 million for the three months ended March 31, 2016, attributable to the fair value of the swaps at the inception of the hedging relationship and, accordingly, gains of $1.4 million for the three months ended March 31, 2016, attributable to hedge ineffectiveness.

As of March 31, 2017 and December 31, 2016, Farmer Mac's credit exposure to interest rate swap counterparties, excluding netting arrangements and any adjustment for nonperformance risk, but including accrued interest, was $27.2 million and $24.5 million, respectively; however, including netting arrangements and accrued interest, Farmer Mac's credit exposure was $0.3 million and $0.2 million as of March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017, Farmer Mac held no cash as collateral for its derivatives in net asset positions resulting in uncollateralized net asset positions of $0.3 million. As of December 31, 2016, Farmer Mac held no cash collateral for its derivatives in net asset positions, resulting in uncollateralized net asset positions of $0.2 million.

As of March 31, 2017 and December 31, 2016, the fair value of Farmer Mac's derivatives in a net liability position including accrued interest but excluding netting arrangements and any adjustment for nonperformance risk, was $58.2 million and $65.7 million, respectively; however, including netting arrangements and accrued interest, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level was $34.2 million and $41.4 million as of March 31, 2017 and December 31, 2016, respectively. Farmer Mac posted cash of $0.1 million and $25.0 million of investment securities as of March 31, 2017 and posted cash of $1.0 million and $24.6 million investment securities as of December 31, 2016. Farmer Mac records posted cash as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of prepaid expenses and other assets. Any investment securities posted as collateral are included in the investment securities balances on the consolidated balance sheets. If Farmer Mac had breached certain provisions of the derivative contracts as of March 31, 2017 and December 31, 2016, it could have been required to settle its obligations under the agreements or post additional collateral of $9.1 million and $15.8 million, respectively. As of March 31, 2017 and December 31, 2016, there were no financial derivatives in a net payable position where Farmer Mac was required to pledge collateral which the counterparty had the right to sell or repledge.

For certain derivatives, Farmer Mac clears interest rate swaps through a clearinghouse, the Chicago Mercantile Exchange ("CME"). Farmer Mac posts initial and variation margin to this clearinghouse through which centrally-cleared derivatives and futures contracts are traded. These collateral postings expose Farmer Mac to institutional credit risk in the event that either the clearinghouse or the futures commission merchant that Farmer Mac uses to post collateral to the clearinghouse fails to meet its obligations. Conversely, the use of centrally-cleared derivatives mitigates Farmer Mac's credit risk to individual counterparties because clearinghouses assume the credit risk among counterparties in centrally-cleared derivatives transactions. Of Farmer Mac's $8.5 billion notional amount of interest rate swaps outstanding as of March 31, 2017, $7.3 billion were cleared through swap clearinghouses. Of Farmer Mac's $8.1 billion notional amount of interest rate swaps outstanding as of December 31, 2016, $6.9 billion were cleared through swap clearinghouses.

Effective January 3, 2017, the CME implemented a change in its rules related to the exchange of variation margin. Specifically, the exchange of variation margin between derivatives counterparties is now deemed by CME to be a partial settlement of each respective derivative contract rather than as collateral pledged by a counterparty. Accordingly, beginning in first quarter 2017, Farmer Mac presented its cleared derivatives portfolio net of variation margin payments on its consolidated balance sheets and recognized realized gains or losses as a result of these payments within "Gains/(losses) on financial derivatives and hedging activities" on its consolidated statements of operations. Prior to first quarter 2017, Farmer Mac accounted for variation margin as collateral and associated unrealized gains or losses on those centrally cleared derivative contracts. Farmer Mac included those unrealized gains or losses within "Gains/(losses) on financial derivatives and hedging activities" in its consolidated statements of operations prior to first quarter 2017. See Note 9 for information about the effect of this rule change on the calculation of core earnings beginning in 2017.

5. LOANS AND ALLOWANCE FOR LOSSES

Loans

Farmer Mac classifies loans as either held for investment or held for sale. Loans held for investment are recorded at the unpaid principal balance, net of unamortized premium or discount and other cost adjustments. Loans held for sale are reported at the lower of cost or fair value determined on a pooled basis. As of March 31, 2017 and December 31, 2016, Farmer Mac had no loans held for sale. The following table displays the composition of the loan balances as of March 31, 2017 and December 31, 2016:

