REALTY INCOME CORP
Form 10-Q
May 02, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2008, or

o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-13374

REALTY INCOME CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	33-0580106
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

600 La Terraza Boulevard, Escondido, California 92025
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (760) 741-2111

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x Accelerated filer o 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

There were 101,297,237 shares of common stock outstanding as of April 23, 2008.

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REALTY INCOME CORPORATION

Form 10-Q
March 31, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2008 and December 31, 2007
(dollars in thousands, except per share data)

	2008	2007
ASSETS	(unaudited)	
Real estate, at cost:		
Land	$ 1,166,234	$ 1,110,897
Buildings and improvements	2,259,449	2,127,897
	3,425,683	3,238,794
Less accumulated depreciation and amortization	(492,073)	(470,695)
Net real estate held for investment	2,933,610	2,768,099
Real estate held for sale, net	32,379	56,156
Net real estate	2,965,989	2,824,255
Cash and cash equivalents	13,343	193,101
Accounts receivable	8,312	7,142
Goodwill	17,206	17,206
Other assets, net	34,614	35,648
Total assets	$ 3,039,464	$ 3,077,352
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Distributions payable	$ 15,936	$ 15,844
Accounts payable and accrued expenses	20,513	38,112
Other liabilities	11,728	15,304
Line of credit payable	--	--
Notes payable	1,470,000	1,470,000
Total liabilities	1,518,177	1,539,260
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock and paid in capital, par value $1.00 per share, 20,000,000 shares authorized, 13,900,000 shares issued and outstanding in 2008 and 2007	337,790	337,790
Common stock and paid in capital, par value $1.00 per share, 200,000,000 shares authorized, 101,293,987 and 101,082,717 shares issued and outstanding in 2008 and 2007, respectively	1,546,180	1,545,037
Distributions in excess of net income	(362,683)	(344,735)
Total stockholders’ equity	1,521,287	1,538,092
Total liabilities and stockholders’ equity	$ 3,039,464	$ 3,077,352

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the three months ended March 31, 2008 and 2007
(dollars in thousands, except per share data)
(unaudited)

	2008	2007
REVENUE		
Rental	$ 81,975	$ 69,178
Other	1,448	2,152
	83,423	71,330
EXPENSES		
Interest	23,469	12,536
Depreciation and amortization	22,960	18,068
General and administrative	5,544	5,091
Property	1,263	861
Income taxes	398	245
	53,634	36,801
Income from continuing operations	29,789	34,529
Income (loss) from discontinued operations:		
Real estate acquired for resale by Crest	(269)	1,705
Real estate held for investment	241	89
	(28)	1,794
Net income	29,761	36,323
Preferred stock cash dividends	(6,063)	(6,063)
Net income available to common stockholders	$ 23,698	$ 30,260
Basic and diluted amounts per common share, available to common stockholders:		
Income from continuing operations	$ 0.24	$ 0.28
Net income	$ 0.24	$ 0.30
Weighted average common shares outstanding:		
Basic	100,280,264	100,054,868
Diluted	100,365,576	100,276,300

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2008 and 2007
(dollars in thousands)(unaudited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 29,761	$ 36,323
Adjustments to net income:		
Depreciation and amortization	22,960	18,068
(Income) loss from discontinued operations:		
Real estate acquired for resale	269	(1,705)
Real estate held for investment	(241)	(89)
Gain on sales of land	(439)	(1,806)
Amortization of share-based compensation	1,143	823
Cash provided by (used in) discontinued operations:		
Real estate acquired for resale	(581)	465
Real estate held for investment	36	155
Proceeds from sales of real estate acquired for resale	17,487	10,221
Change in assets and liabilities:		
Accounts receivable and other assets	(171)	29
Accounts payable, accrued expenses and other liabilities	(22,111)	(8,133)
Net cash provided by operating activities	48,113	54,351
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investment properties:		
Continuing operations	439	2,471
Discontinued operations	369	446
Acquisition of and improvements to investment properties	(180,657)	(60,865)
Intangibles acquired in connection with acquisitions of investment properties	(397)	(319)
Restricted escrow funds acquired in connection with acquisitions of investment properties	--	(2,648)
Net cash used in investing activities	(180,246)	(60,915)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distributions to common stockholders	(41,554)	(38,329)
Cash dividends to preferred stockholders	(6,063)	(6,393)
Note issuance cost	(8)	--
Borrowings from lines of credit	--	69,900
Payments under lines of credit	--	(24,100)
Proceeds from other stock issuances	--	303
Proceeds from preferred stock offerings, net	--	9
Net cash provided by (used in) financing activities	(47,625)	1,390
Net decrease in cash and cash equivalents	(179,758)	(5,174)
Cash and cash equivalents, beginning of period	193,101	10,573
Cash and cash equivalents, end of period	$ 13,343	$ 5,399

For supplemental disclosures, see note 12.

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(unaudited)

1. Management Statement

The consolidated financial statements of Realty Income Corporation (“Realty Income”, the “Company”, “we” or “our”) were prepared from our books and records without audit and include all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of results for the interim period presented. Certain of the 2007 balances have been reclassified to conform to the 2008 presentation. Readers of this quarterly report should refer to our audited financial statements for the year ended December 31, 2007, which are included in our 2007 Annual Report on Form 10-K, as certain disclosures that would substantially duplicate those contained in the audited financial statements have not been included in this report.

At March 31, 2008, we owned 2,375 properties, located in 49 states, containing over 19.2 million leasable square feet, along with 15 properties owned by our wholly-owned taxable REIT subsidiary, Crest Net Lease, Inc. (“Crest”). Crest was created to buy and sell properties, primarily to individual investors who are involved in tax-deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the “Tax Code”).

2. Summary of Significant Accounting Policies and Procedures and Recent Accounting Pronouncements

A. The accompanying consolidated financial statements include the accounts of Realty Income, Crest and other entities for which we make operating and financial decisions (i.e., control), after elimination of all material intercompany balances and transactions. All of Realty Income’s and Crest’s subsidiaries are wholly-owned. We have no unconsolidated or off-balance sheet investments in variable interest entities.

B. We have elected to be taxed as a real estate investment trust (“REIT”) under the Tax Code. We believe we have qualified and continue to qualify as a REIT. Under the REIT operating structure, we are permitted to deduct distributions paid to our stockholders and generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for federal income taxes of Crest, which are included in discontinued operations.

C. We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues such as financial stability and ability to pay rent when determining collectibility of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was $879,000 at March 31, 2008 and $795,000 at December 31, 2007.

D. Other assets consist of the following (dollars in thousands) at:	March 31, 2008	December 31, 2007
Deferred bond financing costs, net	$ 14,550	$ 14,940
Value of in place and above-market leases, net	11,342	11,211
Prepaid expenses	3,318	3,803
Corporate assets, net of accumulated depreciation and amortization	1,426	1,356
Settlements on treasury lock agreements	542	759
Unamortized credit line fees, net	305	434
Other items	3,131	3,145
	$ 34,614	$ 35,648

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E. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:	March 31, 2008	December 31, 2007
Bond interest payable	$ 10,176	$ 24,987
Other items	10,337	13,125
	$ 20,513	$ 38,112

F. Other liabilities consist of the following (dollars in thousands) at:	March 31, 2008	December 31, 2007
Rent received in advance	$ 6,110	$ 10,626
Security deposits	3,804	2,818
Value of in place below-market leases, net	1,814	1,860
	$ 11,728	$ 15,304

G. Impact of Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement No. 157 sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. Statement No. 157 is described in note 6 below.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115. Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We have elected not to use the fair value measurement provisions of Statement No. 159 for any of our outstanding financial instruments or firm commitments.

In December 2007, the FASB issued Statement No. 141R (revised 2007), Business Combinations. Effective January 1, 2009, Statement No. 141R will change the accounting treatment and disclosures for certain specific items in a business combination. Under Statement No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. We do not expect Statement No. 141R to have an impact on our financial position or results of operations.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interest in Consolidated Financial Statements. Statement No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Statement No. 160 is effective for us at the beginning of 2009. We currently do not have any minority or noncontrolling interest in a subsidiary and we do not expect Statement No. 160 to have an impact on our consolidated financial statements; however, transactions between now and the adoption date of Statement No. 160 could have an impact on our financial position or results of operations.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133. Statement No. 161 enhances required disclosures regarding derivatives and hedging activities to improve the transparency of financial reporting. Statement No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Since we currently have not entered into any derivative instruments, we do not expect Statement No. 161 to have an impact on our financial position or results of operations.

3. Retail Properties Acquired

We acquire land, buildings and improvements that are used by retail operators.

A. During the first three months of 2008, Realty Income invested $181.4 million in 106 new retail properties and properties under development with an initial weighted average contractual lease rate of 8.7%. These 106 properties are located in 14 states, will contain over 705,000 leasable square feet, and are 100% leased with an average lease term of 20.6 years. The initial weighted average contractual lease rate is computed by dividing the estimated aggregate base rent for the first year of each lease by the estimated total cost of the properties.

In comparison, during the first three months of 2007, Realty Income invested $60.9 million in 11 new retail properties and properties under development. These 11 properties are located in 10 states, contain over 345,000 leasable square feet, and are 100% leased with an average lease term of 18.4 years.

B. During the first three months of 2008 and 2007, Crest did not invest in any new retail properties.

C. Crest's property inventory at March 31, 2008 consisted of 15 properties with a total investment of $39.0 million; of which, 14 properties ($31.7 million) are held for sale and one property ($7.3 million) is held for investment as we decided not to sell the property (see note 9). At December 31, 2007, Crest's property inventory consisted of 30 properties with a total investment of $56.2 million, all of which was held for sale.

D. Of the $181.4 million invested by Realty Income in the first quarter of 2008, $10.0 million was used to acquire two properties with existing leases with retail tenants. In accordance with Statement No. 141, Realty Income recorded $397,000 as the intangible value of the in place leases. This amount is recorded to "other assets" on our consolidated balance sheets and amortized over the life of the leases.

Of the $60.9 million invested by Realty Income in the first quarter of 2007, $7.1 million was used to acquire one property with an existing lease with a retail tenant. In accordance with Statement No. 141, Realty Income recorded $1.0 million as the intangible value of the in place lease and $689,000 as the intangible value of the below-market rents. These amounts are recorded to "other assets" and "other liabilities," respectively, on our consolidated balance sheets and are amortized over the life of the lease.

4. Credit Facility

We have a $300 million acquisition credit facility that expires in October 2008, unless extended as provided for in the credit facility agreement. We have the right to extend the credit facility for an additional term of one year (to October 2009). Since May 2007, our investment grade credit ratings provided for financing under the credit facility at LIBOR (London Interbank Offered Rate) plus 60 basis points with a facility commitment fee of 15 basis points, for all-in drawn pricing of 75 basis points over LIBOR.

We did not utilize our credit facility during the first quarter of 2008. The effective borrowing rate at March 31, 2008 was 3.8%. The average borrowing rate on our credit facility during the first quarter of 2007 was 6.0%. Our current credit facility is subject to various leverage and interest coverage ratio limitations. We are and have been in compliance with these covenants.

Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation. We regularly review our credit facility and may seek to extend, renew or replace our credit facility to the extent we deem appropriate. We are currently in discussions with various lenders to determine whether we would rather renew our current facility for an additional year or enter into a new credit facility agreement.

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5. Notes Payable

Our senior unsecured note obligations consist of the following, sorted by maturity date at both March 31, 2008 and December 31, 2007 (dollars in millions):

8.25% notes, issued in October 1998 and due in November 2008	$ 100.0
8% notes, issued in January 1999 and due in January 2009	20.0
5.375% notes, issued in March 2003 and due in March 2013	100.0
5.5% notes, issued in November 2003 and due in November 2015	150.0
5.95% notes, issued in September 2006 and due in September 2016	275.0
5.375% notes, issued in September 2005 and due in September 2017	175.0
6.75% notes, issued in September 2007 and due in August 2019	550.0
5.875% bonds, issued in March 2005 and due in March 2035	100.0
	$ 1,470.0

We anticipate paying off the notes due in 2008 and 2009 by using cash on hand, utilizing our credit facility or issuing new securities.

6. Fair Value of Financial Assets and Liabilities

Statement No. 157 became effective for us at the beginning of 2008 and did not have an impact on our financial position or results of operations. In February 2008, the FASB delayed the effective date of Statement No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to the beginning of 2009.

Statement No. 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. Statement No. 157 also establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This statement applies to fair value measurements that are already required or permitted by most existing FASB accounting standards.

We do not have any financial assets or liabilities that are measured at fair value as of March 31, 2008 on our consolidated balance sheets. Additionally, we do not have any non-financial assets or liabilities that are measured or disclosed at fair value as of March 31, 2008.

We believe that the carrying values reflected in the consolidated balance sheets at March 31, 2008 and December 31, 2007 reasonably approximate the fair values for cash and cash equivalents, accounts receivable, and all liabilities, due to their short-term nature, except for notes payable. In making these assessments, we used estimates. The estimated fair value of the notes payable at March 31, 2008 is $1.345 billion and at December 31, 2007 is $1.413 billion, based upon the closing market price per note or indicative price per each note at March 31, 2008 and December 31, 2007, respectively.

7. Gain on Sales of Real Estate Acquired for Resale by Crest

During the first quarter of 2008, Crest sold 15 properties for $17.5 million, which resulted in a gain of $2.7 million. In comparison, during the first quarter of 2007, Crest sold five properties for $13.4 million, which resulted in a gain of $1.2 million. In 2007, as part of one sale, Crest provided buyer financing of $3.1 million. Crest's gains on sales are reported before income taxes and are included in discontinued operations.

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8. Gain on Sales of Investment Properties and Land by Realty Income

During the first quarter of 2008, we sold one investment property for $369,000, which resulted in a gain of $218,000. The results of operations for this property have been reclassified to discontinued operations. Additionally, we received proceeds from a sale of excess land from one property, which resulted in a gain of $439,000. This gain is included in “other revenue” on our consolidated statements of income because the proceeds were associated with a property that continues to be owned as part of our core operations.

In comparison, during the first quarter of 2007, we sold one investment property for $446,000, which resulted in no gain. Information regarding this property has been reclassified to discontinued operations. In addition, we sold excess land from three properties for $3.8 million, which resulted in a gain of $1.8 million. The gain from the land sales is reported in “other revenue” on our consolidated statements of income because these properties continue to be owned as part of our core operations.

9. Discontinued Operations

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, Realty Income’s operations from two investment properties classified as held for sale at March 31, 2008, plus properties sold in 2008 and 2007, are reported as discontinued operations. Their respective results of operations have been reclassified to “income (loss) from discontinued operations, real estate held for investment” on our consolidated statements of income. We do not depreciate properties that are classified as held for sale.

Crest acquires properties with the intention of reselling them rather than holding them for investment and operating the properties. Consequently, we typically classify properties acquired by Crest as held for sale at the date of acquisition and do not depreciate them. In accordance with Statement No. 144, the operations of Crest’s properties are classified as “income (loss) from discontinued operations, real estate acquired for resale by Crest” on our consolidated statements of income, except for one property which was classified as held for investment during the first quarter of 2008, as described below.

No debt was assumed by buyers of our investment properties, or repaid as a result of our investment property sales, and we do not allocate interest expense to discontinued operations related to real estate held for investment. We allocate interest expense related to borrowings specifically attributable to Crest’s properties. The interest expense amounts allocated to the Crest properties held for sale are included in “income (loss) from discontinued operations, real estate acquired for resale by Crest” on our consolidated statements of income.

If circumstances arise, which were previously considered unlikely and, as a result, we decide not to sell a property previously classified as held for sale, the property is reclassified as real estate held for investment. A property that is reclassified to held for investment is measured and recorded at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for investment, or (ii) the fair value at the date of the subsequent decision not to sell.

During the first quarter of 2008, we determined that one property, acquired by Crest in 2005, no longer met the held for sale criteria because we ceased efforts to sell the property. As a result, investment in real estate of $7.3 million was reclassified from real estate held for sale to real estate held for investment on our consolidated balance sheet at March 31, 2008, and depreciation expense of $735,000 was recorded to our consolidated statement of income for the three months ended March 31, 2008. The results of operations for the property are included in income from continuing operations on our consolidated statements of income.

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Provisions for impairment of $2.4 million were recorded by Crest on two properties held for sale in the first quarter of 2008 and are included in “income (loss) from discontinued operations, real estate acquired for resale by Crest.” The provisions for impairment recorded in the first quarter of 2008 reduced the carrying values to the estimated fair-market value of those properties, net of estimated selling costs. These two properties were leased to a subsidiary of Buffets, Inc. (“Buffets”) and the leases were guaranteed by Buffets. Buffets is a subsidiary of Buffets Holdings, Inc. (“Buffets Holdings”). In January 2008, Buffets Holdings together with each of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U. S. Bankruptcy Code. These two Crest properties and 12 Realty Income properties were rejected by Buffets Holdings in February 2008 and returned to us. No provisions for impairment were recorded by Crest in the first quarter of 2007.

The following is a summary of Crest’s “income (loss) from discontinued operations, real estate acquired for resale” on our consolidated statements of income (dollars in thousands):

Crest’s income (loss) from discontinued operations, real estate acquired for resale		Three months ended 3/31/08		Three months ended 3/31/07
Gain on sales of real estate acquired for resale	$	2,706	$	1,240
Rental revenue		878		2,721
Other revenue		71		6
Interest expense		(549)		(2,004)
General and administrative expense		(162)		(103)
Property expenses		(11)		(5)
Provisions for impairment		(2,394)		--
Income taxes		(808)		(150)
Income (loss) from discontinued operations, real estate acquired for resale by Crest	$	(269)	$	1,705

The following is a summary of Realty Income’s “income from discontinued operations, from real estate held for investment” on our consolidated statements of income (dollars in thousands):

Realty Income’s income from discontinued operations, real estate held for investment		Three months ended 3/31/08		Three months ended 3/31/07
Gain on sales of investment properties	$	218	$	--
Rental revenue		48		169
Depreciation and amortization		(13)		(66)
Property expenses		(12)		(14)
Income from discontinued operations, real estate held for investment	$	241	$	89

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The following is a summary of our total discontinued operations (dollars in thousands, except per share data):

	Three months ended 3/31/08	Three months ended 3/31/07
Real estate acquired for resale by Crest	$ (269)	$ 1,705
Real estate held for investment	241	89
Income (loss) from discontinued operations	$ (28)	$ 1,794
Per common share, basic and diluted	$ 0.00	$ 0.02

10. Distributions Paid and Payable

A. Common Stock

We pay monthly distributions to our common stockholders. The following is a summary of the monthly distributions paid per common share for the first three months of 2008 and 2007:

Month	2008	2007
January	$ 0.13675	$ 0.12650
February	0.13675	0.12650
March	0.13675	0.12650
Total	$ 0.41025	$ 0.37950

At March 31, 2008, a distribution of $0.137375 per common share was payable and was paid in April 2008.

B. Preferred Stock

In 2006, we issued 8.8 million shares of 6.75% Monthly Income Class E cumulative redeemable preferred stock. Beginning December 7, 2011, the Class E preferred shares are redeemable, at our option, for $25 per share. During the first quarter of 2008, we paid three monthly dividends to holders of our Class E preferred stock totaling $0.421875 per share, or $3.7 million, and at March 31, 2008 a monthly dividend of $0.140625 per share was payable and was paid in April 2008. During the first quarter of 2007, we paid three monthly dividends to holders of our Class E preferred stock totaling $0.459375 per share, or $4.0 million. In January 2007, we paid the first Class E preferred dividend of $0.178125, which covered a period of 38 days.

In 2004, we issued 5.1 million shares of 7.375% Monthly Income Class D cumulative redeemable preferred stock. Beginning May 27, 2009, the Class D preferred shares are redeemable, at our option, for $25 per share. During the first quarters of 2008 and 2007, we paid three monthly dividends to holders of our Class D preferred stock totaling $0.4609377 per share, or $2.4 million, and at March 31, 2008 a monthly dividend of $0.1536459 per share was payable and was paid in April 2008.

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11. Net Income Per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted net income per common share is computed by dividing net income available to common stockholders for the period by the weighted average number of common shares that would have been outstanding assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period.

The following is a reconciliation of the denominator of basic net income per common share computation to the denominator of diluted net income per common share computation:

	Three months ended 3/31/08	Three months ended 3/31/07
Weighted average shares used for the basic net income per share computation	100,280,264	100,054,868
Incremental shares from share-based compensation	85,312	221,432
Adjusted weighted average shares used for diluted net income per share computation	100,365,576	100,276,300
Unvested shares from share-based compensation that were anti-dilutive	646,758	400

No stock options were anti-dilutive for the three months ended March 31, 2008 and 2007.

12. Supplemental Disclosures of Cash Flow Information

Interest paid in the first three months of 2008 was $38.1 million and in the first three months of 2007 was $21.5 million.

Interest capitalized to properties under development in the first three months of 2008 was $14,000 and in the first three months of 2007 was $226,000.

Income taxes paid by Realty Income and Crest in the first three months of 2008 totaled $755,000 and in the first three months of 2007 totaled $1.2 million.

The following non-cash investing and financing activities are included in the accompanying consolidated financial statements:

A. Share-based compensation expense for the first three months of 2008 was $1.1 million and for the first three months of 2007 was $823,000.

B. See note 9 for a discussion of impairments recorded by Crest in the first quarter of 2008.

C. Accrued costs on properties under development resulted in an increase in buildings and improvements and accounts payable of $981,000 at March 31, 2008.

D. In the first three months of 2007, Crest sold a property for $4.1 million and received a note of $3.1 million from the buyer, which is included in “other assets” on our consolidated balance sheets.

E. In the first three months of 2007, Realty Income sold a portion of excess land from one property for $1.4 million, which was held in a temporary escrow account.

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F. In connection with the acquisition of seven properties during the first three months of 2007, we acquired restricted escrow funds totaling $2.6 million. We only had limited rights regarding the use of these funds. During the remainder of 2007, all of these funds were invested in improvements to these seven properties.

G. Distributions payable on our balance sheets are comprised of the following declared distributions as of March 31, 2008 and December 31, 2007 (dollars in thousands):

	2008	2007
Common stock distributions	$ 13,915	$ 13,823
Preferred stock dividends	2,021	2,021

13. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 31 industry and activity segments (including properties owned by Crest that are grouped together as a segment). All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, revenue is the only component of segment profit and loss we measure.

The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants as of March 31, 2008 (dollars in thousands):

	Revenue	
For the quarters ended March 31,	2008	2007
Segment rental revenue(1):		
Automotive service	$ 4,001	$ 3,700
Automotive tire services	5,483	5,282
Child care	6,335	6,078
Convenience stores	11,738	9,632
Drug stores	2,879	1,941
Health and fitness	4,522	3,015
Motor vehicle dealerships	2,552	2,363
Restaurants	19,370	13,394
Theaters	7,182	6,514
22 non-reportable segments	17,913	17,259
Total rental revenue	81,975	69,178
Other revenue	1,448	2,152
Total revenue	$ 83,423	$ 71,330

(1) Crest's revenue appears in "income (loss) from discontinued operations, real estate acquired for resale by Crest" and is not included in this table, which covers revenue but does not include revenue classified as part of income (loss) from discontinued operations. Rental revenue from one Crest property held for investment has been included.

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Assets, as of:	March 31, 2008	December 31, 2007
Segment net real estate:		
Automotive service	$ 109,322	$ 110,100
Automotive tire services	212,130	212,747
Child care	90,219	91,178
Convenience stores	482,061	408,119
Drug stores	149,156	100,154
Health and fitness	171,112	169,109
Motor vehicle dealerships	107,240	101,887
Restaurants	773,486	776,973
Theaters	304,156	267,413
22 other non-reportable segments	567,107	586,575
Total segment net real estate	2,965,989	2,824,255
Other intangible assets – Drug stores	7,223	6,988
Other intangible assets – Theaters	2,419	2,496
Other intangible assets – Grocery stores	950	962
Other intangible assets – Automotive tire services	750	765
Other corporate assets	62,133	241,886
Total assets	$ 3,039,464	$ 3,077,352

14. Common Stock Incentive Plan

In 2003, our Board of Directors adopted, and our stockholders approved, the 2003 Incentive Award Plan of Realty Income Corporation (the “Stock Plan”) to enable us to attract and retain the services of directors, employees and consultants, which we consider to be essential to our long-term success. The Stock Plan offers our directors, employees and consultants an opportunity to own stock in Realty Income and/or rights that will reflect our growth, development and financial success. The Stock Plan was amended and restated by our Board of Directors in February 2006 and in May 2007.

Effective January 1, 2006, we adopted FASB Statement No. 123R, Share-Based Payments. Statement No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. Effective January 1, 2002, we adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, and starting January 1, 2002 expensed costs for all stock option awards granted, modified, or settled.

The amount of share-based compensation costs charged against income during the first quarter of 2008 was $1.1 million and during the first quarter of 2007 was $823,000.

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The following table summarizes our common stock grant activity under our Stock Plan. Our common stock grants vest over periods ranging from immediately to 10 years.

	For the three months ended March 31, 2008		For the year ended December 31, 2007	
	Number of shares	Weighted average price (1)	Number of shares	Weighted average price (1)
Outstanding nonvested shares, beginning of year	994,572	$ 19.46	868,726	$ 17.96
Shares granted	212,047	27.01	276,631	27.64
Shares vested	(128,295)	21.53	(149,284)	20.94
Shares forfeited	(777)	25.20	(1,501)	24.81
Outstanding nonvested shares, end of each period	1,077,547	$ 22.20	994,572	$ 19.46

(1) Grant date fair value.

During the first quarter of 2008, we issued 212,047 shares of common stock under our Stock Plan. These shares vest over the following service periods: 350 vested upon grant, 16,000 vest over a service period of one year, 156 vest over a service period of two years, 3,681 vest over a service period of four years, 91,153 vest over a service period of five years and 100,707 vest over a service period of 10 years.

As of March 31, 2008, the remaining unamortized share-based compensation expense totaled $23.9 million, which is being amortized on a straight-line basis over the service period of each applicable award.

The effect of pre-vesting forfeitures on our recorded expense has historically been negligible. Any future pre-vesting forfeitures are also expected to be negligible and we will record the benefit related to such forfeitures as they occur. Under the terms of our Stock Plan, we pay non-refundable dividends to the holders of our nonvested shares. Under Statement No. 123R, the dividends paid to holders of these nonvested shares should be charged as compensation expense to the extent that they relate to nonvested shares that do not or are not expected to vest. Given the negligible historical and prospective forfeiture rate determined by us, we did not record any amount to compensation expense related to dividends paid in 2008 or 2007, nor do we expect to record any amounts in future periods.

No stock options were granted after January 1, 2002 and all outstanding options were fully vested as of December 31, 2006. Stock options were granted with an exercise price equal to the underlying stock's fair market value at the date of grant. Stock options expire ten years from the date they were granted and vested over service periods of one, three, four or five years. As of March 31, 2008, there were 45,007 vested stock options outstanding and exercisable with a weighted average exercise price of $12.71. No stock options were exercised or forfeited in the first quarter of 2008.

15. Commitments and Contingencies

In the ordinary course of business, we are party to various legal actions which we believe are routine in nature and incidental to the operation of our business. We believe that the outcome of the proceedings will not have a material adverse effect upon our consolidated financial position or results of operations.

At March 31, 2008, we have committed $5.2 million under construction contracts. These costs are expected to be paid in the next 12 months. In addition, we also have contingent payments for tenant improvements and leasing costs of $659,000.

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

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q, including documents incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934, as amended. When used in this quarterly report, the words "estimated", "anticipated", "expect", "believe", "intend" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties, and assumptions about Realty Income Corporation, including, among other things:

- Our anticipated growth strategies;
- Our intention to acquire additional properties and the timing of these acquisitions;
- Our intention to sell properties and the timing of these property sales;
- Our intention to re-lease vacant properties;
- Anticipated trends in our business, including trends in the market for long-term net-leases of freestanding, single-tenant retail properties;
- Future expenditures for development projects; and
- Profitability of our subsidiary, Crest Net Lease, Inc. ("Crest").

Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. In particular, some of the factors that could cause actual results to differ materially are:

- Our continued qualification as a real estate investment trust;
- General business and economic conditions;
- Competition;
- Fluctuating interest rates;
- Access to debt and equity capital markets;
- Continued uncertainty in the credit markets;
- Other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters, illiquidity of real estate investments, and potential damages from natural disasters;
- Impairments in the value of our real estate assets;
- Changes in the tax laws of the United States of America;
- The outcome of any legal proceedings to which we are a party; and
- Acts of terrorism and war.

Additional factors that may cause risks and uncertainties include those discussed in the sections entitled "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that this quarterly report was filed with the Securities and Exchange Commission, or SEC. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this quarterly report or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, the forward-looking events discussed in this quarterly report might not occur.

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THE COMPANY

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO per share. Our monthly distributions are supported by the cash flow from our portfolio of retail properties leased to regional and national retail chains. We have in-house acquisition, leasing, legal, retail and real estate research, portfolio management and capital markets expertise. Over the past 39 years, Realty Income and its predecessors have been acquiring and owning freestanding retail properties that generate rental revenue under long-term lease agreements (primarily 15 to 20 years).

In addition, we seek to increase distributions to stockholders and FFO per share through both active portfolio management and the acquisition of additional properties. Our portfolio management focus includes:

- Contractual rent increases on existing leases;
- Rent increases at the termination of existing leases, when market conditions permit; and
- The active management of our property portfolio, including re-leasing vacant properties and selectively selling properties.

In acquiring additional properties, we adhere to a focused strategy of primarily acquiring properties that are:

- Freestanding, single-tenant, retail locations;
- Leased to regional and national retail chains; and
- Leased under long-term, net-lease agreements.

At March 31, 2008, we owned a diversified portfolio:

- Of 2,375 retail properties;
- With an occupancy rate of 97.4%, or 2,314 properties occupied of the 2,375 properties in the portfolio;
- With only 61 properties available for lease;
- Leased to 119 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.2 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,100 square feet.

Of the 2,375 properties in the portfolio, 2,364, or 99.5%, are single-tenant, retail properties and the remaining 11 are multi-tenant properties. At March 31, 2008, 2,304 of the 2,364 single-tenant properties were leased with a weighted average remaining lease term (excluding extension options) of approximately 13.2 years.

In addition, at March 31, 2008, our wholly-owned taxable REIT subsidiary, Crest, had invested $39.0 million in 15 properties, of which $31.7 million is classified as held for sale and $7.3 million is classified as held for investment. Crest was created to buy and sell properties, primarily to individual investors who are involved in tax-deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the “Tax Code”).

We typically acquire retail store properties under long-term leases with retail chain store operators. These transactions generally provide capital to owners of retail real estate and retail chains for expansion or other corporate purposes. Our acquisition and investment activities are concentrated in well-defined target markets and generally focus on retail chains providing goods and services that satisfy basic consumer needs.

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Our net-lease agreements generally:

- Are for initial terms of 15 to 20 years;
- Require the tenant to pay minimum monthly rent and property operating expenses (taxes, insurance and maintenance); and
- Provide for future rent increases based on increases in the consumer price index, fixed increases, or to a lesser degree, additional rent calculated as a percentage of the tenants' gross sales above a specified level.

Investment Philosophy

We believe that owning an actively managed, diversified portfolio of retail properties under long-term, net leases produces consistent and predictable income. Net leases typically require the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, tenants are typically responsible for future rent increases based on increases in the consumer price index, fixed increases or, to a lesser degree, additional rent calculated as a percentage of the tenants' gross sales above a specified level. We believe that a portfolio of properties under long-term leases, coupled with the tenant's responsibility for property expenses, generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

Credit Strategy

We generally provide sale-leaseback financing to less than investment grade retail chains. We typically acquire and lease back properties to regional and national retail chains and believe that within this market we can achieve an attractive risk-adjusted return on the financing we provide to retailers. Since 1970, our overall weighted average occupancy rate at the end of each year has been 98.5%, and the occupancy rate at the end of each year has never been below 97%.

Acquisition Strategy

We seek to invest in industries in which several, well-organized, regional and national retail chains are capturing market share through service, quality control, economies of scale, advertising and the selection of prime retail locations. We execute our acquisition strategy by acting as a source of capital to regional and national retail chain store owners and operators, doing business in a variety of industries, by acquiring and leasing back retail store locations. We undertake thorough research and analysis to identify appropriate industries, tenants and property locations for investment. Our research expertise is instrumental to uncovering net-lease opportunities in markets where our real estate financing program adds value. In selecting real estate for potential investment, we generally seek to acquire properties that have the following characteristics:

- Freestanding, commercially-zoned property with a single tenant;
- Properties that are important retail locations for regional and national retail chains;
- Properties that we deem to be profitable for the retailers;
- Properties that are located within attractive demographic areas relative to the business of their tenants, with high visibility and easy access to major thoroughfares; and
- Properties that can be purchased with the simultaneous execution or assumption of long-term, net-lease agreements, offering both current income and the potential for rent increases.

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RECENT DEVELOPMENTS

Acquisitions During the First Quarter of 2008

During the first quarter of 2008, Realty Income invested $181.4 million in 106 new retail properties and properties under development with an initial weighted average contractual lease rate of 8.7%. These 106 properties are located in 14 states, will contain over 705,000 leasable square feet, and are 100% leased with an average lease term of 20.6 years. The 106 new properties acquired by Realty Income are net-leased to eight different retail chains in the following seven industries: automotive tire service, convenience store, drug store, financial service, motor vehicle dealership, restaurant and theater. There were no acquisitions by Crest in the first quarter of 2008.

At March 31, 2008, Realty Income had invested $2.9 million in three properties that were leased and being developed by the tenant (with development costs funded by Realty Income). Rent on these properties is scheduled to begin at various times during the next twelve months. At March 31, 2008, we had outstanding commitments to pay estimated unfunded development costs totaling approximately
$5.2 million.

The initial weighted average contractual lease rate is computed as estimated contractual net operating income (in a net-leased property that is equal to the base rent or, in the case of properties under development, the estimated base rent under the lease) for the first year of each lease, divided by the estimated total costs. Since it is possible that a tenant could default on the payment of contractual rent, we cannot assure you that the actual return on the funds invested will remain at the percentages listed above.

Investments in Existing Properties

In the first quarter of 2008, we capitalized costs of $685,000 on existing properties in our portfolio, consisting of $131,000 for re-leasing costs and $554,000 for building improvements.

Net Income Available to Common Stockholders

Net income available to common stockholders was $23.7 million in the first quarter of 2008 versus $30.3 million in the same quarter of 2007, a decrease of $6.6 million. On a diluted per common share basis, net income was $0.24 per share in the first quarter of 2008 compared to $0.30 in the first quarter of 2007.

The calculation to determine net income available to common stockholders includes gains from the sales of properties. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders.

The gain recognized during the first quarter of 2008 from the sale of an investment property and from the additional proceeds received from a previous period sale of excess land was $657,000, as compared to a $1.8 million gain recognized from the sales of investment properties for the first quarter of 2007.

Funds from Operations (FFO)

In the first quarter of 2008, our FFO decreased by $602,000, or 1.3%, to $45.9 million versus $46.5 million in the first quarter of 2007. On a diluted per common share basis, FFO was $0.46 in the first quarters of 2008 and 2007.

See our discussion of FFO later in this Management's Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation of net income available to common stockholders to FFO.

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Crest's Property Sales

During the first quarter of 2008, Crest sold 15 properties from its inventory for an aggregate of $17.5 million, which resulted in a gain of $2.7 million. Crest's gains are included in "income (loss) from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

Crest's Property Inventory

At March 31, 2008, Crest had $39.0 million invested in 15 properties. At December 31, 2007, Crest's property inventory totaled $56.2 million in 30 properties. These properties are included in "real estate held for sale, net" on our consolidated balance sheets, except for the $7.3 million at March 31, 2008 that is classified as held for investment.

Increases in Monthly Distributions to Common Stockholders

We continue our 39-year policy of paying distributions monthly. Monthly distributions per share were increased in April 2008 by $0.000625 to $0.137375. The increase in April 2008 was our 42nd consecutive quarterly increase and the 48th increase in the amount of our dividend since our listing on the New York Stock Exchange, or NYSE, in 1994. In the first three months of 2008, we paid three monthly cash distributions per share in the amount of $0.13675, totaling $0.41025. In March 2008 and April 2008, we declared distributions of $0.137375 per share, which were paid in April 2008 and will be paid in May 2008, respectively.

The monthly distribution of $0.137375 per share represents a current annualized distribution of $1.6485 per share, and an annualized distribution yield of approximately 6.1% based on the last reported sale price of our common stock on the NYSE of $27.00 on April 23, 2008. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain our current level of distributions, that we will continue our pattern of increasing distributions per share, or what our actual distribution yield will be in any future period.

LIQUIDITY AND CAPITAL RESOURCES

Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our retail properties. We intend to retain an appropriate amount of cash as working capital. At March 31, 2008, we had cash and cash equivalents totaling $13.3 million.

We believe that our cash and cash equivalents on hand, cash provided from operating activities and borrowing capacity is sufficient to meet our liquidity needs for the foreseeable future. We intend, however, to use additional sources of capital to fund property acquisitions and to repay future borrowings under our credit facility.

$300 Million Acquisition Credit Facility

We have a $300 million revolving, unsecured credit facility that expires in October 2008, unless extended as provided for in the credit facility agreement. Since May 2007, our investment grade credit ratings have provided for financing under the credit facility at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 60 basis points with a facility fee of 15 basis points, for all-in drawn pricing of 75 basis points over LIBOR. At April 23, 2008, we had a borrowing capacity of $300 million available on our credit facility and no outstanding balance.

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We expect to use the credit facility to acquire additional retail properties and for other corporate purposes. Any additional borrowings will increase our exposure to interest rate risk. We have the right to request an increase in the borrowing capacity of the credit facility by up to $100 million, to a total borrowing capacity of $400 million. Any increase in the borrowing capacity is subject to approval by the lending banks on our credit facility.

We regularly review our credit facility and may seek to extend, renew or replace our credit facility, to the extent we deem appropriate. We have the right to extend the credit facility for an additional term of one year (to October 2009). We are currently in discussions with various lenders to determine whether we would rather renew our current facility for an additional year or enter into a new credit facility.

Mortgage Debt

We have no mortgage debt on any of our properties.

Universal Shelf Registration

In April 2006, we filed a shelf registration statement with the SEC, which is effective for a term of three years. In accordance with SEC rules, the amount of the securities to be issued pursuant to this shelf registration statement was not specified when it was filed. The securities covered by this registration statement include common stock, preferred stock, debt securities, or any combination of such securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering. There is no specific limit to the dollar amount of new securities that can be issued under this new shelf registration before it expires in April 2009, and our common stock, preferred stock and notes issued after April 2006 were all issued pursuant to this universal shelf registration statement.

Conservative Capital Structure

We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At April 23, 2008, our total outstanding credit facility borrowings and outstanding notes were $1.47 billion or approximately 32.3% of our total market capitalization of $4.55 billion.

We define our total market capitalization at April 23, 2008 as the sum of:

- Shares of our common stock outstanding of 101,297,237 multiplied by the last reported sales price of our common stock on the NYSE of $27.00 per share on April 23, 2008, or $2.74 billion;
- Aggregate liquidation value (par value of $25 per share) of the Class D preferred stock of $127.5 million;
- Aggregate liquidation value (par value of $25 per share) of the Class E preferred stock of $220 million; and
- Outstanding notes of $1.47 billion.

Historically, we have met our long-term capital needs through the issuance of common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure, however, we may issue additional preferred stock or debt securities from time to time. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were financed by our credit facility or debt securities. However, we cannot assure you that we will have access to the capital markets at terms that are acceptable to us.

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Credit Agency Ratings

We are currently assigned investment grade corporate credit ratings on our senior unsecured notes. Fitch Ratings has assigned a rating of BBB+, Moody's Investors Service has assigned a rating of Baa1 and Standard & Poor's Ratings Group has assigned a rating of BBB to our senior notes. The rating by Standard & Poor's has a "positive" outlook and the ratings by Fitch and Moody's have "stable" outlooks.

We have also been assigned investment grade credit ratings on our preferred stock. Fitch Ratings has assigned a rating of BBB, Moody's has assigned a rating of Baa2 and Standard & Poor's has assigned a rating of BBB- to our preferred stock. The rating by Standard & Poor's has a "positive" outlook and the ratings by Fitch and Moody's have "stable" outlooks.

The credit ratings assigned to us could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that any rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock or common stock.

Notes Outstanding

Our senior unsecured note obligations consist of the following as of March 31, 2008, sorted by maturity date (dollars in millions):

8.25% notes, issued in October 1998 and due in November 2008	$	100.0
8% notes, issued in January 1999 and due in January 2009		20.0
5.375% notes, issued in March 2003 and due in March 2013		100.0
5.5% notes, issued in November 2003 and due in November 2015		150.0
5.95% notes, issued in September 2006 and due in September 2016		275.0
5.375% notes, issued in September 2005 and due in September 2017		175.0
6.75% notes, issued in September 2007 and due in August 2019		550.0
5.875% bonds, issued in March 2005 and due in March 2035		100.0
	$	1,470.0

All of our outstanding notes and bonds have fixed interest rates.

Interest on all of our senior note obligations is paid semiannually, with the exception of the interest on the 8.25% senior notes issued in October 1998, which is paid monthly. All of these notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. We have been in compliance with these covenants since each of the notes were issued.

The following is a summary of the key financial covenants for our senior unsecured notes, as defined and calculated per the terms of our notes. These calculations, which are not based on GAAP measurements, are presented to investors to show our ability to incur additional debt under the terms of our notes only and are not measures of our liquidity or performance. The actual amounts as of March 31, 2008 are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	≤ 60%	42.1%
Limitation on incurrence of secured debt	≤ 40%	0.0%

Debt service coverage (trailing 12 months)	≥ 1.5 x	3.9x
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	238%

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The following table summarizes the payments of each of our obligations as of March 31, 2008 (dollars in millions):

Table of Obligations

Year of Maturity	Credit Facility (1)	Notes	Interest (2)	Ground Leases Paid by Realty Income(3)	Ground Leases Paid by Our Tenants(4)	Other (5)	Totals
2008	$ --	$ 100.0	$ 68.2	$ 0.1	$ 2.7	$ 5.9	$ 176.9
2009	--	20.0	82.5	0.1	3.6	--	106.2
2010	--	--	82.4	0.1	3.5	--	86.0
2011	--	--	82.4	0.1	3.5	--	86.0
2012	--	--	82.4	0.1	3.4	--	85.9
Thereafter	--	1,350.0	505.9	0.9	43.1	--	1,899.9
Totals	$ --	$ 1,470.0	$ 903.8	$ 1.4	$ 59.8	$ 5.9	$ 2,440.9

(1) There was no outstanding credit facility balance on April 23, 2008.
(2) Interest on the credit facility and notes has been calculated based on outstanding balances as of March 31, 2008 through their respective maturity dates.
(3) Realty Income currently pays the ground lessors directly for the rent under the ground leases. A majority of this rent is reimbursed to Realty Income as additional rent from our tenants.
(4) Our tenants, who are generally sub-tenants under the ground leases, are responsible for paying the rent under these ground leases. In the event a tenant fails to pay the ground lease rent, we are primarily responsible.
(5) "Other" consists of $5.2 million of commitments under construction contracts and $659,000 of contingent payments for tenant improvements and leasing costs.

Our credit facility and note obligations are unsecured. Accordingly, we have not pledged any assets as collateral for these obligations.

We anticipate paying off the notes due in 2008 and 2009 by using cash on hand, utilizing our credit facility or issuing new securities.

Preferred Stock Outstanding

In 2004, we issued 5.1 million shares of 7.375% Class D cumulative redeemable preferred stock. Beginning May 27, 2009, shares of Class D preferred stock are redeemable at our option for $25 per share, plus any accrued and unpaid dividends. Dividends on shares of Class D preferred are paid monthly in arrears.

In December 2006, we issued 8.8 million shares of 6.75% Class E cumulative redeemable preferred stock. Beginning December 7, 2011, shares of Class E preferred stock are redeemable at our option for $25 per share, plus any accrued and unpaid dividends. Dividends on shares of Class E preferred stock are paid monthly in arrears.

No Off-Balance Sheet Arrangements or Unconsolidated Investments

We have no unconsolidated or off-balance sheet investments in "variable interest entities" or off-balance sheet financing, nor do we engage in trading activities involving energy or commodity contracts or other derivative instruments.

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As we have no joint ventures, off-balance sheet entities, or mandatory redeemable preferred stock, our financial position or results of operations are currently not affected by Financial Accounting Standard Board Interpretation No. 46R, Consolidation of Variable Interest Entities and Statement of Financial Accounting Standard No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.

Distribution Policy

Distributions are paid monthly to our common, Class D preferred and Class E preferred stockholders if, and when, declared by our Board of Directors.

In order to maintain our tax status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our REIT taxable income (including net capital gains). In 2007, our cash distributions totaled $182.2 million, or approximately 113.6% of our estimated REIT taxable income of $160.4 million. Our estimated REIT taxable income reflects non-cash deductions for depreciation and amortization. Our estimated REIT taxable income is a non-GAAP financial measure presented to show our compliance with REIT distribution requirements and is not a measure of our liquidity or performance.

We intend to continue to make distributions to our stockholders that are sufficient to meet this distribution requirement and that will reduce our exposure to income taxes. Our cash distributions to common stockholders for the first three months of 2008 totaled $41.6 million, representing 90.6% of our funds from operations available to common stockholders of $45.9 million. In comparison, our 2007 cash distributions to common stockholders totaled $157.7 million, representing 83.1% of our funds from operations available to common stockholders of $189.7 million.

The Class D preferred stockholders receive cumulative distributions at a rate of 7.375% per annum on the $25 per share liquidation preference (equivalent to $1.84375 per annum per share). The Class E preferred stockholders receive cumulative distributions at a rate of 6.75% per annum on the $25 per share liquidation preference (equivalent to $1.6875 per annum per share).

Future distributions will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, FFO, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Tax Code, our debt service requirements and any other factors the Board of Directors may deem relevant. In addition, our
credit facility contains financial covenants that could limit the amount of distributions payable by us in the event of a deterioration in our results of operations or financial condition, and which prohibit the payment of distributions on the common or preferred stock in the event that we fail to pay when due (subject to any applicable grace period) any principal or interest on borrowings under our credit facility.

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Distributions of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to stockholders as ordinary income, except to the extent that we recognize capital gains and declare a capital gains dividend or that such amounts constitute "qualified dividend income" subject to a reduced rate of tax. The maximum tax rate of non-corporate taxpayers for "qualified dividend income" has generally been reduced to 15% (until it "sunsets" or reverts to the provisions of prior law, which under current law will occur with respect to taxable years beginning after December 31, 2010). In general, dividends payable by REITs are not eligible for the reduced tax rate on corporate dividends, except to the extent the REIT's dividends are attributable to dividends received from taxable corporations (such as our taxable REIT subsidiary, Crest), to income that was subject to tax at the corporate or REIT level (for example, if we distribute taxable income that we retained and paid tax on in the prior taxable year) or, as discussed above, dividends properly designated by us as "capital gain dividends." Distributions in excess of earnings and profits generally will be treated as a non-taxable reduction in the stockholders' basis in their stock. Distributions above that basis, generally, will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 11.2% of the distributions to our common stockholders, made or deemed to have been made in 2007, were classified as a return of capital for federal income tax purposes. We are unable to predict the portion of future distributions that may be classified as a return of capital.

Matters Pertaining to a Certain Tenant

On January 22, 2008, Buffets Holdings, Inc. ("Buffets Holdings") together with each of its subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Realty Income owned 116 properties and Crest owned three properties leased to subsidiaries of Buffets, Inc. ("Buffets") and guaranteed by Buffets. Buffets is a subsidiary of Buffets Holdings. In February 2008, Buffets Holdings elected to reject the leases for 12 properties owned by Realty Income and two properties owned by Crest, and returned those 14 properties to us. As of March 31, 2008, the annualized rent from these 14 stores previously leased to Buffets was approximately $2.8 million. We believe that the demand in the market for these 14 properties will allow us to find suitable replacement tenants within the next 12 months. Through April 2008, Buffets is current on its rental obligations for the remaining properties owned by Realty Income and Crest. However, there can be no assurance that Buffets will continue to pay rent for the remainder of the lease term for its remaining properties. Based on our analysis of the Buffets locations owned by Realty Income, we believe that the Chapter 11 filing will not have a material adverse affect on our operations and financial position.

RESULTS OF OPERATIONS

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Our consolidated financial statements are the basis for our discussion and analysis of financial condition and results of operations. Preparing our consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. We believe that we have made these estimates and assumptions in an appropriate manner and in a way that accurately reflects our financial condition. We continually test and evaluate these estimates and assumptions using our historical knowledge of the business, as well as other factors, to ensure that they are reasonable for reporting purposes. However, actual results may differ from these estimates and assumptions.

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In order to prepare our consolidated financial statements according to the rules and guidelines set forth by GAAP, many subjective judgments must be made with regard to critical accounting polices. One of these judgments is our estimate for useful lives in determining depreciation expense for our properties. Depreciation of buildings and improvements is computed using the straight–line method over an estimated useful life of 25 years. If we use a shorter or longer estimated useful life it could have a material impact on our results of operations. We believe that 25 years is an appropriate estimate of useful life. No depreciation has been recorded on Crest's properties that are classified as held for sale.

Another significant judgment must be made as to if, and when, impairment losses should be taken on our properties when events or a change in circumstances indicate that the carrying amount of the asset may not be recoverable. Generally, a provision is made for impairment loss if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value. Impairment losses are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. If a property is held for sale, it is carried at the lower of carrying cost or estimated fair value, less cost to sell. The carrying value of our real estate is the largest component of our consolidated balance sheet. If events should occur that require us to reduce the carrying value of our real estate by recording provisions for impairment losses, it could have a material impact on our results of operations.

The following is a comparison of our results of operations for the three months ended March 31, 2008 to the three months ended March 31, 2007.

Rental Revenue

Rental revenue was $82.0 million for the first quarter of 2008 versus $69.2 million for the first quarter of 2007, an increase of $12.8 million, or 18.5%. The increase in rental revenue in the first quarter of 2008 compared to the first quarter of 2007 is primarily attributable to:

- The 106 retail properties acquired by Realty Income in 2008, which generated $1.3 million of rent in the first quarter of 2008;
- The 325 retail properties acquired by Realty Income in 2007, which generated $9.9 million of rent in the first quarter of 2008 compared to $304,000 in the first quarter of 2007, an increase of $9.6 million;
- Same store rents generated on 1,816 properties during the entire first quarters of 2008 and 2007 increased by $959,000, or 1.5%, to $65.9 million from $64.9 million;
- An increase of $227,000 relating to the aggregate of (i) development properties acquired before 2007 that started paying rent in 2007, (ii) properties that were vacant during part of 2008 or 2007, (iii) properties sold during 2008 and 2007 and (iv) lease termination settlements. These items totaled $3.86 million, in aggregate, in the first quarter of 2008 compared to $3.65 million in the same quarter of 2007; and
- An increase in straight-line rent and other non-cash adjustments to rent of $613,000 in the first quarter of 2008 as compared to the first quarter of 2007.

Of the 2,375 properties in the portfolio at March 31, 2008, 2,364, or 99.5%, are single-tenant properties and the remaining 11 are multi-tenant properties. Of the 2,364 single-tenant properties, 2,304, or 97.5%, were net leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 13.2 years at March 31, 2008. Of our 2,304 leased single-tenant properties, 2,100, or 91.1%, were under leases that provide for increases in rents through:

- Primarily base rent increases tied to a consumer price index;
- Fixed increases;
- To a lesser degree, overage rent based on a percentage of the tenants' gross sales; or
- A combination of two or more of the above rent provisions.

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Percentage rent, which is included in rental revenue, was $691,000 in the first quarter of 2008 and $162,000 in the first quarter of 2007. Percentage rent in the first quarter of 2008 was less than 1% of rental revenue and we anticipate percentage rent to continue to be less than 1% of rental revenue for 2008.

Our portfolio of retail real estate, leased primarily to regional and national chains under net leases, continues to perform well and provides dependable lease revenue supporting the payment of monthly dividends to our stockholders. At March 31, 2008, our portfolio of 2,375 retail properties was 97.4% leased with 61 properties available for lease, one of which is a multi-tenant property.