Table 5.1

	As of March 31, 2017			As of December 31, 2016		
	Unsecuritized	In Consolidated Trusts	Total	Unsecuritized	In Consolidated Trusts	Total
	(in thousands)					
Farm & Ranch	$2,434,436	$1,208,950	$3,643,386	$2,381,488	$1,132,966	$3,514,454
Rural Utilities	999,130	—	999,130	999,512	—	999,512
Total unpaid principal balance[1]	3,433,566	1,208,950	4,642,516	3,381,000	1,132,966	4,513,966
Unamortized premiums, discounts and other cost basis adjustments	(1,475)	—	(1,475)	(1,116)	—	(1,116)
Total loans	3,432,091	1,208,950	4,641,041	3,379,884	1,132,966	4,512,850
Allowance for loan losses	(4,710)	(1,101)	(5,811)	(4,437)	(978)	(5,415)
Total loans, net of allowance	$3,427,381	$1,207,849	$4,635,230	$3,375,447	$1,131,988	$4,507,435

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

Allowance for Losses

Farmer Mac maintains an allowance for losses presented in two components on its consolidated balance sheets: (1) an allowance for loan losses to account for estimated probable losses on loans held, and (2) a reserve for losses to account for estimated probable losses on loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities (excluding AgVantage securities). Farmer Mac's total allowance for losses was $7.6 million as of March 31, 2017 and $7.4 million as of December 31, 2016. See Note 6 for more information about off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs.

The following is a summary of the changes in the total allowance for losses for the three months ended March 31, 2017 and 2016:

Table 5.2

	For the Three Months Ended					
	March 31, 2017			March 31, 2016		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
Beginning Balance	$5,415	$ 2,020	$ 7,435	$4,480	$ 2,083	$ 6,563
Provision for/(release of) losses	637	(193)	444	49	14	63
Charge-offs	(241)	—	(241)	—	—	—
Ending Balance	$5,811	$ 1,827	$ 7,638	$4,529	$ 2,097	$ 6,626

During first quarter 2017, Farmer Mac recorded provisions to its allowance for loan losses of $0.6 million and releases to its reserve for losses of $0.2 million. The provisions to the allowance for loan losses recorded during first quarter 2017 were primarily attributable to an increase in the specific allowance for certain impaired on-balance sheet crop and permanent planting loans resulting from both an increase in the volume of such loans and downgrades in risk ratings on certain loans. The releases to the reserve for losses recorded during the three months ended March 31, 2017 were primarily attributable to (1) a decrease in the general reserve due to improvement in credit quality of certain Agricultural Storage and Processing loans and (2) a net decrease in the balance of loans underlying off-balance sheet Farmer Mac Guaranteed Securities. Farmer Mac recorded $0.2 million of charge-offs to its allowance for loan losses during first quarter 2017. The charge-offs recorded during the first quarter 2017 were primarily related to two impaired crop loans, with one borrower, that were foreclosed and transitioned to REO during first quarter 2017. Farmer Mac had previously recorded a specific allowance of $0.2 million on these impaired crop loans as of December 31, 2016. Subsequent to March 31, 2017, Farmer Mac sold the related properties for $5.7 million and recognized $0.5 million gain on sale of REO.

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

The following tables present the changes in the total allowance for losses for the three months ended March 31, 2017 and 2016 by commodity type:

Table 5.3

	March 31, 2017						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
For the Three Months Ended:							
Beginning Balance	$3,365	$ 1,723	$ 1,375	$ 405	$ 533	$ 34	$7,435
Provision for/(release of) losses	425	147	17	(81)	(61)	(3)	444
Charge-offs	(228)	—	(13)	—	—	—	(241)
Ending Balance	$3,562	$ 1,870	$ 1,379	$ 324	$ 472	$ 31	$7,638

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

The following tables present the unpaid principal balances of loans held and loans underlying LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities (excluding AgVantage securities) and the related total allowance for losses by impairment method and commodity type as of March 31, 2017 and December 31, 2016:

Table 5.4

	As of March 31, 2017						
	Crops	Permanent Plantings	Livestock	Part-time Farm	Ag. Storage and Processing	Other	Total
	(in thousands)						
Ending Balance:							
Collectively evaluated for impairment:							
On-balance sheet	$2,144,328	$594,950	$573,922	$208,401	$ 13,640	$8,901	$3,544,142
Off-balance sheet	1,253,209	428,436	712,498	142,997	37,841	4,381	2,579,362
Total	$3,397,537	$1,023,386	$1,286,420	$351,398	$ 51,481	$13,282	$6,123,504
Individually evaluated for impairment:							
On-balance sheet	$53,568	$30,980	$7,396	$7,300	$ —	$—	$99,244
Off-balance sheet	10,078	2,268	4,666	707	—	—	17,719
Total	$63,646	$33,248	$12,062	$8,007	$ —	$—	$116,963
Total Farm & Ranch loans:							
On-balance sheet	$2,197,896	$625,930	$581,318	$215,701	$ 13,640	$8,901	$3,643,386
Off-balance sheet	1,263,287	430,704	717,164	143,704	37,841	4,381	2,597,081
Total	$3,461,183	$1,056,634	$1,298,482	$359,405	$ 51,481	$13,282	$6,240,467
Allowance for Losses:							
Collectively evaluated for impairment:							