As of April 23, 2008, transactions to lease or sell 26 of the 61 properties available for lease at March 31, 2008 were underway or completed. We anticipate these transactions will be completed during the next several months, although we cannot guarantee that all of these properties can be leased or sold within this period. It has been our experience that approximately 1% to 3% of our property portfolio will be unleased at any given time; however, we cannot assure you that the number of properties available for lease will not exceed these levels.

Interest Expense

Interest expense was $10.9 million higher in the first quarter of 2008 than in the first quarter of 2007, primarily due to higher average outstanding balances and higher interest rates related to our average outstanding borrowings. We issued $550 million of 12-year notes in September 2007 which contributed to the increase in average outstanding balances and higher average interest rates on our debt.

The following is a summary of the components of our interest expense (dollars in thousands):

	Three months ended 3/31/08	Three months ended 3/31/07
Interest on our credit facility and notes	$ 23,061	$ 13,913
Interest included in discontinued operations from real estate acquired for resale by Crest	(549)	(2,004)
Amortization of settlements on treasury lock agreement	218	218
Credit facility commitment fees	114	114
Amortization of credit facility origination costs and deferred bond financing costs	639	521
Interest capitalized	(14)	(226)
Interest expense	$ 23,469	$ 12,536

Credit facility and notes outstanding	Three months ended 3/31/08	Three months ended 3/31/07
Average outstanding balances (dollars in thousands)	$ 1,470,000	$ 928,971
Average interest rates	6.28%	6.07%

At April 23, 2008, the weighted average interest rate on our notes payable of $1.47 billion was 6.28% and the average interest rate on our credit line was 3.76%. There was no outstanding balance on our credit line at April 23, 2008.

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Interest Coverage Ratio

Our interest coverage ratio for the first quarter of 2008 was 3.2 times and for the first quarter of 2007 was 4.6 times. Interest coverage ratio is calculated as: the interest coverage amount (as calculated in the following table) divided by interest expense, including interest recorded to discontinued operations. We consider interest coverage ratio to be an appropriate supplemental measure of a company's ability to meet its interest expense obligations. Our calculation of interest coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures.

The following is a reconciliation of net cash provided by operating activities on our consolidated statements of cash flows to our interest coverage amount (dollars in thousands):

	Three months ended 3/31/08	Three months ended 3/31/07
Net cash provided by operating activities	$ 48,113	$ 54,351
Interest expense	23,469	12,536
Interest expense included in discontinued operations(1)	549	2,004
Income taxes	398	245
Income taxes included in discontinued operations(1)	808	150
Proceeds from sales of real estate acquired for resale(1)	(17,487)	(10,221)
Crest provisions for impairment(1)	(2,394)	--
Gain on sales of real estate acquired for resale(1)	2,706	1,240
Amortization of share-based compensation	(1,143)	(823)
Changes in assets and liabilities:		
Accounts receivable and other assets	171	(29)
Accounts payable, accrued expenses and other liabilities	22,111	8,133
Interest coverage amount	$ 77,301	$ 67,586
Divided by interest expense(2)	$ 24,018	$ 14,539
Interest coverage ratio	3.2	4.6

(1) Crest activities.

(2) Includes interest expense recorded to "income (loss) from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

Fixed Charge Coverage Ratio

Our fixed charge coverage ratio for the first quarter of 2008 was 2.6 times and for the first quarter of 2007 was 3.3 times. Fixed charge coverage ratio is calculated in exactly the same manner as interest coverage ratio, except that preferred stock dividends are also added to the denominator. We consider fixed charge coverage ratio to be an appropriate supplemental measure of a company's ability to make its interest and preferred stock dividend payments. Our calculation of the fixed charge coverage ratio may be different from the calculation used by other companies and, therefore, comparability may be limited. This information should not be considered as an alternative to any GAAP liquidity measures.

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Interest coverage amount divided by interest expense plus preferred stock dividends (dollars in thousands):

	Three months ended 3/31/08	Three months ended 3/31/07
Interest coverage amount	$ 77,301	$ 67,586
Divided by interest expense plus preferred stock dividends(1)	$ 30,081	$ 20,602
Fixed charge coverage ratio	2.6	3.3

(1) Includes interest expense recorded to “income (loss) from discontinued operations, real estate acquired for resale by Crest” on our consolidated statements of income.

Depreciation and Amortization

For the first quarter of 2008, depreciation and amortization was $23.0 million as compared to $18.1 million in the first quarter of 2007. The increase in depreciation and amortization in 2008 was primarily due to the acquisition of properties in 2008 and 2007, which was partially offset by property sales in these years. Depreciation for the first quarter of 2008 includes $735,000 related to one Crest property that was reclassified from held for sale to held for investment during the first quarter of 2008. As discussed in the section entitled “Funds from Operations Available to Common Stockholders,” depreciation and amortization is a non-cash item that is excluded from our calculation of FFO.

General and Administrative Expenses

General and administrative expenses increased by $453,000 to $5.5 million in the first quarter of 2008 as compared to $5.1 million in the first quarter of 2007. In the first quarter of 2008, general and administrative expenses as a percentage of total revenue were 6.6% as compared to 7.1% in the first quarter of 2007. General and administrative expenses increased in total dollars during the first quarter of 2008 primarily due to increases in employee costs. We anticipate that in the remainder of 2008, general and administrative expenses as a percentage of total revenue will remain flat or decrease.

In April 2008 and 2007, we had 73 permanent employees.

Property Expenses

Property expenses are broken down into costs associated with non-net leased multi-tenant properties, unleased single-tenant properties and general portfolio expenses. Expenses related to the multi-tenant and unleased single-tenant properties include, but are not limited to, property taxes, maintenance, insurance, utilities, property inspections, bad debt expense and legal fees. General portfolio costs include, but are not limited to, insurance, legal, bad debt expense, property inspections and title search fees. At March 31, 2008, 61 properties were available for lease, as compared to 48 at December 31, 2007 and 24 at March 31, 2007.

Property expenses were $1.3 million in the first quarter of 2008 and $861,000 in the first quarter of 2007. The increase in property expenses in the first quarter of 2008 is primarily attributable to an increase in bad debt expense and maintenance, utilities, property taxes and legal fees associated with vacant properties.

Income Taxes

Income taxes were $398,000 in the first quarter of 2008 as compared to $245,000 in the first quarter of 2007. These amounts are for city and state income taxes paid by Realty Income. The increase in the first quarter of 2008 is due primarily to an increase in rental revenue resulting in higher city and state income tax expense and higher state tax rates.

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In addition, Crest incurred state and federal income taxes of $808,000 in the first quarter of 2008 as compared to $150,000 in the first quarter of 2007. The increase in Crest's 2008 income taxes, in comparison to 2007, is due to higher taxable income, primarily attributable to higher gain on sales of real estate acquired for resale and lower interest expense. These amounts are included in "income (loss) from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income.

Discontinued Operations

Crest acquires properties with the intention of reselling them rather than holding them as investments and operating the properties. Consequently, we typically classify properties acquired by Crest as held for sale at the date of acquisition and do not depreciate them. The operations of Crest's properties are classified as "income (loss) from discontinued operations, real estate acquired for resale by Crest" on our consolidated statements of income, except for one property which was classified as held for investment during the first quarter of 2008.

If we decide not to sell a property previously classified as held for sale, the property is reclassified as real estate held for investment. A property that is reclassified to held for investment is measured and recorded at the lower of (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for investment, or (ii) the fair value at the date of the subsequent decision not to sell.

During the first quarter of 2008, we determined that one property, acquired by Crest in 2005, no longer met the held for sale criteria because we ceased efforts to sell the property. As a result, investment in real estate of $7.3 million was reclassified from real estate held for sale to real estate held for investment on our consolidated balance sheet at March 31, 2008, and depreciation expense of $735,000 was recorded to our consolidated statement of income for the three months ended March 31, 2008. The results of operations for the property are included in income from continuing operations on our consolidated statements of income.

The following is a summary of Crest's "income (loss) from discontinued operations, real estate acquired for resale" on our consolidated statements of income (dollars in thousands, except per share data):

Crest's income (loss) from discontinued operations, real estate acquired for resale		Three months ended 3/31/08		Three months ended 3/31/07
Gain on sales of real estate acquired for resale	$	2,706	$	1,240
Rental revenue		878		2,721
Other revenue		71		6
Interest expense		(549)		(2,004)
General and administrative expense		(162)		(103)
Property expenses		(11)		(5)
Provisions for impairment		(2,394)		--
Income taxes		(808)		(150)
Income (loss) from discontinued operations, real estate acquired for resale by Crest	$	(269)	$	1,705
Per common share, basic and diluted	$	0.00	$	0.02

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Realty Income’s operations from two investment properties classified as held for sale at March 31, 2008, plus properties sold in 2008 and 2007, have been classified as discontinued operations. The following is a summary of Realty Income’s “income from discontinued operations, real estate held for investment” on our consolidated statements of income (dollars in thousands, except per share data):

Realty Income’s income from discontinued operations, real estate held for investment		Three months ended 3/31/08		Three months ended 3/31/07
Gain on sales of investment properties	$	218	$	--
Rental revenue		48		169
Depreciation and amortization		(13)		(66)
Property expenses		(12)		(14)
Income from discontinued operations, real estate held for investment	$	241	$	89
Per common share, basic and diluted	$	0.00	$	0.00

The following is a summary of our total income (loss) from discontinued operations (dollars in thousands, except per share data):

		Three months ended 3/31/08		Three months ended 3/31/07
Real estate acquired for resale by Crest	$	(269)	$	1,705
Real estate held for investment		241		89
Income (loss) from discontinued operations	$	(28)	$	1,794
Per common share, basic and diluted	$	0.00	$	0.02

Crest’s Property Sales
During the first quarter of 2008, Crest sold 15 properties for $17.5 million, which resulted in a gain of $2.7 million. In comparison, during the first quarter of 2007, Crest sold five properties for $13.4 million, which resulted in a gain of $1.2 million. In the first quarter of 2007, Crest provided buyer financing of $3.1 million. Crest’s gains on sales are reported before income taxes and are included in discontinued operations.

Crest’s Property Inventory
At March 31, 2008, Crest had $39.0 million invested in 15 properties, of which $31.7 million is classified as held for sale and $7.3 million is classified as held for investment.

Gain on Sales of Investment Properties and Land by Realty Income
During the first quarter of 2008, we sold one investment property for $369,000, which resulted in a gain of $218,000. The results of operations for this property have been reclassified to discontinued operations. Additionally, we received proceeds from a sale of excess land from one property, which resulted in a gain of $439,000. This gain is included in “other revenue” on our consolidated statements of income because the proceeds were associated with a property that continues to be owned as part of our core operations.

In comparison, during the first quarter of 2007, we sold one investment property for $446,000, which resulted in no gain. Information regarding this property has been reclassified to discontinued operations. In addition, we sold excess land from three properties for $3.8 million, which resulted in a gain of $1.8 million. The gain from the land sales is reported in “other revenue” on our consolidated statements of income because these properties continue to be owned as

part of our core operations.

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We have an active portfolio management program that incorporates the sale of assets when we believe the reinvestment of the sale proceeds will generate higher returns, enhance the credit quality of our real estate portfolio or extend our average remaining lease term. At March 31, 2008, we classified real estate with a carrying amount of $32.4 million as held for sale on our balance sheet. Additionally, we anticipate selling investment properties from our portfolio that have not yet been specifically identified, from which we anticipate receiving between $10 million and $35 million in proceeds during the next 12 months. We intend to invest these proceeds into new property acquisitions. However, we cannot guarantee that we will sell properties during the next 12 months.

Provisions for Impairment on Real Estate Acquired for Resale by Crest
Provisions for impairment of $2.4 million were recorded by Crest on two properties held for sale in the first quarter of 2008. These two properties were leased to a subsidiary of Buffets and guaranteed by Buffets. In February 2008, Buffets Holdings elected to reject the leases for two properties owned by Crest. No provisions for impairment were recorded by Crest in the first quarter of 2007. The provisions for impairment recorded in the first quarter of 2008 reduced the carrying costs to the estimated fair-market value of those properties, net of estimated selling costs.

Provisions for Impairment on Realty Income Investment Properties
No provisions for impairment were recorded in the first quarters of 2008 and 2007.

Preferred Stock Dividends
Preferred stock cash dividends totaled $6.1 million in the first quarters of 2008 and 2007.

Net Income Available to Common Stockholders
Net income available to common stockholders was $23.7 million in the first quarter of 2008, a decrease of $6.6 million as compared to $30.3 million in the first quarter of 2007.

The calculation to determine net income available to common stockholders includes gains from the sales of properties. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders.

The gain recognized during the first quarter of 2008 from the sale of an investment property and from the additional proceeds received from a previous period sale of excess land was $657,000, as compared to a $1.8 million gain recognized from the sales of investment properties for the first quarter of 2007.

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FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO)

FFO for the first quarter of 2008 decreased by $602,000, or 1.3%, to $45.9 million as compared to $46.5 million in the first quarter of 2007. The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to FFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of common shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

		Three months ended 3/31/08		Three months ended 3/31/07
Net income available to common stockholders	$	23,698	$	30,260
Depreciation and amortization:				
Continuing operations		22,960		18,068
Discontinued operations		13		66
Depreciation of furniture, fixtures and equipment		(77)		(49)
Gain on sales of land and investment properties:				
Continuing operations		(439)		(1,806)
Discontinued operations		(218)		--
FFO available to common stockholders	$	45,937	$	46,539
FFO per common share:				
Basic	$	0.46	$	0.47
Diluted	$	0.46	$	0.46
Distributions paid to common stockholders	$	41,554	$	38,329
FFO in excess of distributions paid to common stockholders	$	4,383	$	8,210
Weighted average number of common shares used for computation per share:				
Basic		100,280,264		100,054,868
Diluted		100,365,576		100,276,300

We define FFO, a non-GAAP measure, consistent with the National Association of Real Estate Investment Trust's definition, as net income available to common stockholders, plus depreciation and amortization of real estate assets, reduced by gains on sales of investment properties and extraordinary items.

We consider FFO to be an appropriate supplemental measure of a REIT's operating performance as it is based on a net income analysis of property portfolio performance that excludes non-cash items such as depreciation. The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, could be less informative. The use of FFO is recommended by the REIT industry as a supplemental performance measure. In addition, FFO is used as a measure of our compliance with the financial covenants of our credit facility.

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Presentation of this information is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO is not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income as an indication of our performance. In addition, FFO should not be considered as an alternative to reviewing our cash flows from operating, investing and financing activities as a measure of liquidity, of our ability to make cash distributions or of our ability to pay interest payments.

Other Non-Cash Items and Capitalized Expenditures

The following information includes non-cash items and capitalized expenditures on existing properties in our portfolio. These items are not included in the adjustments to net income available to common stockholders to arrive at FFO. Analysts and investors often request this supplemental information.

(dollars in thousands)	Three months ended 3/31/08	Three months ended 3/31/07
Amortization of settlement on treasury lock agreement(1)	$ 218	$ 218
Amortization of deferred note financing costs(2)	454	336
Amortization of share-based compensation	1,143	823
Capitalized leasing costs and commissions	(131)	(127)
Capitalized building improvements	(554)	(578)
Straight line rent revenue(3)	(754)	(143)
Crest provisions for impairment	2,394	--

(1) The settlement on the treasury lock agreement resulted from an interest rate risk prevention strategy that we used in 1998, which correlated to a pending issuance of senior note securities. We have not employed this strategy since 1998.

(2) Amortization of deferred note financing costs includes the amortization of costs incurred and capitalized when our notes were issued in May 1997, October 1998, January 1999, March 2003, November 2003, March 2005, September 2005, September 2006 and September 2007. These costs are being amortized over the lives of these notes. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

(3) A negative amount indicates that our straight-line rent revenue was greater than our actual cash rent collected.

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PROPERTY PORTFOLIO INFORMATION

At March 31, 2008, we owned a diversified portfolio:

- Of 2,375 retail properties;
- With an occupancy rate of 97.4%, or 2,314 properties occupied of the 2,375 properties in the portfolio;
- With only 61 properties available for lease;
- Leased to 119 different retail chains doing business in 30 separate retail industries;
- Located in 49 states;
- With over 19.2 million square feet of leasable space; and
- With an average leasable retail space per property of approximately 8,100 square feet.

In addition to our real estate portfolio, our subsidiary, Crest had invested $39.0 million in 15 properties located in 10 states at March 31, 2008. Of the $39.0 million investment by Crest, $31.7 million of properties are classified as held for sale and $7.3 million is classified as held for investment related to one property.

At March 31, 2008, 97.0% of our 2,375 retail properties, or 2,304 properties, were leased under net-lease agreements. A net lease typically require the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, our tenants are typically responsible for future rent increases based on increases in the consumer price index, fixed increases or, to a lesser degree, additional rent calculated as a percentage of the tenants' gross sales above a specified level.

Our net-leased retail properties primarily are leased to regional and national retail chain store operators. Most buildings are single-story structures with adequate parking on site to accommodate peak retail traffic periods. The properties tend to be on major thoroughfares with relatively high traffic counts, adequate access and proximity to a sufficient population base to constitute a suitable market or trade area for the retailer's business.

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Industry Diversification

The following table sets forth certain information regarding Realty Income's property portfolio (excluding properties owned by Crest) classified according to the business of the respective tenants, expressed as a percentage of our total rental revenue:

	Percentage of Rental Revenue(1)						
	For the Quarter Ended	For the Years Ended					
Industries	March 31, 2008	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003	Dec 31, 2002
Apparel stores	1.1%	1.2%	1.7%	1.6%	1.8%	2.1%	2.3%
Automotive collision services	1.0	1.1	1.3	1.3	1.0	0.3	--
Automotive parts	1.8	2.1	2.8	3.4	3.8	4.5	4.9
Automotive service	5.0	5.2	6.9	7.6	7.7	8.3	7.0
Automotive tire services	6.7	7.3	6.1	7.2	7.8	3.1	2.7
Book stores	0.2	0.2	0.2	0.3	0.3	0.4	0.4
Business services	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Child care	7.7	8.4	10.3	12.7	14.4	17.8	20.8
Consumer electronics	0.8	0.9	1.1	1.3	2.1	3.0	3.3
Convenience stores	14.3	14.0	16.1	18.7	19.2	13.3	9.1
Crafts and novelties	0.3	0.3	0.4	0.4	0.5	0.6	0.4
Distribution and office	1.0	0.6	--	--	--	--	--
Drug stores	3.5	2.7	2.9	2.8	0.1	0.2	0.2
Entertainment	1.2	1.4	1.6	2.1	2.3	2.6	2.3
Equipment rental services	0.2	0.2	0.2	0.4	0.3	0.2	--
Financial services	0.2	0.2	0.1	0.1	0.1	--	--
General merchandise	0.7	0.7	0.6	0.5	0.4	0.5	0.5
Grocery stores	0.7	0.7	0.7	0.7	0.8	0.4	0.5
Health and fitness	5.5	5.1	4.3	3.7	4.0	3.8	3.8
Home furnishings	2.3	2.6	3.1	3.7	4.1	4.9	5.4
Home improvement	1.9	2.1	3.4	1.1	1.0	1.1	1.2
Motor vehicle dealerships	3.1	3.1	3.4	2.6	0.6	--	--
Office supplies	1.0	1.1	1.3	1.5	1.6	1.9	2.1
Pet supplies and services	0.8	0.9	1.1	1.3	1.4	1.7	1.7
Private education	0.7	0.8	0.8	0.8	1.1	1.2	1.3
Restaurants	23.7	21.2	11.9	9.4	9.7	11.8	13.5
Shoe stores	--	--	--	0.3	0.3	0.9	0.8

Sporting goods	2.3	2.6	2.9	3.4	3.4	3.8	4.1
Theaters	8.8	9.0	9.6	5.2	3.5	4.1	3.9
Travel plazas	0.2	0.2	0.3	0.3	0.4	0.3	--
Video rental	1.2	1.7	2.1	2.5	2.8	3.3	3.3
Other	2.0	2.3	2.7	3.0	3.4	3.8	4.4
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes rental revenue for all properties owned by Realty Income at the end of each period presented, including revenue from properties reclassified to discontinued operations. Excludes rental revenue from the Crest property held for investment.

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Service Category Diversification

The following table sets forth certain information regarding the properties owned by Realty Income (excluding properties owned by Crest) at March 31, 2008, classified according to the retail business types and the level of services they provide (dollars in thousands):

Industry	Number of Properties	Rental Revenue for the Quarter Ended March 31, 2008(1)	Percentage of Rental Revenue
Tenants Providing Services			
Automotive collision services	13	$ 831	1.0%
Automotive service	238	4,064	5.0
Child care	267	6,340	7.7
Entertainment	8	999	1.2
Equipment rental services	2	150	0.2
Financial services	12	174	0.2
Health and fitness	26	4,522	5.5
Private education	6	576	0.7
Theaters	34	7,182	8.8
Other	10	1,629	2.0
	616	26,467	32.3
Tenants Selling Goods and Services			
Automotive parts (with installation)	29	568	0.7
Automotive tire services	154	5,483	6.7
Business services	2	37	0.1
Convenience stores	573	11,738	14.3
Distribution and office	3	844	1.0
Home improvement	1	57	0.1
Motor vehicle dealerships	21	2,552	3.1
Pet supplies and services	9	607	0.7
Restaurants	659	19,370	23.7
Travel plazas	1	170	0.2
Video rental	34	1,003	1.2
	1,486	42,429	51.8
Tenants Selling Goods			
Apparel stores	6	902	1.1
Automotive parts	59	914	1.1
Book stores	2	156	0.2
Consumer electronics	15	665	0.8
Crafts and novelties	4	216	0.3
Drug stores	51	2,879	3.5
General merchandise	28	595	0.7
Grocery stores	8	536	0.7
Home furnishings	42	1,911	2.3
Home improvement	31	1,465	1.8
Office supplies	10	788	1.0
Pet supplies	3	40	0.1

Sporting goods	14		1,872	2.3
	273		12,939	15.9
Totals	2,375	$	81,835	100.0%

(1) Includes rental revenue for all properties owned by Realty Income at March 31, 2008, including revenue from properties reclassified to discontinued operations of $18. Excludes rental revenue of $158 from the Crest property held for investment.

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Lease Expirations

The following table sets forth certain information regarding Realty Income's property portfolio (excluding properties owned by Crest) regarding the timing of the lease term expirations (excluding extension options) on our 2,304 net leased, single-tenant retail properties as of March 31, 2008 (dollars in thousands):

	Total Portfolio			Initial Expirations(3)			Subsequent Expirations(4)		
Year	Total Number of Leases Expiring(1)	Rental Revenue for the Quarter Ended 3/31/08(2)	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended 3/31/08	% of Total Rental Revenue	Number of Leases Expiring	Rental Revenue for the Quarter Ended 3/31/08	% of Total Rental Revenue
2008	117	$ 2,495	3.2%	62	$ 1,433	1.8%	55	$ 1,062	1.4%
2009	124	2,730	3.5	39	906	1.2	85	1,824	2.3
2010	80	1,701	2.2	35	876	1.1	45	825	1.1
2011	81	2,618	3.3	36	1,595	2.0	45	1,023	1.3
2012	112	2,811	3.6	80	1,975	2.5	32	836	1.1
2013	81	3,602	4.6	68	3,307	4.2	13	295	0.4
2014	48	2,022	2.6	35	1,775	2.3	13	247	0.3
2015	90	2,046	2.6	65	1,475	1.9	25	571	0.7
2016	112	1,909	2.4	111	1,884	2.4	1	25	*
2017	50	2,022	2.6	45	1,934	2.5	5	88	0.1
2018	25	1,095	1.4	24	1,059	1.4	1	36	*
2019	95	4,691	6.0	94	4,497	5.7	1	194	0.3
2020	82	3,030	3.9	79	2,921	3.7	3	109	0.2
2021	150	5,845	7.4	149	5,791	7.3	1	54	0.1
2022	104	3,184	4.0	103	3,135	4.0	1	49	*
2023	244	7,099	9.0	243	7,073	9.0	1	26	*
2024	66	1,934	2.5	66	1,934	2.5	--	--	--
2025	77	6,276	8.0	73	6,208	7.9	4	68	0.1
2026	216	11,270	14.3	214	11,212	14.2	2	58	0.1
2027	165	5,144	6.5	165	5,144	6.5	--	--	--
2028	80	2,363	3.0	76	2,339	3.0	4	24	*
2029	44	889	1.1	44	889	1.1	--	• purchased $900.0 million of Farmer Mac I AgVantage securities;	

- purchased $313.0 million of loans under the Rural Utilities program;
- purchased $652.9 million of Rural Utilities AgVantage securities; and
- purchased $457.9 million of Farmer Mac II USDA-guaranteed portions.

The following table sets forth Farmer Mac I, Farmer Mac II and Rural Utilities loan purchase, LTSPC and guarantee activities for newly originated and current seasoned loans during the periods indicated:

Farmer Mac Loan Purchases, Guarantees and LTSPCs

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Farmer Mac I:			
Loans	$ 382,669	$ 195,318	$ 196,622
LTSPCs	263,741	234,166	530,363
Farmer Mac Guaranteed Securities - AgVantage	900,000	-	475,000
Farmer Mac II:			
USDA Guaranteed Securities	437,751	-	-
Farmer Mac Guaranteed Securities	20,124	346,432	303,941
Rural Utilities:			
Loans	313,028	28,644	-
Farmer Mac Guaranteed Securities - AgVantage	652,924	1,711,009	1,560,676
Total purchases, guarantees and commitments	$ 2,970,237	$ 2,515,569	$ 3,066,602

The increase in business volume under the Farmer Mac I program during 2010 compared to 2009 was attributable to the aggregate purchase of $900.0 million of Farmer Mac I AgVantage securities in seven transactions involving four different issuers, as well as increased loan purchase activity in the Farmer Mac I program due to attractive interest rates offered by Farmer Mac and farmers and ranchers reaching Farmer Mac's commercial bank business partner's sector or borrower exposure limits. Similarly, during 2010, USDA Guaranteed Securities purchased by Farmer Mac were at increased levels compared to similar purchases classified as Farmer Mac II Guaranteed Securities in prior periods. The decrease in business volume under the Farmer Mac I program during 2009 compared to 2008 was attributable in part to Farmer Mac's requirement, beginning in late 2008, that business partners purchase Series C Preferred Stock in connection with new transactions in excess of $20.0 million. That requirement reduced the flow of business volume from some of Farmer Mac's traditional sources during 2009, particularly under the Farmer Mac I program. Farmer Mac eliminated the Series C Preferred Stock investment requirement in December 2009.

The purchase price of newly originated and seasoned eligible loans and portfolios, none of which are delinquent at the time of purchase, is the fair value based on current market interest rates and Farmer Mac's target net yield, which includes an amount to compensate Farmer Mac for credit risk that is similar to the guarantee or commitment fee 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 sells Farmer Mac Guaranteed Securities backed by those loans. Farmer Mac's decision to retain loans it purchases is based on analysis of the underlying funding costs and resulting net interest income achievable over the lives of the loans. The weighted-average age of the Farmer Mac I newly originated and current seasoned loans purchased and retained (excluding the purchases of defaulted loans) during both 2010 and 2009 was less than one year. Of those loans, 73 percent and 54 percent, respectively, had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 15.8 years and 12.7 years, respectively.

During 2010, 2009 and 2008, Farmer Mac securitized loans it purchased and sold the resulting Farmer Mac Guaranteed Securities in the amount of $8.6 million, $28.7 million and $98.8 million, respectively. Of the 2010 transactions, $5.7 million were sold to Zions First National Bank ("Zions") and $2.9 million were sold to AgStar Financial Services, ACA ("AgStar"), both of which are related parties to Farmer Mac. Of the 2009 transactions, $27.8 million was sold to Zions and $0.9 million was sold to AgStar. Of the 2008 transactions, $96.1 million was sold to Zions and $2.7 million was sold to AgStar. 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 I Guaranteed Securities issued during the periods indicated:

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Loans securitized and sold as Farmer Mac I Guaranteed Securities	$ 8,594	$ 28,736	$ 98,843
Farmer Mac Guaranteed Securities - AgVantage	900,000	-	475,000
Conversions of LTSPCs into Farmer Mac I Guaranteed Securities	351,847	-	-
Total Farmer Mac I Guaranteed Securities Issuances	$ 1,260,441	$ 28,736	$ 573,843

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

Outstanding Balance of Farmer Mac Loans, Loans Underlying Farmer Mac Guaranteed Securities and LTSPCs and USDA Guaranteed Securities

	As of December 31,		
	2010	2009	2008
		(in thousands)	
Farmer Mac I:			
Loans	$ 972,206	$ 733,422	$ 781,305
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	3,697	5,307	282,185
Beneficial interests owned by third party investors	821,411	-	-
Farmer Mac Guaranteed Securities	750,217	1,492,239	1,697,983
Farmer Mac Guaranteed Securities - AgVantage	3,886,500	2,993,800	2,998,300
LTSPCs	1,754,597	2,165,706	2,224,181
Farmer Mac II:			
USDA Guaranteed Securities	1,297,439	-	-
Farmer Mac Guaranteed Securities	87,959	1,199,798	1,043,425
Rural Utilities:			
Loans	339,963	28,644	-
Loans held in trusts:			
Beneficial interests owned by Farmer Mac	400,228	412,948	424,941
Farmer Mac Guaranteed Securities - AgVantage	1,902,492	1,689,240	630,000
Total	$ 12,216,709	$ 10,721,104	$ 10,082,320

Of the $12.2 billion outstanding principal balance included in Farmer Mac's three programs as of December 31, 2010, $5.8 billion are 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 and loans underlying LTSPCs and non-AgVantage Farmer Mac Guaranteed Securities, the Farmer Mac Guaranteed Securities structured as AgVantage securities do not pay down 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 AgVantage securities as of December 31, 2010.

AgVantage Balances by Year of Maturity

		As of December 31, 2010 (in thousands)
2011	$	2,453,400
2012		497,000
2013		207,250
2014		760,900
2015		550,250
Thereafter		1,320,192
Total	$	5,788,992

As shown in the table above, \$2.5 billion of the outstanding \$5.8 billion of AgVantage securities matures in 2011. If any institution that issued a maturing AgVantage security does not refinance it through Farmer Mac and Farmer Mac does not find alternate sources of business volume, the Corporation's income could be adversely affected, although the effect on income of less AgVantage business may not be material and will likely not be proportional to the amount of any decrease in business volume as a result of the maturity of AgVantage securities. Of the \$2.5 billion of AgVantage securities that mature in 2011, \$500.0 million was refinanced by Metropolitan Life Insurance Company with Farmer Mac for an additional five year period in January 2011.

As part of fulfilling its guarantee obligations for Farmer Mac I 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 defaulted loans purchased out of Farmer Mac I Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for defaulted loans purchased under an LTSPC is the 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 loans so purchased. See "—Risk Management—Credit Risk – Loans."

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The following table presents Farmer Mac's purchases of newly originated and current seasoned loans under the Farmer Mac I program and purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs for the periods indicated:

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Farmer Mac I newly originated and current seasoned loan purchases	$ 382,669	$ 195,318	$ 196,622
Defaulted loans purchased underlying Farmer Mac I Guaranteed Securities owned by third party investors	3,456	1,157	647
Defaulted loans purchased underlying LTSPCs	2,626	17,896	56,560
Defaulted loans underlying on-balance sheet Farmer Mac I Guaranteed Securities transferred to loans	-	2,216	1,072
Total loan purchases	$ 388,751	$ 216,587	$ 254,901

The purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs are pursuant to Farmer Mac's obligations as guarantor and under its contractual commitments, respectively. Farmer Mac may, in its sole discretion, purchase the defaulted loans underlying Farmer Mac Guaranteed Securities and is obligated to purchase defaulted loans underlying an LTSPC if requested by the counterparty. With respect to the transfer of loans from on-balance sheet Farmer Mac I Guaranteed Securities to loans, when particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac I Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs during 2010, 2009 and 2008 was 5 years, 3 years and 3 years, respectively.

For information regarding sellers in the Farmer Mac I and Farmer Mac II programs, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer Mac Programs—Farmer Mac II—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 Farmer Mac II program (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-guaranteed portions that had not been securitized by Farmer Mac but also included $35.0 million of Farmer Mac II 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-guaranteed portions. The contributed USDA-guaranteed portions had previously been presented as "Farmer Mac Guaranteed Securities" on the consolidated financial statements of Farmer Mac and are now presented as "USDA Guaranteed Securities" on the consolidated balance sheets. 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.

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, 2010, Farmer Mac II LLC held assets with a fair value of $1.4 billion, had debt outstanding of $124.0 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 Farmer Mac II LLC Preferred Stock issued in January 2010, see Notes 5, 9, 12 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 statutory 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 group of institutions. Approximately 97 percent of the voting power of the Class B voting common stock is held by five institutions of the FCS. Approximately 45 percent of the Class A voting common stock is held by three financial institutions, with 31 percent held by one institution.

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 while at the same time providing a return on the investment of its stockholders, including those who do not directly participate in the Farmer Mac secondary market. Farmer Mac's policy is to require financial institutions to own a requisite amount of Farmer Mac Class A or Class B voting common stock, based on the size and type of institution, to participate in the Farmer Mac I program. 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 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 program participant not related to Farmer Mac.

The following table summarizes the material relationships between Farmer Mac and certain related parties. The related parties listed in the table consist of (1) all holders of at least five percent of a class of Farmer Mac voting common stock and (2) other institutions that own less than five percent of a class of Farmer Mac voting common stock but are considered "related parties" through an affiliation with a Farmer Mac director and conduct material business with Farmer Mac. 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 AgFirst and CoBank or the investments of related parties in Farmer Mac's Series B Preferred Stock or Series C Preferred Stock.

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)	Farmer Mac director John Dan Raines, Jr. was a director of AgFirst from 1990 to 2009	· In both 2010 and 2009, Farmer Mac earned approximately $1.9 million in fees attributable to transactions with AgFirst, primarily commitment fees for LTSPCs.
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 director Brian J. O'Keane is the Chief Financial Officer of AgriBank; Farmer Mac director Richard Davidson is a director of AgriBank	· No Farmer Mac program business conducted between the parties.
AgStar Financial Services, ACA	None	Former Farmer Mac director Paul A. DeBriyn, who served on Farmer Mac's board from June 2000 to June 2010, is the Chief Executive Officer of AgStar	· In 2010 and 2009, Farmer Mac received approximately $2.8 million and $3.2 million, respectively, in fees attributable to transactions with AgStar, primarily guarantee fees for Farmer Mac I Guaranteed Securities and commitment fees for LTSPCs. · In 2010 and 2009, Farmer Mac purchased from AgStar approximately $0.1 million and $11.9 million, respectively, of defaulted loans related to ethanol plants pursuant to the terms of the applicable LTSPC agreement. · In 2010 and 2009, AgStar received approximately $1.4 million and $1.6 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.
CoBank, ACB	62,980 shares of Class B voting common stock (12.59% of outstanding Class B stock and 4.11% of total voting common stock outstanding)	Farmer Mac director Brian P. Jackson is the former Chief Financial and Administrative Officer of CoBank (and was a non-officer employee until July 2010)	· No Farmer Mac program business conducted between the parties.

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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
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)	None	· In 2010 and 2009, Farmer Mac earned approximately $1.7 million and $1.9 million, respectively, in fees attributable to transactions with FCBT, primarily commitment fees for LTSPCs.
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)	Farmer Mac director Ernest M. Hodges is an Executive Vice President of Farm Credit West	· In 2010 and 2009, Farmer Mac received approximately $2.9 million and $3.3 million, respectively, in fees attributable to transactions with FCW, primarily guarantee fees for Farmer Mac I Guaranteed Securities and commitment fees for LTSPCs. · In 2010 and 2009, FCW received approximately $1.9 million and $2.2 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.
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 Farmer Mac Rural Utilities program since the program's inception in May 2008. · Transactions with CFC during 2010 and 2009 represented 32.5 percent and 69.2 percent, respectively, of Farmer Mac's total new program volume for those years. · In both 2010 and 2009, Farmer Mac earned guarantee fees of approximately $6.0 million attributable to transactions with CFC. · In 2010 and 2009, Farmer Mac earned interest income of $78.6 million and $55.5 million, respectively, attributable to transactions with CFC. · CFC is currently the only servicer of rural utilities loans in Farmer Mac's Rural Utilities program.

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
U.S. AgBank	100,273 shares of Class B Voting Common Stock (20.04% of outstanding Class B stock and 6.55% of total voting common stock outstanding)	None	· No Farmer Mac program business conducted between the parties.
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 program business 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 2010 and 2009, Farmer Mac's purchases of loans from Zions under the Farmer Mac I program represented approximately 46.1 percent and 39.5 percent, respectively, of Farmer Mac I loan purchase volume for those years. Those purchases represented 11.4 percent and 17.9 percent, respectively, of Farmer Mac's total program volume for those years. · In 2010 and 2009, Farmer Mac received approximately $1.2 million and $1.4 million, respectively, in guarantee fees attributable to transactions with Zions. · In 2010 and 2009, Zions received approximately $1.7 million and $1.6 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.

For more information about related party transactions, see Note 3 to the consolidated financial statements.

Outlook. Farmer Mac foresees opportunities for continued business growth in both the agricultural and rural utilities segments, though the pace of growth will be dictated by the capital demands of the industries and the stability of the financial markets. With lenders in both the agricultural and rural utilities sectors continuing to face capital markets and economic challenges, Farmer Mac represents a potential source of liquidity, capital, and risk management to help lenders meet the borrowing needs of their customers.

Agriculture and Renewable Energy: The agricultural sector is made up of diverse industries that respond in different ways to changes in economic conditions. Those industries often are affected differently, sometimes positively and sometimes negatively, by prevailing economic conditions, which results in cycles where one or more industries may be under stress at any one time. These industries are also affected by commodity inventories, largely as a result of weather patterns and harvest conditions. During 2010, for example, volatility increased for corn and soybean prices as the harvest occurred, which reflected a reduced crop from what the USDA and other sources had forecasted shortly before the harvest. The price increase of feed grains is positive for producers of these commodities, but also will put pressure on profit margins in the protein sector (including dairy). The historic operating losses in the dairy sector have been reduced, but prevailing feed grain prices will take a toll on the recovery, which could lead to higher delinquencies and additional provisions for losses in the Farmer Mac portfolio.

Farmer Mac's support of the renewable energy sector is centered in ethanol production, an industry that has not yet become consistently profitable. Ethanol margins tightened during the first three quarters of 2010 with the last quarter providing improved profit opportunities. Federal support of this industry, in the form of an excise tax credit and an import tariff, were set to expire at the end of 2010 but were renewed by Congress for one additional year at their existing levels. Additionally, the Environmental Protection Agency approved the use of E15 (a blend of gasoline and ethanol) in vehicle model years 2001 and newer but it is likely that the cost of implementing new fuel tanks and pumps will make adoption slow. Due to the high cost of corn and volatile oil prices, ethanol profits will remain highly variable and the support for the ethanol industry itself will continue to be debated.

Conditions in the agricultural sector during 2009 and 2010 were more stable than the national economy in general, but agriculture was not completely insulated from the effects of the economic downturn and remained subject to traditional commodity price cycles and national agricultural and energy policy reconsideration. Farmer Mac will continue to closely monitor developments in industries and geographic areas experiencing stress. The cyclical credit issues related to the agricultural sector are expected to remain within Farmer Mac's historical experience, but are likely to be greater than the historical average.

With respect to the agricultural operating and lending markets, recent farmland sales have reflected the continued strong profits earned by the growers of feed grains (corn, soybeans and wheat), who are most typically located in the Midwest, with land values in that geographic area rapidly increasing. Land values outside the Midwest have also generally increased, though land that has traditionally had a value component tied to long term development uses other than agriculture has shown decline. While this is true of agricultural land values generally, the development value impact in Farmer Mac's agricultural loan portfolio is not significant. Farmer Mac generally expects changes in regional farmland values to remain related to the landowner's profitability from the commodities produced, with land values in the Midwest expected to continue on a strong upward trend in the near term. Farmer Mac continues to closely monitor land value trends and the underlying economic effects within the marketplace, and to tailor underwriting practices to these conditions. Although Farmer Mac underwrites loans with an emphasis on the borrower's repayment capacity, it is noteworthy that the weighted average original LTV for loans in the Farmer Mac I program (excluding loans pledged to secure AgVantage bonds) was approximately 55 percent as of December 31, 2010. Farmer Mac also monitors the establishment and evolution of governmental policies and regulations that affect farmers, ranchers, and lenders, including agricultural polices contained in the current Farm Bill due to expire in 2012. The USDA has begun gathering input in preparation for the expiration of the current Farm Bill.

Rural Utilities: Farmer Mac believes that the rural utilities sector is a strong and growing industry with significant needs for future financing during the next five to ten years, as capital will be needed for industry growth, modernization, and compliance with environmental regulation. The rural utilities industry's demand for loans tends to follow the state of the general economy. Recently, electric consumption has been reduced, which has slowed loan demand. Farmer Mac expects that loan demand will increase as the economy strengthens.

Additionally, much of the electrical power generated by and for rural electric cooperatives uses coal as a fuel. The industry is expected to require additional capital as it invests in clean energy projects and demand-side management and avoids new coal-fired generating projects to deal with future public policy requirements, such as carbon tax, cap and trade legislation, and clean energy incentives. As green energy sources continue to be developed, new power transmission lines will be needed to support the development and operation of new wind and solar power plants to transfer their power from remote locations to the ultimate consumer. These developments could lead to increased or decreased business volume for Farmer Mac in the rural utilities sector depending on how any new initiatives, legislation, or regulations are implemented and their effect on rural utilities cooperative borrowers.

In the near term, Farmer Mac expects that the majority of any new rural utilities business will be in the form of direct credit exposures to both electric distribution and G&T loans through purchases of those loans, rather than indirect credit exposures to those loans through AgVantage transactions. Farmer Mac's ability to grow the rural utilities portion of its business will be limited by Farmer Mac's limits on borrower exposures, its overall risk tolerance, and the ability of Farmer Mac to maintain its funding costs at levels conducive to appropriately price rural utilities loans.

Balance Sheet Review

During first quarter 2010, Farmer Mac adopted two new accounting standards that eliminated the concept of Qualified Special Purpose Entities ("QSPEs") and amended the accounting for transfers of financial assets and the consolidation model for VIEs. The impact upon adoption was an increase in consolidated assets and liabilities of $1.5 billion, which resulted in an incremental regulatory capital requirement of $30.4 million. Pursuant to this new guidance, Farmer Mac routinely assesses its securitization trusts to determine whether it is the primary beneficiary and thereby required to consolidate the assets and liabilities of the trust onto its balance sheet, or if determined not to be the primary beneficiary of a previously consolidated trust, deconsolidate the assets and liabilities from its balance sheet.

As of January 1, 2010, Farmer Mac consolidated $1.1 billion of its outstanding securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities at the request of program participants. Those securitization transactions contain provisions resulting in shared power over default mitigation decisions. For those transactions where the power is shared with a related party (as defined by applicable accounting guidance), Farmer Mac determined itself to be the primary beneficiary and thus is required to consolidate the assets and liabilities of the trust onto its balance sheet. For those transactions where the power was shared with an unrelated party, Farmer Mac was not determined to be the primary beneficiary and is not required to consolidate the assets and liabilities of the trust onto its balance sheet. As of December 31, 2010, $0.6 billion of the $1.3 billion in LTSPC securitization trusts were consolidated.

Determinations about which business partners of Farmer Mac are related parties often depend on whether an officer or director of that business partner is a member of Farmer Mac's board of directors, ten of whom are elected on an annual basis by the holders of Farmer Mac's outstanding voting common stock. Changes in the membership of the board of directors may result in Farmer Mac consolidating a trust previously disclosed as off-balance sheet, or deconsolidating a trust previously consolidated on balance sheet. Although this will have no net effect on Farmer Mac's net income, it may, at times, produce volatility in the statutory minimum capital Farmer Mac is required to hold.

At Farmer Mac's Annual Meeting of Stockholders on June 3, 2010, ten directors were elected to serve one-year terms, nine of whom were re-elected as directors of Farmer Mac and one of whom was new to Farmer Mac's board. As a result of this change in membership of the board of directors, Farmer Mac deconsolidated $0.4 billion of securitization transactions with a business partner that was no longer a related party (as defined by applicable accounting guidance). For more information on Farmer Mac's policy relating to the consolidation of VIEs, see Note 2(q) to the consolidated financial statements. For a discussion of Farmer Mac's related party transactions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Party Transactions" and Note 3 to the consolidated financial statements.

Assets. Total assets as of December 31, 2010 were $9.5 billion, compared to $6.1 billion as of December 31, 2009. The largest driver of the $3.4 billion increase was the new program volume transacted during 2010. Additionally, the consolidation of off-balance sheet Farmer Mac Guaranteed Securities resulting from the adoption of new consolidation guidance resulted in an increase in assets of $0.8 billion. These items are now presented within "Loans held for investment in consolidated trusts" on the consolidated balance sheets.

Farmer Mac's non-program assets increased $0.7 billion to $2.7 billion as of December 31, 2010. As of December 31, 2010, Farmer Mac had $729.9 million of cash and cash equivalents compared to $654.8 million as of December 31, 2009. As of December 31, 2010, Farmer Mac had $1.8 billion of investment securities compared to $1.1 billion as of December 31, 2009.

Liabilities. Total liabilities increased to $9.0 billion as of December 31, 2010 from $5.8 billion as of December 31, 2009. The increase in liabilities was due primarily to an overall increase in notes payable due after one year used to fund program assets. The remaining increase was primarily attributable to the consolidation of certain VIEs with beneficial interests owned by third party investors resulting from the adoption of new consolidation guidance effective January 1, 2010. These items are now presented as "Debt securities of consolidated trusts held by third parties" on the consolidated balance sheets. For more information about Farmer Mac's funding and interest rate risk practices and how financial derivatives are used, see "—Risk Management—Interest Rate Risk." For more information about Farmer Mac's reserve for losses, see "—Risk Management—Credit Risk – Loans."

Capital. As of December 31, 2010, Farmer Mac had total equity of $478.9 million comprised of stockholders' equity of $237.0 million and non-controlling interest – preferred stock of $241.9 million. As of December 31, 2009 Farmer Mac had total equity and mezzanine equity of $340.4 million, of which $144.2 million was mezzanine equity. The increase in total equity during 2010 was primarily the result of raising new capital. On January 25, 2010, Farmer Mac sold $250.0 million of preferred stock of its subsidiary, Farmer Mac II LLC, and used the proceeds to repurchase and retire $150.0 million of outstanding Series B Preferred Stock. That transaction provided Farmer Mac with additional capital at a significantly lower cost, with the net effective cost of the new $250.0 million of Farmer Mac II LLC Preferred Stock of 5.77 percent per year after consideration of the consolidated tax benefits to Farmer Mac. As a result, the net cost of the Farmer Mac II LLC Preferred Stock on Farmer Mac's consolidated financial statements will be approximately $14.4 million per year, compared to an annual cost of $18.0 million per year for the $150.0 million of the retired Series B Preferred Stock (based on the 2010 dividend rate of 12 percent for the Series B Preferred Stock, which would have increased to 14 percent at the end of 2010 and 16 percent in 2011).

Farmer Mac was in compliance with its statutory minimum capital requirement and its risk-based capital standard as of December 31, 2010. Farmer Mac is required to hold capital at the higher of its statutory minimum capital requirement and the amount required by its risk-based capital stress test. As of December 31, 2010, Farmer Mac's core capital totaled $460.6 million and exceeded its statutory minimum capital requirement of $301.0 million by $159.6 million. As of December 31, 2009, Farmer Mac's core capital totaled $337.2 million and exceeded its statutory minimum capital requirement of $217.0 million by $120.2 million. As of December 31, 2010, Farmer Mac's risk-based capital stress test generated a risk-based capital requirement of $42.1 million. Farmer Mac's regulatory capital of $480.7 million exceeded that amount by approximately $438.6 million. Accumulated other comprehensive (loss)/income is not a component of Farmer Mac's core capital or regulatory capital. For further information, see "—Liquidity and Capital Resources—Capital Requirements" and "—Regulatory Matters."

Risk Management

Credit Risk – Loans. 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 Farmer Mac I Guaranteed Securities, LTSPCs and Farmer Mac Guaranteed Securities – Rural Utilities. Farmer Mac has direct credit exposure on loans in non-AgVantage transactions and indirect credit exposure on AgVantage transactions, which involve a general obligation of a lender secured by qualified loans. The credit exposure of Farmer Mac and Farmer Mac II LLC on USDA-guaranteed portions is covered by the full faith and credit of the United States. Farmer Mac believes that the Corporation and Farmer Mac II LLC have little or no credit risk exposure to USDA-guaranteed portions because of the USDA guarantee. As of December 31, 2010, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any business under the Farmer Mac II program and does not expect that the Corporation or Farmer Mac II LLC will incur any such losses in the future.

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 the security. As of December 31, 2010, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future.

Farmer Mac has established underwriting, collateral valuation and documentation standards (including interest rate shock tests for adjustable rate mortgages with initial reset periods of five years or less) for agricultural real estate mortgage loans and rural utilities loans to mitigate the risk of loss from borrower defaults and to provide guidance concerning the management, administration and conduct of underwriting and appraisals to all participating sellers and potential sellers in its programs. 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. Farmer Mac also requires sellers to make representations and warranties regarding the conformity of eligible mortgage loans to these 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. Pursuant to contracts with Farmer Mac and in consideration for servicing fees, Farmer Mac-approved central servicers service loans in accordance with Farmer Mac requirements. Central servicers are responsible to Farmer Mac for serious errors in the servicing of those mortgage loans. Detailed information regarding Farmer Mac's underwriting and collateral valuation standards and seller eligibility requirements are presented in "Business—Farmer Mac Programs—Farmer Mac I—Underwriting and Collateral Valuation (Appraisal) Standards" and "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer Mac Programs—Rural U

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities. The methodology that Farmer Mac uses to determine the level of its allowance for losses is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Allowance for Losses." 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 Farmer Mac Guaranteed Securities and LTSPCs, in accordance with FASB standards on accounting for contingencies and on measuring impairment of individual loans.

The following table summarizes the components of Farmer Mac's allowance for losses as of December 31, 2010 and 2009:

	As of December 31,			
		2010		2009
	(in thousands)			
Allowance for loan losses	$	9,803	$	6,292
Reserve for losses:				
Off-balance sheet Farmer Mac I Guaranteed Securities		635		2,033
LTSPCs		9,677		5,862
Total allowance for losses	$	20,115	$	14,187

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The following table summarizes the changes in the components of Farmer Mac's allowance for losses for each year in the five-year period ended December 31, 2010:

	Allowance for Loan Losses	REO Valuation Allowance	Reserve for Losses	Total Allowance for Losses
		(in thousands)		
Balance as of January 1, 2006	$ 4,876	$ -	$ 3,777	$ 8,653
Provision/(recovery) for losses	(2,396)	155	(1,167)	(3,408)
Charge-offs	(900)	(155)	-	(1,055)
Recoveries	365	-	-	365
Balance as of December 31, 2006	$ 1,945	$ -	$ 2,610	$ 4,555
Provision/(recovery) for losses	(215)	100	(27)	(142)
Charge-offs	(60)	(100)	(386)	(546)
Recoveries	20	-	-	20
Balance as of December 31, 2007	$ 1,690	$ -	$ 2,197	$ 3,887
Provision for losses	14,531	-	3,309	17,840
Charge-offs	(5,308)	-	-	(5,308)
Recoveries	16	-	-	16
Balance as of December 31, 2008	$ 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

Farmer Mac added $4.3 million to the allowance for losses during 2010, compared to $5.2 million in 2009. During 2010 and 2009, Farmer Mac charged off $0.6 million and $8.5 million, respectively, in losses against the allowance for losses. The charge-offs for 2010 and 2009 did not include any amounts related to previously accrued or advanced interest on loans or Farmer Mac I Guaranteed Securities.

As of December 31, 2010, Farmer Mac's allowance for losses totaled $20.1 million, or 47 basis points of the outstanding principal balance of loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities), compared to $14.2 million (32 basis points) as of December 31, 2009.

As of December 31, 2010, Farmer Mac's 90-day delinquencies were $70.2 million (1.63 percent), compared to $49.5 million (1.13 percent) as of December 31, 2009. Ethanol loans comprised $10.9 million of all 90-day delinquencies as of December 31, 2010, compared to $19.1 million as of December 31, 2009. As of December 31, 2010, there were no delinquencies or non-performing assets in Farmer Mac's portfolio of rural utilities loans. As of December 31, 2010, Farmer Mac's non-performing assets totaled $81.8 million (1.90 percent), compared to $62.0 million (1.41 percent) as of December 31, 2009. Loans that have been restructured were insignificant and are included within the reported 90-day delinquency and non-performing asset disclosures. The increase in non-performing assets as of December 31, 2010 compared to December 31, 2009 was primarily due to an increase in the crops and permanent planting segments. The increase within the crops segment was largely attributable to corn loans while timber and greenhouse/nursery loans were the primary drivers of the increase in the permanent planting segment. From quarter to quarter, Farmer Mac anticipates that 90-day delinquencies and non-performing assets will fluctuate, both in dollars and as a percentage of the outstanding portfolio, with higher levels likely at the end of the first and third quarters of each year corresponding to the semi-annual (January 1st and July 1 st) payment characteristics of most Farmer Mac I loans.

As of December 31, 2010, Farmer Mac's ethanol exposure, which includes loans and loans subject to LTSPCs, was $233.8 million with exposure to 29 different plants in 10 states. As of that date, Farmer Mac also had $22.0 million of undisbursed commitments with respect to ethanol loans. Other than the undisbursed commitments and the servicing of troubled ethanol loans, Farmer Mac does not expect to add additional ethanol loans to its portfolio.

The following table presents historical information regarding Farmer Mac's non-performing assets and 90-day delinquencies in the Farmer Mac I program compared to the principal balance of all loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs:

	Outstanding Loans, Guarantees (1), LTSPCs and REO	Non-performing Assets	Percentage	Less: REO and Performing Bankruptcies	90-day Delinquencies	Percentage
	(dollars in thousands)					
As of:						
December 31, 2010	$4,304,120	$81,778	1.90 %	$ 11,530	$ 70,248	1.63 %
September 30, 2010	4,225,346	78,448	1.86 %	13,648	64,800	1.53 %
June 30, 2010	4,299,417	71,300	1.66 %	15,289	56,011	1.30 %
March 31, 2010	4,303,663	83,977	1.95 %	13,542	70,435	1.64 %
December 31, 2009	4,396,642	62,020	1.41 %	12,494	49,526	1.13 %
September 30, 2009	4,379,450	84,779	1.94 %	25,341	59,438	1.36 %
June 30, 2009	4,471,567	97,123	2.17 %	54,816	42,307	0.95 %
March 31, 2009	4,530,892	96,175	2.12 %	9,941	86,234	1.90 %
December 31, 2008	4,983,963	80,032	1.61 %	12,912	67,120	1.35 %

(1) Excludes loans underlying AgVantage securities.

As of December 31, 2010, Farmer Mac individually analyzed $58.5 million of its $94.1 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $35.6 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac recorded specific allowances of $7.4 million for under-collateralized assets as of December 31, 2010. Farmer Mac's non-specific or general allowances were $12.7 million as of December 31, 2010.

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Loans in the Farmer Mac I program are all first mortgage agricultural real estate loans. Accordingly, Farmer Mac's exposure on a loan is limited to the difference between the total of the accrued interest, advances and the principal balance of a loan and 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. Original LTVs (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) are one of many factors Farmer Mac considers in evaluating loss severity. Other factors include, but are not limited to, other underwriting standards, commodity and farming forecasts and regional economic and agricultural conditions.

LTVs depend upon the market value of a property, as determined in accordance with Farmer Mac's collateral valuation standards. As of December 31, 2010, the weighted-average original LTV for loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) was 55 percent, and the weighted-average original LTV for all non-performing assets was 60 percent.

The following table presents outstanding loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and non-performing assets as of December 31, 2010 by year of origination, geographic region and commodity/collateral type:

Farmer Mac I Non-performing Assets as of December 31, 2010

	Distribution of Outstanding Loans, Guarantees, LTSPCs and REO	Outstanding Loans, Guarantees, LTSPCs and REO (1)	Non-performing Assets (2)	Non-performing Asset Rate
		(dollars in thousands)		
By year of origination:				
Before 1997	6 %	$ 257,696	$ 6,403	2.48 %
1997	2 %	104,043	1,706	1.64 %
1998	4 %	156,475	5,071	3.24 %
1999	5 %	213,162	2,369	1.11 %
2000	3 %	110,048	1,328	1.21 %
2001	5 %	202,598	9,250	4.57 %
2002	6 %	269,974	3,592	1.33 %
2003	7 %	322,400	3,049	0.95 %
2004	6 %	279,152	1,503	0.54 %
2005	9 %	403,377	3,053	0.76 %
2006	11 %	436,400	8,172	1.87 %
2007	9 %	407,977	24,607	6.03 %
2008	11 %	439,375	10,216	2.33 %
2009	6 %	264,720	1,459	0.55 %
2010	10 %	436,723	-	0.00 %
Total	100 %	$ 4,304,120	$ 81,778	1.90 %
By geographic region (1):				
Northwest	15 %	$ 660,845	$ 13,786	2.09 %
Southwest	38 %	1,626,398	18,595	1.14 %
Mid-North	22 %	934,879	19,183	2.05 %
Mid-South	12 %	521,294	8,849	1.70 %
Northeast	7 %	317,715	3,591	1.13 %
Southeast	6 %	242,989	17,774	7.31 %
Total	100 %	$ 4,304,120	$ 81,778	1.90 %
By commodity/collateral type:				
Crops	40 %	$ 1,731,380	$ 26,308	1.52 %
Permanent plantings	20 %	865,475	30,025	3.47 %
Livestock	26 %	1,146,458	8,572	0.75 %
Part-time farm	7 %	291,145	5,340	1.83 %
AgStorage and processing (including ethanol facilities)	6 %	246,723	10,892	4.41 %
Other	1 %	22,939	641	2.79 %
Total	100 %	$ 4,304,120	$ 81,778	1.90 %

(1) Excludes loans underlying AgVantage securities.

(2) Includes loans 90 days or more past due, in foreclosure, restructured after delinquency, in bankruptcy (including loans performing under either their original loan terms or a court-approved bankruptcy plan) and real estate owned.

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

The following table presents Farmer Mac's cumulative net credit losses relative to the cumulative original balance for all loans purchased and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of December 31, 2010 by year of origination, geographic region and commodity/collateral type. The purpose of this information is to present information regarding losses relative to original guarantees and commitments.

Farmer Mac I Credit Losses Relative to all
Cumulative Original Loans, Guarantees and LTSPCs
As of December 31, 2010

	Cumulative Original Loans, Guarantees and LTSPCs	Cumulative Net Credit Losses	Cumulative Loss Rate
	(dollars in thousands)		
By year of origination:			
Before 1997	$3,452,417	$1,593	0.05 %
1997	774,002	2,256	0.29 %
1998	1,146,800	3,885	0.34 %
1999	1,168,171	1,291	0.11 %
2000	769,122	2,605	0.34 %
2001	1,130,620	177	0.02 %
2002	1,148,896	-	0.00 %
2003	954,575	58	0.01 %
2004	663,765	32	0.00 %
2005	797,768	131	0.02 %
2006	819,472	7,689	0.94 %
2007	593,011	1,265	0.21 %
2008	585,351	3,559	0.61 %
2009	339,019	1,193	0.35 %
2010	459,824	-	0.00 %
Total	$14,802,813	$25,734	0.17 %
By geographic region (1):			
Northwest	$2,697,919	$10,701	0.40 %
Southwest	5,703,557	7,748	0.14 %
Mid-North	2,532,326	6,709	0.26 %
Mid-South	1,372,510	(259)	-0.02 %
Northeast	1,351,734	83	0.01 %
Southeast	1,144,767	752	0.07 %
Total	$14,802,813	$25,734	0.17 %
By commodity/collateral type:			
Crops	$5,954,083	$3,097	0.05 %
Permanent plantings	3,317,278	9,377	0.28 %
Livestock	3,815,453	3,274	0.09 %
Part-time farm	1,028,831	484	0.05 %
AgStorage and processing (including ethanol facilities) (2)	545,556	9,502	1.74 %
Other	141,612	-	0.00 %
Total	$14,802,813	$25,734	0.17 %

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

(2) Several of the loans underlying agricultural storage and processing LTSPCs are for facilities under construction and, as of December 31, 2010, approximately $22.0 million of the loans were not yet disbursed by the lender.

Analysis of portfolio performance by commodity distribution indicates that losses and collateral deficiencies have been less prevalent in the loans secured by real estate producing agricultural commodities that receive significant government support (such as cotton, soybeans, wheat and corn) and more prevalent in those that do not receive such support (such as the protein sector, permanent plantings and vegetables). However, the level of government support may vary and is not necessarily the primary factor to forecast future losses and collateral deficiencies. In Farmer Mac's experience, another significant determinant of ultimate losses on loans is the degree to which the collateral is specialized or highly improved, such as permanent plantings and facilities.

As adverse economic conditions persist for the agricultural commodities or products related to those types of collateral, the prospective sale value of the collateral is likely to decrease and the related loans may become under-collateralized. This analysis is consistent with corresponding commodity analyses, which indicate that Farmer Mac has experienced higher loss and collateral deficiency rates in its loans classified as permanent plantings as well as storage and processing loans, which include Farmer Mac's exposure to loans on ethanol plants. Most of the loans classified as permanent plantings do not receive significant government support, and are therefore more susceptible to adverse commodity-specific economic trends, and the collateral for storage and processing loans is typically highly improved and specialized. Farmer Mac anticipates that one or more particular commodity groups will be under economic pressure at any one time and actively manages its portfolio to mitigate concentration risks while preserving Farmer Mac's ability to meet the financing needs of all commodity groups. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Outlook."

Analysis of portfolio performance by geographic distribution indicates that, while commodities are the primary determinant of exposure to loss, within most commodity groups certain geographic areas allow greater economies of scale or proximity to markets than others and, consequently, result in more successful farms within the commodity group. Likewise, certain geographic areas offer better growing conditions than others and, consequently, result in more versatile and more successful farms within a given commodity group – and the ability to switch crops among commodity groups. As of December 31, 2010, the properties that secure Farmer Mac's non-performing assets were not concentrated in any region of the country, and many of these borrowers have experienced reduced profit margins caused by rapidly rising operating expenses or expanding business segments followed by a decline in demand for their products.

Farmer Mac's methodologies for pricing its guarantee and commitment fees, managing credit risks and providing adequate allowances for losses consider all of the foregoing factors and information.

Credit Risk – Institutional. Farmer Mac is exposed to credit risk arising from its business relationships with other institutions including:

- issuers of AgVantage securities and other investments held or guaranteed by Farmer Mac;
- sellers and servicers; and
- interest rate swap contract counterparties.

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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, with some level of overcollateralization also required for Farmer Mac I AgVantage securities. The required collateralization level is established at the time of issuance and does not change during the life of the security. In 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. In the event of a default on the general obligation, Farmer Mac would have recourse to the pledged collateral and have rights to the ongoing borrower payments of principal and interest.

Outstanding AgVantage on-balance sheet Farmer Mac I Guaranteed Securities totaled $941.5 million as of December 31, 2010 and $48.8 million as of December 31, 2009. Farmer Mac Guaranteed Securities – Rural Utilities structured as AgVantage transactions issued by CFC and held by Farmer Mac totaled $1.9 billion as of December 31, 2010, and $1.7 billion as of December 31, 2009. In addition, outstanding off-balance sheet AgVantage transactions totaled $3.0 billion as of December 31, 2010 and December 31, 2009. As of December 31, 2010, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future.

The following table provides information about the issuers of AgVantage securities, as well as the required collateralization levels for those transactions as of December 31, 2010 and 2009.

	December 31, 2010				December 31, 2009			
Counterparty	Balance	Credit Rating	Required Collateralization		Balance	Credit Rating	Required Collateralization	
	(dollars in thousands)							
MetLife (1)	$2,750,000	AA-	103	%	$2,500,000	AA-	103	%
CFC	1,902,492	A	100	%	1,689,240	A	100	%
M&I Bank (2)	475,000	BBB- *+	106	%	475,000	BBB	106	%
Rabo Agrifinance, Inc.	600,000	N/A	106	%	-	-	-	
Rabobank N.A.	50,000	N/A	106	%	-	-	-	
Other (3)	11,500	N/A	111% to 120	%	18,800	N/A	111% to 120	%
Total outstanding	$5,788,992				$4,683,040			

(1) Includes securities issued by Metropolitan Life Insurance Company and MetLife Insurance Company of Connecticut.
(2) M&I Bank is on a credit watch positive (*+). In December 2010, BMO Financial Group of Canada agreed to purchase M&I Bank.
(3) Consists of AgVantage securities issued by 4 different issuers as of December 31, 2010 and 6 different issuers as of December 31, 2009.

Farmer Mac manages institutional credit risk related to sellers and servicers by requiring those institutions to meet Farmer Mac's standards for creditworthiness. Farmer Mac monitors the financial condition of those institutions by evaluating financial statements and bank credit rating agency reports. For more information on Farmer Mac's approval of sellers, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers." Credit risk related to interest rate swap contracts i discussed in "—Risk Management—Interest Rate Risk" and Note 6 to the consolidated financial statements.

Credit Risk – Other Investments. As of December 31, 2010, Farmer Mac had $729.9 million of cash and cash equivalents and $1.8 billion of investment securities. The management of the credit risk inherent in these investments is governed by Farmer Mac's own policies and FCA's Liquidity and Investment Regulations. Subsequent to significant losses on investments incurred during 2008, Farmer Mac conducted an extensive review of its investment policies and operations with a view to strengthening policies, procedures, and oversight of its investment portfolio and related funding strategies. This review was concluded during first quarter 2009 and its findings were implemented during 2009, with the goals of minimizing the Corporation's exposure to financial market volatility, preserving capital, and supporting the Corporation's access to the debt markets.

In general, FCA's Liquidity and Investment Regulations and Farmer Mac's policies require each investment or issuer of an investment to be highly rated by an NRSRO. Investments in mortgage securities and asset-backed securities are required to have a rating in the highest NRSRO category. Corporate debt securities with maturities of no more than five years but more than three years are required to be rated in one of the two highest categories; corporate debt securities with maturities of three years or less are required to be rated in one of the three highest categories. There are investments for which a rating is not required, such as obligations of the United States or diversified investment funds regulated under the Investment Company Act of 1940. Investments in diversified investment funds are further limited to those funds that are holding only instruments approved for direct investment by Farmer Mac.

FCA's Liquidity and Investment Regulations and Farmer Mac's policies also establish concentration limits, which are intended to limit exposure to any one counterparty. FCA's Liquidity and Investment Regulations limit Farmer Mac's total credit exposure to any single issuer of securities and uncollateralized financial derivatives to 25 percent of the Corporation's regulatory capital (as of December 31, 2010, 25 percent of Farmer Mac's regulatory capital was $120.2 million). This limitation is not applied to the obligations of the United States or to qualified investment funds. The limitation applied to the obligations of any GSE is 100 percent of Farmer Mac's regulatory capital. Since June 2009, Farmer Mac's policies applicable to new investments limited the Corporation's total credit exposure to any single issuer of securities and uncollateralized financial derivatives to the lower of (1) 10 percent of the Corporation's regulatory capital and (2) 50 percent of the expected net interest income from the investment portfolio over 12 months. In June 2010, Farmer Mac revised its policy to limit the Corporation's total exposure to any single issuer of securities (other than GSEs and Government Agencies) and uncollateralized financial derivatives to 5 percent of the Corporation's regulatory capital.

Interest Rate Risk. Farmer Mac is subject to interest rate risk on all assets held for investment because of possible timing differences in the cash flows of the assets and related liabilities. This risk is primarily related to loans held and on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities due to the ability of borrowers to prepay their mortgages before the scheduled maturities, thereby increasing the risk of asset and liability cash flow mismatches. Cash flow mismatches in a changing interest rate environment can reduce the earnings of the Corporation if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments when Farmer Mac's funding costs cannot be correspondingly reduced, or if assets repay more slowly than expected and the associated debt must be replaced by higher-cost debt.

Yield maintenance provisions and other prepayment penalties contained in many agricultural mortgage and rural utilities loans reduce, but do not eliminate, prepayment risk, particularly in the case of a defaulted loan where yield maintenance may not be collected. Those provisions require borrowers to make an additional payment when they prepay their loans so that, when reinvested with the prepaid principal, yield maintenance payments generate substantially the same cash flows that would have been generated had the loan not prepaid. Those provisions create a disincentive to prepayment and compensate the Corporation for some of its interest rate risks. As of December 31, 2010, 14 percent of the total outstanding balance of loans in the Farmer Mac I program where Farmer Mac either owned the loan or the beneficial interest in the underlying loan had yield maintenance provisions and 7 percent had other forms of prepayment protection (together covering 38 percent of all loans with fixed interest rates). Of the Farmer Mac I new and current loans purchased in 2010, less than one percent had yield maintenance or another form of prepayment protection (covering less than one percent of all loans with fixed interest rates). As of December 31, 2010, none of the USDA Guaranteed Securities or USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities had yield maintenance provisions; however, 10 percent contained prepayment penalties. Of the USDA-guaranteed portions purchased in 2010, 2 percent contained various forms of prepayment penalties. As of December 31, 2010, 76 percent of the rural utilities loans owned by Farmer Mac had yield maintenance provisions. Of the rural utilities loans purchased in 2010, 53 percent had yield maintenance provisions. As of December 31, 2010, all of the rural utilities loans held in trusts where Farmer Mac owned the beneficial interest in the underlying loan had yield maintenance provisions.

Taking into consideration the prepayment provisions and the default probabilities associated with its mortgage assets, Farmer Mac uses prepayment models to project and value cash flows associated with these assets. Because borrowers' behaviors in various interest rate environments may change over time, Farmer Mac periodically evaluates the effectiveness of these models compared to actual prepayment experience and adjusts and refines the models as necessary to improve the precision of subsequent prepayment forecasts.

The following table presents Farmer Mac's on-balance sheet program assets based on their interest rate characteristics.

Outstanding Balance of Loans Held, Loans Underlying On-Balance Sheet
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

	As of December 31,	
	2010	2009
	(in thousands)	
Fixed rate (10-yr. wtd. avg. term)	$ 3,662,363	$ 1,923,697
5- to 10-year ARMs and resets	1,907,266	1,422,403
1-Month to 3-Year ARMs	1,133,871	723,017
Total held in portfolio	$ 6,703,500	$ 4,069,117

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The goal of interest rate risk management at Farmer Mac is to create and maintain a portfolio that generates stable earnings and value across a variety of interest rate environments. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar durations and cash flows so that they will perform similarly as interest rates change. To achieve this match, Farmer Mac issues discount notes and both callable and non-callable medium-term notes across a spectrum of maturities. Farmer Mac issues callable debt to offset the prepayment risk associated with some loans. By using a blend of liabilities that includes callable debt, the interest rate sensitivities of the liabilities tend to increase or decrease as interest rates change in a manner similar to changes in the interest rate sensitivities of the assets. Farmer Mac also uses financial derivatives to better match the durations of the Corporation's assets and liabilities, thereby reducing overall interest rate sensitivity.

As of December 31, 2010, $0.9 billion of the $1.8 billion of investment securities (51 percent) were floating rate securities with rates that adjust within one year or fixed rate securities with original maturities between three months and one year. See Note 4 to the consolidated financial statements for more information on investment securities. These investments are funded using:

- a series of discount note issuances in which each successive discount note is issued and matures on or about the corresponding interest rate reset date of the related investment;
- floating rate notes having similar interest rate reset provisions as the related investment; or
- fixed rate notes swapped to floating rates having similar interest rate reset provisions as the related investment.

Farmer Mac is also subject to interest rate risk on loans, including loans that Farmer Mac has committed to acquire (other than through LTSPCs) but has not yet purchased. When Farmer Mac commits to purchase such loans, it is exposed to interest rate risk between the time it commits to purchase the loans and the time it either:

- sells Farmer Mac Guaranteed Securities backed by the loans; or
- issues debt to retain the loans in its portfolio (although issuing debt to fund the loans as investments does not fully eliminate interest rate risk due to the possible timing differences in the cash flows of the assets and related liabilities, as discussed above).

Farmer Mac manages the interest rate risk related to such loans, and any related Farmer Mac Guaranteed Securities or debt issuance, through the use of forward sale contracts on the debt of other GSEs and futures contracts involving U.S. Treasury securities. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both Treasury rates and spreads on Farmer Mac debt and certain Farmer Mac Guaranteed Securities.

Recognizing that interest rate sensitivity may change with the passage of time and as interest rates change, Farmer Mac assesses this exposure on a regular basis and, if necessary, readjusts its portfolio of assets and liabilities by:

- purchasing mortgage assets in the ordinary course of business;
- refunding existing liabilities; or
- using financial derivatives to alter the characteristics of existing assets or liabilities.

An important “stress test” of Farmer Mac’s exposure to long-term interest rate risk is the measurement of the sensitivity of its market value of equity (“MVE”) to yield curve shocks. MVE represents management’s estimate of the present value of all future cash flows from on- and off-balance sheet assets, liabilities and financial derivatives, discounted at current interest rates and appropriate spreads. Farmer Mac’s MVE sensitivity decreased significantly during 2010. This reduction in sensitivity resulted primarily from the $250.0 million of Farmer Mac II LLC Preferred Stock issued by the Corporation’s subsidiary, Farmer Mac II LLC. This transaction extended the duration of Farmer Mac’s liabilities relative to its assets thereby reducing MVE sensitivity. The following schedule summarizes the results of Farmer Mac’s MVE sensitivity analysis as of December 31, 2010 and 2009 to an immediate and instantaneous uniform or “parallel” shift in the yield curve.

Interest Rate Scenario	Percentage Change in MVE from Base Case As of December 31, 2010		2009	
+ 300 bp	-1.0	%	-23.1	%
+ 200 bp	1.9	%	-13.8	%
+ 100 bp	2.6	%	-5.4	%
- 100 bp	*		*	
- 200 bp	*		*	
- 300 bp	*		*	

* As of the date indicated, a parallel shift of the U.S. Treasury yield curve by the number of basis points indicated produced negative interest rates for portions of this curve.

As of December 31, 2010, Farmer Mac’s effective duration gap, another standard measure of interest rate risk that measures the difference between the sensitivities of assets compared to that of liabilities, was minus 1.6 months, compared to plus 1.1 months as of December 31, 2009. This change in duration gap is also attributable primarily to the Farmer Mac II LLC Preferred Stock. Duration matching helps to maintain the correlation of cash flows and stabilize portfolio earnings even when interest rates are not stable.

Farmer Mac also calculates sensitivity of net interest income (“NII”) to changes in interest rates which represents a shorter-term measure of interest rate risk. As of December 31, 2010, a parallel increase of 100 basis points would have decreased Farmer Mac’s NII by 5.5 percent, while a parallel decrease of 25 basis points would have decreased NII by 2.6 percent. Farmer Mac also measures the sensitivity of both MVE and NII to a variety of non-parallel interest rate shocks, including flattening and steepening yield curve scenarios. As of December 31, 2010, both MVE and NII showed similar or lesser sensitivity to non-parallel shocks than to the parallel shocks.

The economic effects of financial derivatives are included in the Corporation’s MVE, NII and duration gap analyses. Farmer Mac enters into the following financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of assets, future cash flows, credit exposure and debt issuance, not for trading or speculative purposes:

- “pay-fixed” interest rate swaps, in which it pays fixed rates of interest to, and receives floating rates of interest from, counterparties;
- “receive-fixed” interest rate swaps, in which it receives fixed rates of interest from, and pays floating rates of interest to, counterparties;

- “basis swaps,” in which it pays variable rates of interest based on one index to, and receives variable rates of interest based on another index from, counterparties; and
- “credit default swaps,” in which it pays a periodic fee to a counterparty in exchange for the counterparty’s agreement to make payments in the event of an instrument’s default or other credit event.

As of December 31, 2010, Farmer Mac had $4.4 billion combined notional amount of interest rate and credit default swaps, with terms ranging from one to fifteen years, of which $1.3 billion were pay-fixed interest rate swaps, $2.9 billion were receive-fixed interest rate swaps, $0.2 billion were basis swaps and $30.0 million were credit default swaps.

Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Specifically, interest rate swaps convert the variable cash flows related to the forecasted issuance of short-term debt into effectively fixed rate medium-term notes that match the anticipated duration and interest rate characteristics of the corresponding assets. Farmer Mac historically evaluated the overall cost of using the swap market as an alternative to issuing medium-term notes in the capital markets, which in most instances resulted in the use of the swap market. Due to volatile capital markets conditions, beginning in October 2008 through most of 2009, Farmer Mac discontinued its practice of synthetically creating long-term fixed rate debt through the use of pay-fixed interest rate swaps and a planned series of discount note issuances, and instead issued medium-term notes as its source of longer-term fixed rate funding. Farmer Mac remains cautious about using pay-fixed interest rate swaps, using that type of financial derivative as necessary to manage specific interest rate risks for specific transactions.

Farmer Mac uses callable interest rate swaps (in conjunction with the issuance of short-term debt) as an alternative to callable medium-term notes with equivalently structured maturities and call options. The call options on the swaps are designed to match the prepayment options on those mortgage assets without prepayment protection. The blended durations of the swaps are also designed to match the duration of the related mortgages over their estimated lives. If the mortgages prepay, the swaps can be called and the short-term debt repaid; if the mortgages do not prepay, the swaps remain outstanding and the short-term debt is rolled over, effectively providing fixed rate callable funding over the lives of the related mortgages. Thus, the economics of the assets are closely matched to the economics of the interest rate swap and funding combination.

As discussed in Note 6 to the consolidated financial statements, Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. All of Farmer Mac’s financial derivative transactions are conducted under standard collateralized agreements that limit Farmer Mac’s potential credit exposure to any counterparty. As of December 31, 2010, Farmer Mac had uncollateralized net exposures of $5.4 million to two counterparties.

Liquidity and Capital Resources

Farmer Mac depends on regular access to the capital markets for liquidity, and Farmer Mac maintained access to the capital markets at favorable rates throughout 2010. Assuming continuation of current market conditions, Farmer Mac believes it has sufficient liquidity and capital resources to support its operations for the next 12 months and for the foreseeable future. Farmer Mac also has a liquidity contingency plan to manage unanticipated disruptions in its access to the capital markets. That plan involves borrowing through repurchase agreement arrangements and the sale of liquid assets. In accordance with the calculation prescribed by FCA regulations, Farmer Mac maintains a minimum of 60 days of liquidity and a target of 90 days of liquidity. In accordance with the methodology prescribed by those regulations, Farmer Mac maintained an average of 144 days of liquidity during 2010 and had 173 days of liquidity as of December 31, 2010.

Debt Issuance. Farmer Mac funds its purchases of program and non-program assets primarily by issuing debt obligations of various maturities in the public capital markets. Debt obligations issued by Farmer Mac include discount notes and fixed and floating rate medium-term notes, including callable notes. Farmer Mac also issues discount notes and medium-term notes to obtain funds to finance investment activities, transaction costs, guarantee payments and LTSPC purchase obligations. See “Business—Financing—Debt Issuance” for more information regarding Farmer Mac’s debt issuance.

Liquidity. The funding and liquidity needs of Farmer Mac’s business programs are driven by the purchase and retention of eligible loans, USDA-guaranteed portions, and Farmer Mac Guaranteed Securities; the maturities of Farmer Mac’s discount notes and medium-term notes; and payment of principal and interest on Farmer Mac Guaranteed Securities. Farmer Mac’s primary sources of funds to meet these needs are:

- principal and interest payments and ongoing guarantee and commitment fees received on loans, Farmer Mac Guaranteed Securities, and LTSPCs;
- principal and interest payments received from investment securities; and
- the issuance of new discount notes and medium-term notes.

Farmer Mac’s short term borrowing costs have remained at favorable levels despite continued market volatility. Prior to 2009, Farmer Mac historically used pay-fixed interest rate swaps, combined with a planned series of discount note issuances, as an alternative source of effectively fixed rate funding. While the swap market may have provided favorable effectively fixed rates, interest rate swap transactions expose Farmer Mac to the risk of future widening of its own issuance spreads versus corresponding LIBOR rates. If the spreads on the Farmer Mac discount notes were to increase relative to LIBOR, Farmer Mac would be exposed to a commensurate reduction on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets. Conversely, if the rates on the Farmer Mac discount notes were to decrease relative to LIBOR, Farmer Mac would benefit from a commensurate increase on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets. Further, the widespread use of pay-fixed interest rate swaps subjected the Corporation’s regulatory capital surplus to the potential adverse effects of a downward move in the fair values of those interest rate swaps. Such a downward move was seen in the third and fourth quarters of 2008. After September 2008, Farmer Mac systematically entered into various offsetting interest rate swaps (receive-fixed swaps) to counteract the fair value movements of previously-existing swaps. These transactions have dampened the susceptibility of Farmer Mac’s regulatory capital surplus to changes in the fair values of its financial derivatives. Currently, Farmer Mac uses a combination of pay-fixed interest rate swaps and receive-fixed interest rate swaps to mitigate its exposure to interest rate risk and continually monitors the effects of fair value changes on Farmer Mac’s regulatory capital surplus.

Farmer Mac maintains cash, cash equivalents (including U.S Treasury bills and other short-term money market instruments) and other investment securities that can be drawn upon for liquidity needs. The following table presents these assets as of December 31, 2010 and 2009:

	As of December 31	
	2010	2009
	(in thousands)	
Cash and cash equivalents	$ 729,920	$ 654,794
Investment securities:		
Guaranteed by U.S. Government and its agencies	929,793	341,874
Guaranteed by GSEs	405,631	234,206
Preferred stock issued by GSEs	169,524	177,359
Corporate debt securities	163,188	245,605
Asset-backed securities principally backed by Government-guaranteed student loans	95,193	132,851
Total	$ 2,493,249	$ 1,786,689

Farmer Mac's asset-backed investment securities include callable, AAA-rated auction-rate certificates ("ARCs"), the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates as set forth in the related transaction documents in the event of a failed auction. These formula-based floating rates, which may at times reset to zero, are intended to preserve the underlying principal balance of the securities and avoid overall cash shortfalls. Accordingly, payments of accrued interest may also be delayed and are ultimately subject to cash availability. Beginning in mid-February 2008, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program ("FFELP") guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac continues to believe that the credit quality of these securities is high, based on the underlying collateralization and the securities' continued AAA ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so. Farmer Mac does not believe that the auction failures will affect the Corporation's liquidity or its ability to fund its operations or make dividend payments. All ARCs held by Farmer Mac are callable by the issuers at par at any time.

Farmer Mac held $64.3 million of ARCs as of December 31, 2010, compared to $72.9 million as of December 31, 2009. As of December 31, 2010, Farmer Mac's carrying value of its ARCs was 87 percent of par. The discounted carrying value reflects uncertainty regarding the ability to obtain par in the absence of any active market trading.

As of December 31, 2010, Farmer Mac had no remaining investment in The Reserve Primary Fund compared to a $5.3 million investment as of December 31, 2009. Farmer Mac received the remaining investment in the Fund on July 16, 2010, resulting in a recovery of $37,000 of amounts previously written off.

The following table presents Farmer Mac's largest holdings as of December 31, 2010. These holdings are presented as either "Cash and cash equivalents" or "Investment securities" on the consolidated balance sheets.

Investment	Issuer	Credit Rating	Amount (2) (in thousands)
Short-term Money Market Funds	Fidelity Investments	AAAm	$ 199,762
Short-term Money Market Funds	Western Asset Management Co.	AAAm	169,900
Short-term Money Market Funds	Invesco AIM	AAAm	114,762
Short-term Money Market Funds	BlackRock, Inc.	AAAm	96,662
GSE Preferred Stock	AgFirst Farm Credit Bank (1)	A	83,035
GSE Preferred Stock	CoBank, ACB (1)	A	78,500
GSE Subordinated Debt	CoBank, ACB (1)	A	70,000
Corporate Debt	Goldman Sachs Group, Inc.	A	50,000
Corporate Debt	Merrill Lynch & Co., Inc. (3)	A	50,000

(1) CoBank, ACB and AgFirst Farm Credit Bank are institutions of the Farm Credit System, a government-sponsored enterprise.

(2) Investment balance does not include premiums paid or unrealized gains or losses on the securities.

(3) Merrill Lynch & Co., Inc. was acquired by Bank of America in January 2009.

Capital Requirements. Farmer Mac's charter establishes three capital standards for the Corporation—minimum, critical and risk-based. The minimum capital requirement is expressed as a percentage of on-balance sheet assets and off-balance sheet obligations. The critical capital requirement is equal to one-half of the minimum capital amount. The charter does not specify the required level of risk-based capital but directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters. For a discussion of the risk-based capital stress test, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—General." Certain enforcement powers are given to FCA depending upon Farmer Mac's compliance with the capital standards. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement Levels."

As of December 31, 2010 and 2009, Farmer Mac was classified as within "level I" (the highest compliance level). The following table sets forth Farmer Mac's minimum capital requirements and surpluses as of December 31, 2010 and 2009.

	As of December 31,					
	2010			2009		
	Amount	Ratio	Capital Required	Amount	Ratio	Capital Required
	(dollars in thousands)					
On-balance sheet assets (1)	$ 9,428,781	2.75 %	$ 259,291	$ 6,068,572	2.75 %	$ 166,886
Outstanding balance of off-balance sheet program assets	5,513,209	0.75 %	41,349	6,651,987	0.75 %	49,890
Financial derivatives (1)	47,434	0.75 %	356	24,348	0.75 %	183
Minimum capital requirement			300,996			216,959
Core capital			460,602			337,153
Capital surplus			$ 159,606			$ 120,194

(1) As defined for determining statutory minimum capital.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2010 was $42.1 million and Farmer Mac's regulatory capital of $480.7 million exceeded that amount by approximately $438.6 million. Farmer Mac's risk-based capital requirement as of December 31, 2009 was $35.9 million and Farmer Mac's regulatory capital of $351.3 million exceeded that amount by approximately $315.4 million.

Contractual Obligations. The following table presents the amount and timing of Farmer Mac's known fixed and determinable contractual obligations by payment date as of December 31, 2010. The payment amounts represent those amounts contractually due to the recipient (including return of discount and interest on debt) and do not include unamortized premiums or discounts or other similar carrying value adjustments.

	One Year or Less	One to Three Years	Three to Five Years (in thousands)	Over Five Years	Total
Discount notes (1)	$3,813,516	$-	$-	$-	$3,813,516
Medium-term notes (1)	699,275	1,237,000	1,882,000	320,000	4,138,275
Interest payments on fixed rate medium-term notes	96,204	167,976	100,652	73,758	438,590
Interest payments on floating rate medium-term notes (2)	423	408	-	-	831
Operating lease obligations (3)	1,230	2,464	2,545	12,305	18,544
Purchase obligations (4)	755	481	3	-	1,239

(1) Future events, including additional issuance of discount notes and medium-term notes and refinancing of those notes, could cause actual payments to differ significantly from these amounts. For more information regarding discount notes and medium-term notes, see Note 7 to the consolidated financial statements.

(2) Calculated using the effective interest rates as of December 31, 2010. As a result, these amounts do not reflect the effects of changes in the contractual interest rates effective on future interest rate reset dates.

(3) Includes amounts due under non-cancelable operating leases for office space and office equipment. See Note 12 to the consolidated financial statements for more information regarding Farmer Mac's minimum lease payments for office space.

(4) Includes minimum amounts due under non-cancelable agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. These agreements include agreements for the provision of consulting services, information technology support, equipment maintenance, and financial analysis software and services. The amounts actually paid under these agreements will likely be higher due to the variable components of some of these agreements under which the ultimate obligation owed is determined by reference to actual usage or hours worked. The table does not include amounts due under agreements that are cancelable without penalty or further payment as of December 31, 2010 and therefore do not represent enforceable and legally binding obligations. The table also does not include amounts due under the terms of employment agreements with members of senior management; nor does it include payments that are based on a varying outstanding loan volume (such as servicing and bond administration fees), as those payments are not known, fixed and determinable contractual obligations.

Farmer Mac enters into financial derivative contracts under which it either receives cash from counterparties, or is required to pay cash to them, depending on changes in interest rates. Financial derivatives are carried on the consolidated balance sheets at fair value, representing the net present value of expected future cash payments or receipts based on market interest rates as of the balance sheet date. The fair values of the contracts change daily as market interest rates change. Because the financial derivative liabilities recorded on the consolidated balance sheet as of December 31, 2010 do not represent the amounts that may ultimately be paid under the financial derivative contracts, those liabilities are not included in the table of contractual obligations presented above. Further information regarding financial derivatives is included in Note 2(h) and Note 6 to the consolidated financial statements.

Contingent Liabilities. In conducting its loan purchase activities, Farmer Mac enters into mandatory delivery commitments to purchase agricultural real estate mortgage loans and USDA-guaranteed portions and corresponding optional commitments to deliver Farmer Mac Guaranteed Securities. As of December 31, 2010 and 2009, Farmer Mac had no optional delivery commitments to deliver Farmer Mac Guaranteed Securities outstanding. In conducting its LTSPC activities, Farmer Mac enters into arrangements whereby it commits to buy agricultural real estate mortgage loans under certain conditions at an undetermined future date. The following table presents these significant commitments.

	As of December 31,	
	2010	2009
	(in thousands)	
LTSPCs	$ 1,754,597	$ 2,165,706
Mandatory commitments to purchase loans and USDA-guaranteed portions	80,390	54,033

Further information regarding Farmer Mac's commitments to purchase and sell loans is included in Note 12 to the consolidated financial statements.

Off-Balance Sheet Arrangements. Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) LTSPCs, and (2) Farmer Mac Guaranteed Securities. Prior to the adoption of new accounting guidance on January 1, 2010 related to the consolidation of off-balance sheet assets, both of these products resulted in the creation of off-balance sheet obligations for Farmer Mac in the ordinary course of its business. Effective January 1, 2010, securitization trusts where Farmer Mac is judged to be the primary beneficiary, as described in Note 2(q) to the consolidated financial statements, are consolidated on-balance sheet and the Farmer Mac I Guaranteed Securities are presented as "Loans held for investment in consolidated trusts." LTSPCs and securitization trusts where Farmer Mac is not judged to be the primary beneficiary still result in the creation of off-balance sheet obligations for Farmer Mac. In performing its obligations related to LTSPCs and Farmer Mac Guaranteed Securities, Farmer Mac would have the right to enforce the underlying loans, and in the event of the default under the terms of those loans, would have access to the underlying collateral.

As of December 31, 2010 and 2009, outstanding off-balance sheet LTSPCs and Farmer Mac Guaranteed Securities totaled $5.5 billion and $6.7 billion, respectively. The following table presents the balance of outstanding LTSPCs and off-balance sheet Farmer Mac Guaranteed Securities as of December 31, 2010 and 2009:

Outstanding Balance of LTSPCs and
Off-Balance Sheet Farmer Mac Guaranteed Securities

	As of December 31,			
		2010		2009
	(in thousands)			
Farmer Mac I obligations:				
Farmer Mac I Guaranteed Securities	$	3,695,217	$	4,437,239
LTSPCs		1,754,597		2,165,706
Total Farmer Mac I obligations		5,449,814		6,602,945
Farmer Mac II Guaranteed Securities		48,103		34,802
Farmer Mac Guaranteed Securities - Rural Utilities		15,292		14,240
Total off-balance sheet	$	5,513,209	$	6,651,987

See "—Risk Management—Credit Risk – Loans" and Note 2(c), Note 2(e), Note 5 and Note 12 to the consolidated financial statements for more information on Farmer Mac Guaranteed Securities and Note 2(o) and Note 12 to the consolidated financial statements for more information on LTSPCs.

Regulatory Matters

In the January 22, 2010 issue of the Federal Register, FCA published for public comment a proposed rule that would revise certain FCA regulations governing the risk-based capital stress test applicable to Farmer Mac. In its announcement of the proposed rule, FCA stated that the purpose of the proposed changes is to update the risk-based capital model to address the addition of rural utilities loans to Farmer Mac's program authorities, to revise the existing treatment of risk mitigations of general obligations in the AgVantage structure, and to revise the treatment of counterparty risk on Farmer Mac's non-program investments. The public comment period for the proposed rule closed April 22, 2010. Farmer Mac has provided written comments on the proposed rule to FCA.

In the preamble to the proposed rule, FCA noted that had the proposed rule been in effect on March 31, 2009, Farmer Mac's risk-based capital requirement as of that date would have been approximately $62.9 million, compared to the risk-based capital requirement of approximately $40.1 million under the existing risk-based capital stress test at that time. Farmer Mac is required to hold capital at the higher of the statutory minimum capital requirement and the amount required by the risk-based capital stress test. As of December 31, 2010, Farmer Mac's minimum capital requirement was $301.0 million, and Farmer Mac's core capital level was $460.6 million, $159.6 million above the minimum capital requirement. Based on the risk-based capital stress test currently in effect, Farmer Mac's risk-based capital requirement as of December 31, 2010 was $42.1 million, and Farmer Mac's regulatory capital of $480.7 million exceeded that requirement by approximately $438.6 million.

On May 19, 2010, FCA issued an advance notice of proposed rulemaking ("ANPRM") regarding the Corporation's investments and liquidity portfolio policies and solicited comments. The public comment period for the ANPRM closed on July 6, 2010, and Farmer Mac provided written comments to the ANPRM on July 2, 2010.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act contains a variety of provisions designed to regulate financial markets, including credit and derivatives transactions. Certain provisions of the Dodd-Frank Act, such as the requirement to retain a five percent credit risk in any securitized loan, do not apply to Farmer Mac or, with respect to any loan sold to Farmer Mac, the seller of such loan. In addition, Farmer Mac's equity and debt securities are excluded from the Dodd-Frank Act's prohibitions on proprietary trading by banking entities. However, certain provisions of the Dodd-Frank Act, such as those regarding derivatives regulation, corporate governance and executive compensation, do not contain specific exemptions for Farmer Mac. Until various studies are completed and final regulations are promulgated pursuant to the Dodd-Frank Act, the full effect of the legislation on the Corporation's business activities and operations cannot be completely assessed, particularly how it will affect the Corporation's hedging operations and costs. Farmer Mac will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act and expects to be able to adapt successfully to any new applicable legislative and regulatory requirements.

Other Matters

The expected effects of recently issued accounting pronouncements on the consolidated financial statements are presented in Note 2(r) to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Farmer Mac is exposed to market risk from changes in interest rates. Farmer Mac manages this market risk by entering into various financial transactions, including financial derivatives, and by monitoring and measuring its exposure to changes in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk" for more information about Farmer Mac's exposure to interest rate risk and its strategies to manage such risk. For information regarding Farmer Mac's use of financial derivatives and related accounting policies, see Note 2(h) and Note 6 to the consolidated financial statements.

Item 8. Financial Statements

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Farmer Mac is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed under the supervision of Farmer Mac's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Farmer Mac's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, Farmer Mac's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010. In making this assessment, the Corporation's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on its evaluation under the COSO criteria, management concluded that the Corporation's internal control over financial reporting as of December 31, 2010 was effective.

Farmer Mac's independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010, as stated in their report appearing below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Federal Agricultural Mortgage Corporation
Washington, DC

In our opinion, the accompanying consolidated balance sheets as of December 31, 2010 and the related consolidated statements of operations, changes in equity, and cash flows for the year then ended present fairly, in all material respects, the financial position of the Federal Agricultural Mortgage Corporation ("Farmer Mac") at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Farmer Mac maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Farmer Mac's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and on Farmer Mac's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, Farmer Mac changed the manner in which it accounts for transfers of financial assets and consolidation for variable interest entities in 2010.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
March 16, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Federal Agricultural Mortgage Corporation
Washington, DC

We have audited the accompanying consolidated balance sheet of Federal Agricultural Mortgage Corporation and subsidiaries (“Farmer Mac”) as of December 31, 2009 and the related consolidated statements of operations, changes in equity, and cash flows for each of the two years in the period ended December 31, 2009. These financial statements are the responsibility of Farmer Mac's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Federal Agricultural Mortgage Corporation and subsidiaries at December 31, 2009 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the consolidated financial statements, Farmer Mac revised its Segment Information to reflect the manner in which its chief operating decision maker had begun assessing Farmer Mac’s performance and making resource allocation decisions. Farmer Mac’s Segment Information from prior periods has been reclassified in accordance with the new segment financial reporting.

/s/ Deloitte & Touche LLP

McLean, Virginia
March 16, 2010
(August 4, 2010 as to Note 14)

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2010	2009
	(in thousands)	
Assets:		
Cash and cash equivalents	$729,920	$654,794
Investment securities:		
Available-for-sale, at fair value	1,677,233	1,041,923
Trading, at fair value	86,096	89,972
Total investment securities	1,763,329	1,131,895
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	2,907,264	2,524,867
Trading, at fair value	-	874,129
Total Farmer Mac Guaranteed Securities	2,907,264	3,398,996
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,005,679	-
Trading, at fair value	311,765	-
Total USDA Guaranteed Securities	1,317,444	-
Loans:		
Loans held for sale, at lower of cost or fair value	1,212,065	666,534
Loans held for investment, at amortized cost	90,674	93,478
Loans held for investment in consolidated trusts, at amortized cost	1,265,663	-
Allowance for loan losses	(9,803)	(6,292)
Total loans, net of allowance	2,558,599	753,720
Real estate owned, at lower of cost or fair value	1,992	739
Financial derivatives, at fair value	41,492	15,040
Interest receivable	90,295	67,178
Guarantee and commitment fees receivable	34,752	55,016
Deferred tax asset, net	14,530	24,146
Prepaid expenses and other assets	20,297	37,289
Total Assets	$9,479,914	$6,138,813
Liabilities, Mezzanine Equity and Equity:		
Liabilities:		
Notes payable:		
Due within one year	$4,509,419	$3,662,898
Due after one year	3,430,656	1,908,713
Total notes payable	7,940,075	5,571,611
Debt securities of consolidated trusts held by third parties	827,411	-
Financial derivatives, at fair value	113,687	107,367
Accrued interest payable	57,131	39,562
Guarantee and commitment obligation	30,308	48,526
Accounts payable and accrued expenses	22,113	23,445
Reserve for losses	10,312	7,895
Total Liabilities	9,001,037	5,798,406
Commitments and Contingencies (Note 12)		
Mezzanine Equity:		
Series B redeemable preferred stock, par value $1,000 per share, 150,000 shares authorized, issued and outstanding as of December 31, 2009 (redemption value	-	144,216

$150,000,000)		
Equity:		
Preferred stock:		
Series C, par value $1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	57,578	57,578
Common stock:		
Class A Voting, $1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
Class B Voting, $1 par value, no maximum authorization, 500,301 shares outstanding	500	500
Class C Non-Voting, $1 par value, no maximum authorization, 8,752,711 shares outstanding as of December 31, 2010 and 8,610,918 shares outstanding as of December 31, 2009	8,753	8,611
Additional paid-in capital	100,050	97,090
Accumulated other comprehensive income	18,275	3,254
Retained earnings	50,837	28,127
Total Stockholders' Equity	237,024	196,191
Non-controlling interest - preferred stock	241,853	-
Total Equity	478,877	196,191
Total Liabilities, Mezzanine Equity and Equity	$9,479,914	$6,138,813

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands, except per share amounts)		
Interest income:			
Investments and cash equivalents	$27,497	$28,727	$113,722
Farmer Mac and USDA Guaranteed Securities	86,742	109,779	96,417
Loans	124,472	37,987	45,556
Total interest income	238,711	176,493	255,695
Total interest expense	142,668	90,585	166,980
Net interest income	96,043	85,908	88,715
Provision for loan losses	(1,893)	(2,853)	(14,531)
Net interest income after provision for loan losses	94,150	83,055	74,184
Non-interest income/(loss):			
Guarantee and commitment fees	24,091	31,805	28,381
(Losses)/gains on financial derivatives	(17,159)	21,297	(130,403)
Gains/(losses) on trading assets	5,270	43,273	(10,639)
Other-than-temporary impairment losses	-	(3,994)	(106,240)
Gains on sale of available-for-sale investment securities	266	3,353	316
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	1,581	1,509
Gains on repurchase of debt	-	-	864
Gain on sale of REO	10	-	-
Lower of cost or fair value adjustment on loans held for sale	(8,748)	(139)	-
Other income	1,244	1,578	1,413
Non-interest income/(loss)	4,974	98,754	(214,799)
Non-interest expense:			
Compensation and employee benefits	17,232	13,683	15,266
General and administrative	8,564	11,167	11,871
Regulatory fees	2,243	2,100	2,050
Real estate owned operating costs, net	2,171	353	116
Provision for losses	2,417	2,389	3,309
Non-interest expense	32,627	29,692	32,612
Income/(loss) before income taxes	66,497	152,117	(173,227)
Income tax expense/(benefit)	13,797	52,517	(22,864)
Net income/(loss)	52,700	99,600	(150,363)
Less: Net income attributable to non-controlling interest - preferred stock dividends	(20,707)	-	-
Net income/(loss) attributable to Farmer Mac	31,993	99,600	(150,363)
Preferred stock dividends	(4,129)	(17,302)	(3,717)
Loss on retirement of preferred stock	(5,784)	-	-
Net income/(loss) available to common stockholders	$22,080	$82,298	$(154,080)
Earnings/(loss) per common share and dividends:			
Basic earnings/(loss) per common share	$2.16	$8.12	$(15.40)
Diluted earnings/(loss) per common share	$2.08	$8.04	$(15.40)

Common stock dividends per common share	$0.20	$0.20	$0.40

See accompanying notes to consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the Year Ended December 31,					
	2010		2009		2008	
	Shares	Amount	Shares	Amount	Shares	Amount
	(in thousands)					
Preferred stock:						
Balance, beginning of period	58	$ 57,578	9	$ 9,200	700	$ 35,000
Issuance of Series C preferred stock	-	-	49	48,378	9	9,200
Redemption of Series A preferred stock	-	-	-	-	(700)	(35,000)
Balance, end of period	58	$ 57,578	58	$ 57,578	9	$ 9,200
Common stock:						
Balance, beginning of period	10,142	$ 10,142	10,132	$ 10,132	9,895	$ 9,895
Issuance of Class C common stock	127	127	10	10	5	5
Repurchase and retirement of Class C common stock	-	-	-	-	(32)	(32)
Exercise of stock options and SARs	15	15	-	-	264	264
Balance, end of period	10,284	$ 10,284	10,142	$ 10,142	10,132	$ 10,132
Additional paid-in capital:						
Balance, beginning of period		$ 97,090		$ 95,572		$ 87,134
Stock-based compensation expense		2,774		2,694		2,759
Issuance of Class C common stock		40		32		65
Repurchase and retirement of Class C common stock		-		-		(285)
Exercise, vesting and cancellation of stock options, SARs and restricted stock		146		(1,208)		5,899
Balance, end of period		$ 100,050		$ 97,090		$ 95,572
Retained earnings/(accumulated deficit):						
Balance, beginning of period		$ 28,127		$ (52,144)		$ 94,357
Net income/(loss) attributable to Farmer Mac		31,993		99,600		(150,363)
Cash dividends:						
Preferred stock, Series A ($3.20)		-		-		(2,240)
Preferred stock, Series B ($8.33, $102.67 and $9.77 per share in 2010, 2009 and 2008, respectively)		(1,250)		(15,400)		(1,467)
Preferred stock, Series C ($50.00, $33.03 and $1.11 per share in 2010, 2009 and 2008,		(2,879)		(1,902)		(10)

respectively)			
Common stock ($0.20 per share in 2010 and 2009, and $0.40 per share in 2008)	(2,049)	(2,027)	(4,015)
Repurchase and retirement of Class C common stock	-	-	(514)
Loss on retirement of preferred stock	(5,784)	-	-
Cumulative effect of adoption of new accounting standard, net of tax	2,679	-	12,108
Balance, end of period	$ 50,837	$ 28,127	$ (52,144)
Accumulated other comprehensive income/(loss):			
Balance, beginning of period	$ 3,254	$ (47,412)	$ (2,793)
Cumulative effect from adoption of FASB guidance on fair value measurements, net of tax	-	-	(11,237)
Balance as of January 1	3,254	(47,412)	(14,030)
Change in unrealized gain/(loss) on available-for-sale securities, net of tax and reclassification adjustments	14,975	50,514	(33,657)
Change in unrealized gain on financial derivatives, net of tax and reclassification adjustments	46	152	275
Balance, end of period	$ 18,275	$ 3,254	$ (47,412)
Total Stockholders' Equity	$ 237,024	$ 196,191	$ 15,348
Non-controlling interest:			
Balance, beginning of period	$ -	$ -	$ -
Preferred stock - Farmer Mac II LLC	241,853	-	-
Balance, end of period	$ 241,853	$ -	$ -
Total Equity	$ 478,877	$ 196,191	$ 15,348
Comprehensive income/(loss):			
Net income/(loss)	$ 52,700	$ 99,600	$ (150,363)
Change in accumulated other comprehensive income/(loss), net of tax	15,021	50,666	(33,382)
Comprehensive income/(loss)	67,721	150,266	(183,745)
Less: Comprehensive income attributable to non-controlling interest	20,707	-	-
Total comprehensive income/(loss)	$ 47,014	$ 150,266	$ (183,745)

See accompanying notes to consolidated financial statements.

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Cash flows from operating activities:			
Net income/(loss)	$52,700	$99,600	$(150,363)
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Net amortization of premiums and discounts on loans, investments, and Farmer Mac and USDA Guaranteed Securities	11,845	3,926	2,001
Amortization of debt premiums, discounts and issuance costs	7,982	12,876	79,404
Net change in fair value of trading securities, financial derivatives and loans held for sale	(16,653)	(105,060)	111,768
Amortization of transition adjustment on financial derivatives	70	152	275
Other-than-temporary impairment losses	-	3,994	106,240
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	(1,581)	(1,509)
Gains on the sale of available-for-sale investment securities	(266)	(3,353)	(316)
Gain on repurchase of debt	-	-	(864)
Gain on the sale of real estate owned	(10)	-	-
Total provision for losses	4,310	5,242	17,840
Deferred income taxes	(524)	35,615	(40,378)
Stock-based compensation expense	2,774	2,694	2,759
Proceeds from repayment and sale of trading investment securities	747	787	6,675
Purchases of loans held for sale	(661,310)	(164,335)	(61,525)
Proceeds from repayment of loans held for sale	98,430	62,125	15,235
Net change in:			
(Increase)/decrease in interest receivable	(23,117)	5,880	18,881
Decrease/(increase) in guarantee and commitment fees receivable	20,264	6,093	(3,305)
Decrease/(increase) in other assets	19,229	76,382	(113,247)
Increase/(decrease) in accrued interest payable	17,569	(908)	(9,534)
(Decrease)/increase in other liabilities	(18,243)	(9,019)	940
Net cash (used in)/provided by operating activities	(484,203)	31,110	(19,023)
Cash flows from investing activities:			
Purchases of available-for-sale investment securities	(1,075,852)	(325,871)	(1,185,437)
Purchases of Farmer Mac Guaranteed Securities	(2,010,991)	(2,047,954)	(623,179)
Purchases of loans held for investment	(34,387)	(59,627)	(135,097)
Purchases of defaulted loans	(6,082)	(21,269)	(58,279)
Proceeds from repayment of available-for-sale investment securities	350,197	195,589	581,098
Proceeds from repayment of Farmer Mac Guaranteed Securities	711,462	725,761	263,858
Proceeds from repayment of loans held for investment	237,168	41,298	118,178
Proceeds from sale of available-for-sale investment securities	100,833	306,506	456,506
Proceeds from sale of trading securities - fair value option	5,013	-	-
Proceeds from sale of Farmer Mac Guaranteed Securities	30,725	188,204	669,406
Proceeds from sale of real estate owned	1,055	40,955	-
Proceeds from sale of loans	-	358,953	-
Net cash (used in)/provided by investing activities	(1,690,859)	(597,455)	87,054
Cash flows from financing activities:			

Proceeds from issuance of discount notes	66,804,224	54,840,697	126,824,163
Proceeds from issuance of medium-term notes	2,729,530	3,475,856	2,228,953
Payments to redeem discount notes	(65,300,682)	(54,675,917)	(126,990,012)
Payments to redeem medium-term notes	(1,872,590)	(2,727,000)	(2,070,136)
Excess tax benefits related to stock-based awards	763	-	381
Payments to third parties on debt securities of consolidated trusts	(176,260)	-	-
Proceeds from common stock issuance	172	42	5,734
Purchases of common stock	-	-	(831)
Issuance costs on retirement of preferred stock	(5,784)	-	-
Proceeds from preferred stock issuance - Farmer Mac II LLC	241,853	-	-
Proceeds from preferred stock issuance	-	48,378	9,200
Repurchases of preferred stock	-	-	(35,000)
Proceeds from mezzanine equity issuance	-	-	144,216
Retirement of Series B Preferred stock	(144,216)	-	-
Dividends paid - Non-controlling interest - preferred stock	(20,644)	-	-
Dividends paid on common and preferred stock	(6,178)	(19,329)	(7,732)
Net cash provided by financing activities	2,250,188	942,727	108,936
Net increase in cash and cash equivalents	75,126	376,382	176,967
Cash and cash equivalents at beginning of period	654,794	278,412	101,445
Cash and cash equivalents at end of period	$729,920	$654,794	$278,412

See accompanying notes to consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010, 2009 and 2008

1. ORGANIZATION

The Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") is a stockholder-owned, federally chartered instrumentality of the United States organized and existing under Title VIII of the Farm Credit Act of 1971, as amended (12 U.S.C. §§ 2279aa et seq.) (the "Act"). Farmer Mac was originally created by the United States Congress to establish a secondary market for agricultural real estate and rural housing mortgage loans. This secondary market was designed to increase the availability of long-term credit at stable interest rates to America's rural communities, farmers, ranchers and rural homeowners and to provide those borrowers with the benefits of capital markets pricing and product innovation. Since Farmer Mac's inception, Congress has expanded Farmer Mac's charter to authorize the Corporation to create the Farmer Mac II program and to purchase, and guarantee securities backed by, loans made by cooperative lenders to finance electrification and telecommunications systems in rural areas.

Farmer Mac accomplishes its congressional mission of providing liquidity and lending capacity to agricultural and rural utilities lenders by:

- 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.

Farmer Mac conducts these activities through three programs—Farmer Mac I, Farmer Mac II and Rural Utilities. As of December 31, 2010, the total outstanding balance in all of Farmer Mac's programs was $12.2 billion.

Under the Farmer Mac I program, Farmer Mac purchases or commits to purchase mortgage loans secured by first liens on agricultural real estate. Farmer Mac also guarantees securities representing interests in or obligations backed by pools of eligible mortgage loans. The securities guaranteed by Farmer Mac under the Farmer Mac I program are referred to as "Farmer Mac I Guaranteed Securities." To be eligible for the Farmer Mac I program, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation and other specified standards. As of December 31, 2010, outstanding loans held by Farmer Mac and loans that either back Farmer Mac I Guaranteed Securities or are subject to LTSPCs in the Farmer Mac I program totaled $8.2 billion.

Under the Farmer Mac II program, Farmer Mac purchases the portions of loans guaranteed by the United States Department of Agriculture (the “USDA-guaranteed portions”) pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.) and may guarantee securities backed by those USDA-guaranteed portions (“Farmer Mac II Guaranteed Securities”). USDA-guaranteed portions are presented as “USDA Guaranteed Securities” on the consolidated balance sheets. Guaranteed securities backed by USDA-guaranteed portions are presented as “Farmer Mac Guaranteed Securities” on the consolidated balance sheets. As of December 31, 2010, outstanding Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities totaled $1.4 billion. Since January 2010, all purchases of USDA-guaranteed portions under the Farmer Mac II program (other than purchases of USDA-guaranteed portions that back Farmer Mac II Guaranteed Securities to be sold to third parties) have been, and will continue to be, made by Farmer Mac’s subsidiary, Farmer Mac II LLC.

Farmer Mac’s Rural Utilities program was initiated during second quarter 2008 after Congress expanded Farmer Mac’s authorized secondary market activities to include rural utilities loans. Farmer Mac’s activities under this program have been and are expected to be similar to those conducted under the Farmer Mac I program—loan purchases, guarantees of securities (“Farmer Mac Guaranteed Securities – Rural Utilities”) and issuance of LTSPCs—with respect to eligible rural utilities loans. To be eligible for the Rural Utilities program, loans must meet Farmer Mac’s credit underwriting and other specified standards. Farmer Mac has retained in its portfolio all of the rural utilities loans and Farmer Mac Guaranteed Securities – Rural Utilities under this program since its inception, with the exception of AgVantage securities that were sold to third parties and had an outstanding balance of $15.3 million as of December 31, 2010. To date, Farmer Mac has not issued any LTSPCs with respect to rural utilities loans. As of December 31, 2010, the aggregate outstanding principal balance of rural utilities loans held and Farmer Mac Guaranteed Securities – Rural Utilities was $2.6 billion.

Farmer Mac I Guaranteed Securities, Farmer Mac II Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities are collectively referred to as “Farmer Mac Guaranteed Securities.” The assets underlying Farmer Mac Guaranteed Securities include (1) securitized loans or USDA-guaranteed portions eligible under one of Farmer Mac’s programs and (2) general obligations of lenders secured by pools of eligible loans. The Corporation guarantees the timely payment of principal and interest on the resulting Farmer Mac Guaranteed Securities. AgVantage® is a registered trademark of Farmer Mac that is used to designate Farmer Mac’s guarantees of securities that are related to general obligations of issuers that are secured by pools of eligible loans. Farmer Mac may retain Farmer Mac Guaranteed Securities in its portfolio or sell them to third parties.

Farmer Mac’s two principal sources of revenue are:

- guarantee and commitment fees received in connection with outstanding Farmer Mac Guaranteed Securities and LTSPCs; and
- interest income earned on assets held on balance sheet, net of related funding costs and interest payments and receipts on financial derivatives.

Farmer Mac funds its “program” purchases of Farmer Mac Guaranteed Securities and eligible loans primarily by issuing debt obligations of various maturities in the public capital markets. As of December 31, 2010, Farmer Mac had $3.8 billion of discount notes and $4.1 billion of medium-term notes outstanding. The proceeds of debt issuance are also used to fund “non-program” investments that must comply with regulations promulgated by the Farm Credit Administration (“FCA”), including dollar amount, issuer concentration, and credit quality limitations. Those regulations can be found at 12 C.F.R. §§ 652.1-652.45.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Farmer Mac conform with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP"). The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities (including, but not limited to, the allowance for loan losses, reserve for losses, other-than-temporary impairment of investment securities and fair value measurements) as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The following are the significant accounting policies that Farmer Mac follows in preparing and presenting its consolidated financial statements:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Farmer Mac and its two subsidiaries: (1) Farmer Mac Mortgage Securities Corporation ("FMMSC"), whose principal activities are to facilitate the purchase and issuance of Farmer Mac Guaranteed Securities and to act as a registrant under registration statements filed with the Securities and Exchange Commission, and (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the Farmer Mac II program – primarily the acquisition of USDA-guaranteed portions. Farmer Mac II LLC was formed as a Delaware limited liability company on December 10, 2009. The business operations of Farmer Mac II LLC began in January 2010. The consolidated financial statements also include the accounts of variable interest entities ("VIEs") in which Farmer Mac determined itself to be the primary beneficiary. See Note 2(q) for more information on consolidated VIEs.

A Farmer Mac guarantee of timely payment of principal and interest is an explicit element of the terms of all Farmer Mac Guaranteed Securities. When Farmer Mac retains such securities in its portfolio, that guarantee is not extinguished. For Farmer Mac Guaranteed Securities in the Corporation's portfolio, Farmer Mac has entered into guarantee arrangements with FMMSC. The guarantee fee rate established between Farmer Mac and FMMSC is an element in determining the fair value of these Farmer Mac Guaranteed Securities, and guarantee fees related to these securities are reflected in guarantee and commitment fees in the consolidated statements of operations. These guarantee fees totaled $6.5 million in 2010. The corresponding expense of FMMSC has been eliminated against interest income in consolidation. All other inter-company balances and transactions have been eliminated in consolidation.

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

Farmer Mac considers highly liquid investment securities with maturities at the time of purchase of three months or less to be cash equivalents. The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value. Changes in the balance of cash and cash equivalents are reported in the consolidated statements of cash flows. The following table sets forth information regarding certain cash and non-cash transactions for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Cash paid during the period for:			
Interest	$78,245	$80,350	$103,517
Income taxes	15,174	11,500	30,069
Non-cash activity:			
Real estate owned acquired through loan liquidation	5,001	41,086	16
Loans acquired and securitized as Farmer Mac Guaranteed Securities	8,594	28,736	98,843
Reclassification of unsettled trades with The Reserve Primary Fund from Cash and cash equivalents to Prepaid expenses and other assets	-	-	42,489
Transfers of investment securities from available-for-sale to trading from the effect of adopting FASB guidance on fair value measurement	-	-	600,468
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting FASB guidance on fair value measurement	-	-	428,670
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to available-for-sale	-	-	493,997
Transfers of Farmer Mac I Guaranteed Securities from held-to-maturity to available-for-sale	-	-	25,458
Transfers of available-for-sale investment securities to available-for-sale Farmer Mac Guaranteed Securities - Rural Utilities	-	-	902,420
Transfers of trading investment securities to trading Farmer Mac Guaranteed Securities - Rural Utilities	-	-	459,026
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to loans held for investment in consolidated trusts	1,408,965	-	-
Consolidation of Farmer Mac I Guaranteed Securities from off-balance sheet to debt securities of consolidated trusts held by third parties	1,408,965	-	-
Transfers of available-for-sale Farmer Mac I Guaranteed Securities to loans held for investment in consolidated trusts, upon the adoption of new consolidation guidance	5,385	-	-
Transfers of trading Farmer Mac Guaranteed Securities - Rural Utilities to loans held for investment in consolidated trusts, upon the adoption of new consolidation guidance	451,448	-	-
Deconsolidation of loans held for investment in consolidated trusts - transferred to off- balance sheet Farmer Mac I Guaranteed Securities	414,462	-	-
Deconsolidation of debt securities of consolidated trusts held by third parties - transferred to off-balance sheet Farmer Mac I Guaranteed Securities	414,462	-	-
Transfers of Farmer Mac I Guaranteed Securities to loans held for sale	-	288,012	-
Transfers of loans held for investment to loans held for sale	-	617,072	-

Exchange of GSE preferred stock - transfer from trading to available-for-sale	-	90,657	-

During 2010, Farmer Mac adopted new accounting guidance on consolidation of VIEs, which resulted in the consolidation of certain securitization trust assets and liabilities onto Farmer Mac's balance sheet. The items noted above reflect the impact upon adoption of the new consolidation guidance and Farmer Mac's on-going assessment of its interests in VIEs. See Note 2(q) for further information related to the consolidation of VIEs.

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During 2009, Farmer Mac transferred securities between categories as a result of two primary transactions. The first transaction was the sale of $354.5 million principal balance of loans during first quarter 2009. Consistent with management's effort to preserve and strengthen its capital position beginning in third quarter 2008, the primary purpose of the sale was to eliminate the need to hold capital in support of the loans under Farmer Mac's statutory minimum capital requirements. Given the change in management's intention pertaining to its loan portfolio in first quarter 2009, Farmer Mac reclassified loans with an amortized cost basis of $617.1 million from loans held-for-investment to loans held-for-sale prior to the sale of certain loans. Also in first quarter 2009, Farmer Mac transferred $263.4 million amortized cost basis of available-for-sale Farmer Mac I Guaranteed Securities to loans held-for-sale upon the consolidation of certain trusts in which Farmer Mac held 100 percent of the beneficial ownership interests. Farmer Mac then terminated the trusts and sold a portion of the underlying loans. The $288.0 million balance disclosed above represents the fair value of the transferred Farmer Mac I Guaranteed Securities as of December 31, 2008.

The second transaction occurred during third quarter 2009. Farmer Mac accepted an exchange offer extended by CoBank, ACB ("CoBank"), an institution of the Farm Credit System (the "FCS") and a government-sponsored enterprise, whereby Farmer Mac tendered all of its outstanding shares of CoBank's 7.814 percent Series A Cumulative Perpetual Preferred Stock ($88.5 million par value) in exchange for an equal amount of shares and par value of CoBank's newly issued 11.0 percent Series D Non-Cumulative Subordinated Perpetual Preferred Stock. Farmer Mac recorded the newly acquired shares at $90.7 million, the estimated fair value of the surrendered shares on the date of the exchange, and elected to classify the newly acquired equity securities as available-for-sale. Farmer Mac had elected the fair value option for the surrendered Series A preferred shares and recorded the changes in fair value up until the date of the exchange through gains and losses on trading assets.

During 2008, Farmer Mac transferred securities between categories as a result of three separate events. The first event occurred on January 1, 2008, upon the adoption of FASB guidance related to fair value measurement. As a result of its election of the fair value option for certain securities, Farmer Mac transferred $428.7 million of Farmer Mac II Guaranteed Securities from held-to-maturity to trading and $600.5 million of investment securities from available-to-sale to trading. See Note 13 for more information related to fair value measurement.

The second event occurred during second quarter 2008. On May 22, 2008, Congress enacted into law the Food, Conservation and Energy Act of 2008, which expanded Farmer Mac's authorities to include providing a secondary market for rural electric and telephone loans made by cooperative lenders. Consequently, Farmer Mac placed its guarantee on $430.7 million principal amount of securities representing interests in rural electric cooperative loans and $900.0 million principal amount of obligations collateralized by rural electric cooperative loans previously held as mission related investments under authority granted by the Farm Credit Administration ("FCA"), Farmer Mac's regulator. Farmer Mac reclassified these securities from "Investment Securities" to "Farmer Mac Guaranteed Securities" on its consolidated balance sheets based on their existing fair value classifications (i.e., available-for-sale investment securities were transferred to available-for-sale Farmer Mac Guaranteed Securities and trading investment securities were transferred to trading Farmer Mac Guaranteed Securities). The amounts disclosed above represent the fair value of these securities as of March 31, 2008.

The third event occurred during third quarter 2008 and primarily stemmed from the turmoil experienced in the nation's financial markets. As a result of significant other-than-temporary impairment losses, Farmer Mac evaluated strategies to preserve and strengthen its capital position, which included asset sales and common and preferred equity offerings. Given the changes in circumstances and management's intention, Farmer Mac believed that the held-to-maturity designation was no longer appropriate for Farmer Mac Guaranteed Securities held on balance sheet. Farmer Mac reclassified all of its held-to-maturity Farmer Mac I and Farmer Mac II Guaranteed Securities with an amortized cost basis of $25.0 million and $493.6 million, respectively, to available-for-sale. The amounts disclosed above are the fair value of these securities as of September 30, 2008, which represents the new carrying value of these securities resulting from the change in management's intention.

(c) Investments, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

Securities for which Farmer Mac does not have the positive intent to hold to maturity are classified as available-for-sale and are carried at estimated fair value. Unrealized gains and losses on available-for-sale securities are reported as a component of accumulated other comprehensive income in stockholders' equity. Securities classified as trading securities are reported at their fair value, with unrealized gains and losses included in earnings. Gains and losses on the sale of available-for-sale and trading securities are determined using the specific identification cost method. Farmer Mac does not currently classify any securities as held-to-maturity.

Farmer Mac determines the fair value of investment securities using quoted market prices, when available, and evaluates the securities for other-than-temporary impairment. Farmer Mac determines the fair values of investment securities for which quoted market prices are not available, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities based on the present value of the associated expected future cash flows. In estimating the present value of the expected future cash flows, management is required to make estimates and assumptions. The key estimates and assumptions include discount rates and collateral repayment rates. Premiums, discounts and other deferred costs are amortized to interest income over the estimated life of the security using the effective interest method. Interest income on investments and Farmer Mac Guaranteed Securities is recorded on an accrual basis unless the collection of interest is considered doubtful.

Farmer Mac generally receives compensation when loans with yield maintenance provisions underlying Farmer Mac Guaranteed Securities prepay. These yield maintenance payments mitigate Farmer Mac's exposure to reinvestment risk and are calculated such that, when reinvested with the prepaid principal, they should generate substantially the same cash flows that would have been generated had the loans not prepaid. Yield maintenance payments are recognized as interest income in the consolidated statements of operations upon receipt.

(d) Loans

Loans for which Farmer Mac has the positive intent and ability to hold for the foreseeable future are classified as held for investment and reported at their unpaid principal balance net of unamortized purchase discounts or premiums. When Farmer Mac consolidates a trust, it recognizes the loans underlying the trust in the consolidated balance sheets as "Loans held for investment in consolidated trusts, at amortized cost." See Note 2(q) for more information on new accounting standards related to consolidation. Loans that Farmer Mac does not intend to hold for the foreseeable future are classified as held for sale and reported at the lower of cost or fair value. For loans held for investment and loans held for sale, the net unamortized purchase premium or discount as of December 31, 2010 was a net premium of $39.2 million, compared to a net discount of $2.6 million as of December 31, 2009. The change in unamortized purchase premium and discount as of December 31, 2010 compared to December 31, 2009 was due to the consolidation of assets at fair value in first quarter 2010 pursuant to the adoption of new consolidation guidance. Farmer Mac does not amortize premiums and discounts related to loans held for sale. Effective January 1, 2011, Farmer Mac transferred $880.0 million of loans in the Farmer Mac I program from held for sale to held for investment. Farmer Mac transferred these loans at the lower of cost or fair value.

(e) Securitization of Loans

Asset securitization involves the transfer of financial assets to another entity in exchange for cash and/or beneficial interests in the assets transferred. Farmer Mac or third parties transfer agricultural real estate mortgage loans or rural utilities loans into trusts that are used as vehicles for the securitization of the transferred loans. The trusts issue Farmer Mac Guaranteed Securities that are beneficial interests in the assets of the trusts, to either Farmer Mac or third party investors. Farmer Mac guarantees the timely payment of principal and interest on the securities issued by the trusts and receives guarantee fees as compensation for its guarantee. Farmer Mac recognizes guarantee fees on an accrual basis over the terms of the Farmer Mac Guaranteed Securities, which generally coincide with the terms of the underlying loans. As such, no guarantee fees are unearned at the end of any reporting period. If Farmer Mac purchases a delinquent loan underlying a Farmer Mac Guaranteed Security, Farmer Mac stops accruing the guarantee fee upon the loan purchase.

Transfers of loans into trusts in which Farmer Mac surrenders control over the financial assets and receives compensation other than beneficial interests in the underlying loans are recorded as sales. The carrying amount of the assets that are transferred in these transactions is allocated between the assets sold and the interests retained, if any, based on the relative fair values of each at the date of the transfer. A gain or loss is included in income for the difference between the allocated carrying amount of the asset sold and the net cash proceeds received.

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac considers acquired credit-impaired loans to be individually impaired at acquisition. Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Farmer Mac generally does not record a loss at acquisition because it believes that unpaid principal balance is representative of the fair value of the loan.

See Notes 2(q) and 2(r) for more information on the adoption of new accounting standards related to transfers of financial assets and consolidation.

(f) Nonaccrual Loans

Nonaccrual loans are loans for which it is probable that Farmer Mac will be unable to collect all amounts due according to the contractual terms of the loan agreement and include all loans 90 days or more past due. When a loan becomes 90 days past due, interest accrual on the loan is discontinued and interest previously accrued is reversed against interest income in the current period. The interest on such loans is accounted for on the cash basis until a loan qualifies for return to accrual status. Loans are returned to accrual status when all the principal and interest payments contractually due are collected and certain performance criteria are met.

(g) Real Estate Owned

Real estate owned ("REO") consists of real estate acquired through loan liquidation and is recorded at fair value less estimated selling cost at acquisition. Fair value is determined by appraisal or other appropriate valuation method. Any excess of the recorded investment in the loan over the fair value less estimated selling cost is charged to the allowance for loan losses. Subsequent to the acquisition, management continues to perform periodic valuations for real estate owned. Declines in the net realizable value (fair value less estimated selling costs) are charged through income.

Farmer Mac contracts with third parties to operate or preserve real estate owned and offered for sale when appropriate to maintain property value. Non-recoverable costs are expensed as incurred and those related to the production of saleable goods or crops are capitalized to the extent they are realizable. As revenues from the sale of goods or crops are received, they are applied first to any capitalized costs and any remaining revenues offset non-recoverable expenses incurred. Farmer Mac had no capitalized costs as of December 31, 2010 and 2009.

(h) 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, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts principally to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac is required also to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative.

All financial derivatives are recorded on the balance sheets at fair value as a freestanding asset or liability. As discussed in Note 6, Farmer Mac does not designate its financial derivatives as fair value hedges or cash flow hedges; therefore, the changes in the fair values of financial derivatives are reported as gains or losses on financial derivatives in the consolidated statements of operations.

(i) Notes Payable

Notes payable are classified as due within one year or due after one year based on their contractual maturities. Debt issuance costs and premiums and discounts are deferred and amortized to interest expense using the effective interest method over the contractual life of the related debt.

(j) 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 ("allowance for loan losses") and loans underlying LTSPCs and Farmer Mac Guaranteed Securities ("reserve for losses") based on available information. Farmer Mac's methodology for determining the allowance for losses separately considers its portfolio segments - Farmer Mac I, Farmer Mac II, and Rural Utilities, and disaggregates its analysis, where relevant, into classes of financing receivables, which currently include loans and AgVantage securities. Further disaggregation to commodity type is performed, where appropriate, in analyzing the need for an allowance for losses.

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses that are charged to non-interest expense, and is reduced by charge-offs for actual losses, net of recoveries. Negative provisions, 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 impaired loans.

General Allowance for Losses

Farmer Mac I

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

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

Management believes that its use of this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

Farmer Mac has not provided an allowance for losses for loans underlying Farmer Mac I AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization also required for Farmer Mac I AgVantage securities. 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.

Farmer Mac II

No allowance for losses has been provided for USDA Guaranteed Securities or Farmer Mac II Guaranteed Securities. The USDA-guaranteed portions presented as “USDA Guaranteed Securities” on the consolidated balance sheets, as well as those that collateralize Farmer Mac II Guaranteed Securities, are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. Farmer Mac excludes these guaranteed portions from the credit risk metrics it discloses because of the USDA guarantee.

Rural Utilities

Farmer Mac separately evaluates the rural utilities loans it owns, as well as the lender obligations and loans underlying or securing its Farmer Mac Guaranteed Securities – Rural Utilities, including AgVantage securities, to determine if there are any probable losses inherent in those assets. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security. No allowance for losses has been provided for this portfolio segment based on the credit quality of the collateral supporting rural utilities assets and Farmer Mac’s counterparty risk analysis.

Specific Allowance for Impaired Loans

Farmer Mac also analyzes certain loans in its portfolio for impairment in accordance with the FASB standard on measuring individual impairment of a loan. Farmer Mac's impaired assets generally include:

- non-performing assets (loans 90 days or more past due, in foreclosure, restructured, in bankruptcy – including loans performing under either their original loan terms or a court-approved bankruptcy plan);
- loans for which Farmer Mac had adjusted the timing of borrowers' payment schedules, but still expects to collect all amounts due and has not made economic concessions; and
- additional performing loans that have previously been delinquent or are secured by real estate that produces agricultural commodities or products currently under stress.

For loans with an updated appraised value, other updated collateral valuation or management's estimate of discounted collateral value, this analysis includes the measurement of the fair value of the underlying collateral for individual loans relative to the total recorded investment, including principal, interest and advances and net of any charge-offs. In the event that the collateral value does not support the total recorded investment, Farmer Mac specifically provides an allowance for the loan for the difference between the recorded investment and its fair value, less estimated costs to liquidate the collateral. Estimated selling costs are based on historical selling costs incurred by Farmer Mac. For the remaining impaired assets without updated valuations, this analysis is performed in the aggregate in consideration of the similar risk characteristics of the assets and historical statistics.

(k) Earnings/(Loss) Per Common Share

Basic earnings/(loss) per common share is based on the weighted-average number of shares of common stock outstanding. Diluted earnings/(loss) 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 earnings/(loss) per share of common stock ("EPS") for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,								
	2010			2009			2008		
	Net Income	Shares	$ per Share	Net Income	Shares	$ per Share	Net Loss	Shares	$ per Share
	(in thousands, except per share amounts)								
Basic EPS									
Net income/(loss) available to common stockholders	$ 22,080	10,229	$ 2.16	$ 82,298	10,138	$ 8.12	$ (154,080)	10,007	$ (15.40)
Effect of dilutive securities(1):									
Stock options, SARs and restricted stock		386	(0.08)		95	(0.08)		-	-
Diluted EPS	$ 22,080	10,615	$ 2.08	$ 82,298	10,233	$ 8.04	$ (154,080)	10,007	$ (15.40)

(1) For the years ended December 31, 2010, 2009 and 2008, stock options and SARs of 1,485,404, 1,724,800, and 2,377,544, respectively, were outstanding but not included in the computation of diluted earnings/(loss) per share of common stock because they were anti-dilutive. For the years ended December 31, 2010 and 2009, contingent

shares of nonvested restricted stock of 115,125 and 47,143, respectively, were outstanding but not included in the computation of diluted earnings per share because the performance conditions were not met.

(l)Income Taxes

Deferred federal income tax assets and liabilities are established for temporary differences between financial and taxable income and are measured using the current enacted statutory tax rate. Income tax expense is equal to the income taxes payable in the current year plus the net change in the deferred tax asset or liability balance.

Farmer Mac evaluates its tax positions at least quarterly to identify and recognize any liabilities related to uncertain tax positions in its federal income tax returns. Farmer Mac, in accordance with FASB guidance on uncertainty in income taxes, uses a two-step approach in which income tax benefits are recognized if, based on the technical merits of a tax position, it is more likely than not (a probability of greater than 50 percent) that the tax position would be sustained upon examination by the taxing authority, which includes all related appeals and litigation process. The amount of tax benefit recognized is then measured at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with the taxing authority, considering all information available at the reporting date. Farmer Mac's policy for recording interest and penalties associated with uncertain tax positions is to record them as a component of income tax expense. Farmer Mac establishes a valuation allowance for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

(m) Stock-Based Compensation

Farmer Mac accounts for its stock-based employee compensation plans using the grant date fair value method of accounting. Farmer Mac measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award determined using the Black-Scholes option pricing model. The cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Farmer Mac recognized $2.8 million, $2.7 million and $2.8 million of compensation expense related to stock options, SARs and non-vested restricted stock awards for 2010, 2009 and 2008, respectively.

(n) Comprehensive Income/(Loss)

Comprehensive income/(loss) represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised primarily of net income and unrealized gains and losses on securities available-for-sale, net of related taxes. The following table sets forth Farmer Mac's comprehensive income/(loss) for the years ended December 31, 2010, 2009 and 2008:

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Net income/(loss)	$52,700	$99,600	$(150,363)
Available-for-sale securities, net of tax:			
Net unrealized holding gains/(losses)	15,182	49,266	(70,067)
Reclassification adjustment for realized (gains)/losses	(207)	1,248	36,410
Net change from available-for-sale securities (1)	14,975	50,514	(33,657)
Financial derivatives, net of tax:			
Reclassification for amortization of financial derivatives transition adjustment (2)	46	152	275
Other comprehensive income/(loss), net of tax	15,021	50,666	(33,382)
Comprehensive income/(loss)	67,721	150,266	(183,745)
Less: Comprehensive income attributable to non- controlling interest	20,707	-	-
Total comprehensive income/(loss)	$47,014	$150,266	$(183,745)

(1) Unrealized gains/(losses) on available for sale securities is shown net of income tax expense of $8.1 million, tax expense of $27.2 million, and tax benefit of $18.1 million in 2010, 2009, and 2008, respectively.
(2) Amortization of financial derivatives transition adjustment is shown net of income tax expense of $25,000, $0.1 million, and $0.1 million in 2010, 2009, and 2008, respectively.

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The following table presents Farmer Mac's accumulated other comprehensive income/(loss) as of December 31, 2010, 2009 and 2008 and changes in the components of accumulated other comprehensive income/(loss) for the years ended December 31, 2010, 2009 and 2008.

	As of December 31,		
	2010	2009	2008
		(in thousands)	
Available-for-sale securities:			
Beginning balance	$3,300	$(47,214)	$(2,320)
Reclassification adjustment to retained earnings for fair value option adoption, net of tax	-	-	(11,237)
Adjusted beginning balance	3,300	(47,214)	(13,557)
Net unrealized gains/(losses), net of tax	14,975	50,514	(33,657)
Ending balance	$18,275	$3,300	$(47,214)
Financial derivatives:			
Beginning balance	$(46)	$(198)	$(473)
Amortization of financial derivatives transition adjustment, net of tax	46	152	275
Ending balance	$-	$(46)	$(198)
Accumulated other comprehensive income/(loss), net of tax	$18,275	$3,254	$(47,412)

(o) Long-Term Standby Purchase Commitments

Farmer Mac accounts for its LTSPCs in accordance with accounting guidance on guarantees. Commitment fee income represents a reduction of the commitment obligation based on amortization using the actual prepayment experience on the underlying loans. See Note 2(j) for Farmer Mac's policy for estimating probable losses for LTSPCs and Note 12 for more information on the accounting for LTSPCs.

(p) Fair Value

Effective January 1, 2008, Farmer Mac adopted new accounting guidance for fair value measurements. The guidance defines fair value as 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 and establishes a fair value hierarchy that ranks the quality and reliability of the inputs to valuation techniques used to measure fair value. The hierarchy gives highest rank to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest rank to unobservable inputs (level 3 measurements).

Farmer Mac's assessment of the significance of the input to the fair value measurement requires judgment and considers factors specific to the financial instrument. Both observable and unobservable inputs may be used to determine the fair value of financial instruments that Farmer Mac has classified within the level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in long-dated volatilities) inputs.

Effective January 1, 2008, Farmer Mac adopted new accounting guidance on the fair value option for financial instruments that provides companies an irrevocable option to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. On January 1, 2008 Farmer Mac recorded a cumulative effect of adoption adjustment of $12.1 million, net of tax, as an increase to the beginning balance of retained earnings. The fair value option election was made for certain available-for-sale investment securities and certain Farmer Mac II Guaranteed Securities that were classified as held-to-maturity on January 1, 2008. See Note 13 for more information regarding fair value measurement.

(q) Consolidation of Variable Interest Entities

Farmer Mac has interests in various entities that are considered to be VIEs. These interests include investments in securities issued by VIEs, such as Farmer Mac agricultural mortgage-backed securities created pursuant to Farmer Mac's securitization transactions and mortgage and asset-backed trusts that Farmer Mac did not create. Effective January 1, 2010, Farmer Mac adopted two new accounting standards that eliminated the concept of qualifying special purpose entities ("QSPEs") and amended the accounting for transfers of financial assets and the consolidation model for VIEs. All formerly designated QSPEs were evaluated for consolidation in accordance with the new consolidation model, which changed the method of analyzing which party to a VIE should consolidate the VIE. The new consolidation model uses a qualitative evaluation that requires consolidation of an entity when the reporting enterprise both (1) has the power to direct matters which significantly impact the activities and success of the entity, and (2) has exposure to benefits and/or losses that could potentially be significant to the entity. The reporting enterprise that meets both these conditions is deemed the primary beneficiary of the VIE.

The new consolidation standard requires the incremental assets and liabilities consolidated upon adoption to initially be reported at their carrying amounts. Carrying amount refers to the amount at which the assets and liabilities would have been carried in the consolidated financial statements if the new guidance had been effective when Farmer Mac first met the conditions to be the primary beneficiary of the VIE. If determining the carrying amounts is not practicable, the assets and liabilities of the VIE shall be measured at fair value at the date the new standards first apply. For the outstanding trusts consolidated effective January 1, 2010, Farmer Mac initially recorded the assets and liabilities on the consolidated balance sheets at their carrying amounts, adjusted, where applicable, for fair value option elections that had been made previously. Accrued interest and allowance for losses have also been recognized as appropriate.

Although these new accounting standards did not change the economic risk to Farmer Mac's business, specifically Farmer Mac's liquidity, credit and interest rate risks, the adoption of these new accounting standards had a significant impact on the presentation of Farmer Mac's consolidated financial statements. On the consolidated balance sheet, there was an increase in loans held for investment, interest receivable, debt and accrued interest payable, and a decrease in available-for-sale and trading Farmer Mac Guaranteed Securities, the reclassification of a portion of the reserve for losses to allowance for loan losses, and the elimination of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. On the income statement, there was an increase in interest income and interest expense attributable to the assets and liabilities of the consolidated trusts and a reclassification of a portion of guarantee fee income to interest income.

The VIEs in which Farmer Mac has a variable interest are limited to securitization trusts. The major judgment in determining if Farmer Mac is the primary beneficiary was whether Farmer Mac had the power to direct the activities of the trust that potentially had the most significant impact on the economic performance of the trust. Generally, the ability to make decisions regarding default mitigation was evidence of that power. Farmer Mac determined that it was the primary beneficiary for the securitization trusts related to most Farmer Mac I and all Rural Utilities securitization transactions because of its rights as guarantor under both programs to control the default mitigation activities of the trusts. For certain securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities, Farmer Mac determined that it was not the primary beneficiary since the power to make decisions regarding default mitigation was shared among unrelated parties. For similar securitization transactions where the power to make decisions regarding default mitigation was shared with a related party, Farmer Mac determined that it was the primary beneficiary because the applicable accounting guidance does not permit parties within a related party group to conclude that the power is shared.

For those trusts that Farmer Mac is the primary beneficiary, the assets and liabilities are presented on the consolidated balance sheets as “Loans held for investment in consolidated trusts” and “Debt securities of consolidated trusts held by third parties,” respectively. These assets can only be used to satisfy the obligations of the related trust.

For those trusts where Farmer Mac has a variable interest but has not been determined to be the primary beneficiary, Farmer Mac’s interests are presented as either “Farmer Mac Guaranteed Securities” or “Investment securities” on the consolidated balance sheets. Farmer Mac’s involvement in on-balance sheet VIEs classified as Farmer Mac Guaranteed Securities include securitization trusts under the Farmer Mac II program and trusts related to AgVantage securities. In the case of Farmer Mac II trusts, Farmer Mac was not determined to be the primary beneficiary because it does not have the decision-making power over default mitigation activities. For the AgVantage trusts, Farmer Mac currently does not have the power to direct the activities that have the most significant economic impact to the trust unless, as guarantor, there is a default by the issuer of the trust securities. Should there be a default, Farmer Mac would reassess whether it is the primary beneficiary of those trusts. For VIEs classified as investment securities, which include auction-rate certificates, asset-backed securities and GSE-guaranteed mortgage-backed securities, Farmer Mac was determined not to be the primary beneficiary because of the lack of voting rights or other powers to direct the activities of the trust. As of December 31, 2010, the Farmer Mac Guaranteed Securities trusts and investment securities trusts have carrying amounts on the consolidated balance sheets totaling $968.9 million and $676.8 million, respectively, which is Farmer Mac’s maximum exposure to loss. In addition, Farmer Mac has a variable interest in off-balance sheet VIEs, which include a guarantee of timely payment of principal and interest, totaling $3.3 billion as of December 31, 2010.

(r) New Accounting Standards

Accounting for Transfers of Financial Assets

On December 23, 2009, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), which codifies recent accounting guidance related to transfers of financial assets. The new guidance eliminates the concept of a QSPE, changes the requirements for derecognizing financial assets and enhances information reported to financial statement users by increasing the transparency or disclosures about transfers of financial assets and an entity's continuing involvement with transferred financial assets. Farmer Mac adopted the ASU on January 1, 2010 and the impact of adoption was not material to Farmer Mac's financial position, results of operations or cash flows.

Variable Interest Entities

On December 23, 2009, the FASB issued an ASU, which codifies recent accounting guidance on consolidation of VIEs. The new guidance replaces the quantitative-based risks-and-rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity. The ASU requires additional disclosures about a reporting entity's involvement with VIEs and about any significant changes in risk exposure as a result of that involvement. Farmer Mac adopted this ASU on January 1, 2010, which resulted in the consolidation of assets and liabilities onto Farmer Mac's balance sheets in connection with trusts that previously qualified for the QSPE exception. Additionally, interest income and interest expense related to the consolidated assets and liabilities of the trusts are reflected in the statements of operations.

As of December 31, 2009, Farmer Mac disclosed the impact of adopting the new consolidation standard as an increase in consolidated assets of $292.8 million, requiring incremental regulatory capital of $5.9 million, and an increase in retained earnings of $2.6 million. Upon adoption, Farmer Mac reassessed its securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities in consideration of the related party relationship with certain counterparties to these transactions and concluded that additional trusts required consolidation. The actual impact upon adoption was an increase in consolidated assets of $1.5 billion, which resulted in an incremental capital requirement of $30.4 million. The transition adjustment upon adoption did not change significantly from the reported amount, increasing retained earnings by $2.7 million, which is presented in the consolidated statements of equity as "Cumulative effect of adoption of new accounting standard, net of tax."

Accounting Standards Update on Fair Value Measurements and Disclosures

On January 21, 2010, the FASB issued a new accounting standard, which amended FASB guidance on fair value measurements and disclosures to add new requirements for disclosures about transfers into and out of levels 1 and 2 and separate disclosures about purchases, sales, issuance, and settlements relating to level 3 measurements. The new standard also clarified existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The ASU was effective for first quarter 2010 reporting except for the level 3 activity disclosures, which are effective in first quarter 2011. Adoption of the new accounting guidance did not have a significant impact on Farmer Mac's fair value disclosures or on its financial position, results of operations or cash flows.

Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset

On April 29, 2010, the FASB issued ASU 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, which established that modifications of loans that are accounted for within a pool under the guidance for acquisitions of credit-impaired loans do not result in the removal of those loans from the pool, even if the modification of those loans would otherwise be considered a troubled debt restructuring. Loans accounted for individually under the guidance for acquisitions of credit-impaired loans continue to be subject to the accounting provisions for troubled debt restructurings. The ASU was effective for third quarter 2010. Adoption of ASU 2010-18 did not have a material effect on Farmer Mac's financial position, results of operations or cash flows.

Embedded Credit Derivatives

On March 5, 2010, the FASB issued ASU 2010-11, Scope Exception Related to Embedded Credit Derivatives, which amends and clarifies the accounting for credit derivatives embedded in interests in securitized financial assets. The new guidance addresses situations where an embedded credit derivative requires bifurcation and separate measurement. The ASU was effective for third quarter 2010. Adoption of ASU 2010-11 did not have a material effect on Farmer Mac's financial position, results of operations or cash flows.

Credit Quality of Financing Receivables and the Allowance for Credit Losses

On July 21, 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which requires more robust and disaggregated disclosures to assist financial statement users in understanding more clearly an entity's credit risk exposures to finance receivables and the related allowance for credit losses. The new and amended disclosure requirements focus on five areas: nonaccrual and past due loans; allowance for credit losses; impaired loans; credit quality information; and modifications. The disclosures that relate to information as of the end of a reporting period were effective for periods ending on or after December 15, 2010 and information related to activity that occurs during a reporting period, including the modifications disclosures, will be effective for the first interim or annual period beginning after December 15, 2010. Farmer Mac considers loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities to be subject to the new disclosure requirements. Since ASU 2010-20 only requires additional disclosures, it did not have an impact on Farmer Mac's financial position, results of operations or cash flows.

(s) Reclassifications

Certain reclassifications of prior year information were made to conform to the 2010 presentation.

3. 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 statutory charter also provides that Class A stockholders elect five members of Farmer Mac's 15-member board of directors and that Class B stockholders elect five members of the board of directors. Additionally, in order to participate in the Farmer Mac I program, a financial institution must own a requisite amount of Farmer Mac Class A or Class B voting common stock, based on the size and type of institution. As a result of these requirements, Farmer Mac conducts business with related parties in the normal course of Farmer Mac's business.

Farm Credit West became a related party in 2008 as a result of a merger in April 2008 between that institution and Sacramento Valley Farm Credit, ACA, which was a related party in 2007. All transactions with Sacramento Valley Farm Credit during 2008 that occurred prior to the merger are included in the transactions reported for Farm Credit West in 2008.

During 2010, Farmer Mac purchased newly originated and current seasoned eligible loans from 72 entities (the top ten institutions generated 77.5 percent of the purchase volume), placed loans under LTSPCs with 16 entities and conducted Farmer Mac II transactions with 197 entities operating throughout the United States. During 2009, Farmer Mac purchased newly originated and current seasoned eligible loans from 62 entities (the top ten institutions generated 81.1 percent of the purchase volume), placed loans under LTSPCs with 19 entities and conducted Farmer Mac II transactions with 158 entities operating throughout the United States. During 2008, Farmer Mac purchased newly originated and current seasoned eligible loans from 74 entities (the top ten institutions generated 76.9 percent of the purchase volume), placed loans under LTSPCs with 23 entities and conducted Farmer Mac II transactions with 187 entities operating throughout the United States. All related party transactions were conducted in the ordinary course of business, with terms and conditions comparable to those available to any other program participant not related to Farmer Mac.

Long-Term Standby Purchase Commitments with Related Parties:

For all of the LTSPC transactions discussed below, Farmer Mac has a related party relationship with each entity resulting from a member of Farmer Mac's board of directors being affiliated with the entity in some capacity or the entity being a holder of at least 5 percent of the outstanding shares of a class of Farmer Mac voting common stock. AgStar Financial Services, ACA ceased to be a related party in June 2010; however, amounts, where presented, reflect activity for the entire year. Farmer Mac's LTSPC activity with related parties in 2010, 2009 and 2008 is presented below:

	For the Year Ended December 31,					
	2010		2009		2008	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
	(dollars in thousands)					
New extensions:						
AgFirst Farm Credit Bank	185	$116,177	66	$34,459	297	$69,202
AgStar Financial Services, ACA	67	30,294	44	14,736	180	74,555
Farm Credit Bank of Texas	17	26,441	143	45,628	375	185,378
Farm Credit West, ACA	1	479	10	16,706	5	13,262

	As of December 31,			
	2010		2009	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
	(dollars in thousands)			
Aggregate LTSPCs outstanding:				
AgFirst Farm Credit Bank	2,125	$ 387,852	2,303	$ 349,513
AgStar Financial Services, ACA (1)	-	-	439	192,655
Farm Credit Bank of Texas (2)	347	136,792	1,542	500,457
Farm Credit of Western New York, ACA (1)	-	-	109	35,509
Farm Credit West, ACA	82	99,516	85	111,981

(1) Not a related party as of December 31, 2010.
(2) Converted $351.8 million of existing LTSPCs to Farmer Mac I Guaranteed Securities in 2010.

For the years ended December 31, 2010, 2009 and 2008, Farmer Mac earned the following commitment fees from related parties:

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Commitment fees earned by Farmer Mac:			
AgFirst Farm Credit Bank	$ 1,473	$ 1,552	$ 1,768
AgStar Financial Services, ACA	1,101	1,222	1,402
Farm Credit Bank of Texas	1,689	1,902	1,780
Farm Credit of Western New York, ACA (1)	-	197	219
Farm Credit West, ACA	336	303	301

(1) Not a related party in 2010.

As of December 31, 2010 and 2009, Farmer Mac had the following commitment fees receivable from related parties:

	As of December 31,	
	2010	2009
	(in thousands)	
AgFirst Farm Credit Bank	$ 212	$ 198
AgStar Financial Services, ACA (1)	-	95
Farm Credit Bank of Texas	36	155
Farm Credit of Western New York, ACA (1)	-	15
Farm Credit West, ACA	27	25

(1) Not a related party as of December 31, 2010.

Zions First National Bank:

The following transactions occurred between Farmer Mac and Zions First National Bank or its affiliates ("Zions"), which is the largest holder of Farmer Mac Class A voting common stock and a major holder of Class C non-voting common stock, during 2010, 2009 and 2008:

	For the Year Ended December 31,					
	2010		2009		2008	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
	(dollars in thousands)					
Purchases:						
Loans	204	$ 176,288	126	$ 77,079	148	$ 71,673
USDA-guaranteed portions	17	5,775	10	2,712	5	636
Sales of Farmer Mac Guaranteed Securities		5,695		27,797		96,143

The purchases of loans from Zions under the Farmer Mac I program represented approximately 46.1 percent, 39.5 percent and 36.5 percent of Farmer Mac I loan purchase volume for the years ended December 31, 2010, 2009 and 2008, respectively. Those purchases represented 11.4 percent, 17.9 percent, and 6.0 percent of total program

volume, respectively. The purchases of USDA-guaranteed portions under the Farmer Mac II program from Zions represented approximately 1.3 percent, 0.8 percent and 0.2 percent of that program's volume for the years ended December 31, 2010, 2009 and 2008, respectively.

Farmer Mac or Zions received the applicable amounts shown below with respect to transactions between the two parties in 2010, 2009 and 2008:

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Guarantee fees received by Farmer Mac	$1,210	$1,393	$1,821
Servicing fees received by Zions	1,678	1,585	1,533
Underwriting and loan file review fees received by Zions	17	15	13
Discount note commissions received by Zions	10	18	39

Zions received commissions for acting as dealer with respect to approximately $220.9 million, $678.9 million and $823.2 million par value of Farmer Mac discount notes during 2010, 2009 and 2008, respectively.

Farmer Mac and Zions were parties to interest rate swap contracts having an aggregate outstanding notional principal amount of approximately $85.0 million and $105.2 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, Farmer Mac had net interest payable to Zions under those contracts of approximately $1.4 million and $2.0 million, respectively.

AgFirst Farm Credit Bank:

Farmer Mac has a related party relationship with AgFirst Farm Credit Bank (“AgFirst”), resulting from a member of Farmer Mac’s board of directors also being a member of AgFirst’s board of directors through 2009 and AgFirst being a holder of approximately 16.8 percent of Farmer Mac Class B voting common stock. In addition to the LTSPC transactions set forth above under “Long-Term Standby Purchase Commitments with Related Parties” in this Note 3, the additional transactions set forth below occurred between Farmer Mac and AgFirst.

In 2010, 2009 and 2008, AgFirst received $17,000, $21,000 and $26,000, respectively, in servicing fees for its work as a Farmer Mac central servicer.

AgFirst owns Farmer Mac I Guaranteed Securities backed by rural housing loans for which Farmer Mac is the second-loss guarantor for the last 10 percent. As of December 31, 2010, 2009, and 2008, the outstanding balance of those securities owned by AgFirst was $299.0 million, $374.2 million, and $464.7 million, respectively. Farmer Mac received guarantee fees of $0.4 million in 2010 and $0.3 million for each of the years 2009 and 2008, with respect to those securities.

In 2010, 2009 and 2008, Farmer Mac paid AgFirst $2,000, $4,000 and $2,000, respectively, for marketing expenses related to Farmer Mac programs.

In 2010, 2009 and 2008, Farmer Mac received guarantee fees of $20,000, $26,000 and $59,000, respectively, on the Farmer Mac I Guaranteed Securities held by AgFirst.

Farmer Mac also owned $83.0 million par value of AgFirst preferred stock as of December 31, 2010 and $88.0 million as of December 31, 2009 and 2008.

AgStar Financial Services, ACA:

Farmer Mac had a related party relationship with AgStar Financial Services, ACA ("AgStar") during 2010, 2009 and 2008, resulting from a former member of Farmer Mac's board of directors being the President and Chief Executive Officer of AgStar. Effective in June 2010, AgStar was no longer a related party because the President and Chief Executive Officer of AgStar was no longer a member of Farmer Mac's board of directors. In addition to the LTSPC transactions set forth above under "Long-Term Standby Purchase Commitments with Related Parties" in this Note 3, the additional transactions set forth below occurred between Farmer Mac and AgStar. Amounts, where presented for 2010, represent activity for the entire year.

In 2010, 2009, and 2008, Farmer Mac paid AgStar $4,000, $5,000, and $4,000, respectively, for marketing expenses related to Farmer Mac programs.

In 2010, 2009 and 2008, AgStar received $1.4 million, $1.6 million and $1.9 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.

In 2010 and 2009, Farmer Mac did not purchase any loans from AgStar under the Farmer Mac I program, compared to $0.3 million in 2008. In addition, Farmer Mac purchased from AgStar $0.1 million, $11.9 million and $53.2 million related to defaulted loans pursuant to the terms of an LTSPC agreement in 2010, 2009 and 2008, respectively. During 2008, the defaulted loans Farmer Mac purchased from AgStar were related to five ethanol plants pursuant to the terms of an LTSPC agreement.

During 2010, 2009 and 2008, Farmer Mac sold Farmer Mac I Guaranteed Securities to AgStar in the amount of $2.9 million, $0.9 million and $2.7 million, respectively. Those sales did not result in a gain or loss to Farmer Mac.

During 2010, 2009 and 2008, no existing LTSPCs were converted to Farmer Mac I Guaranteed Securities. The outstanding principal balance of previously converted securities as of December 31, 2009 and 2008 was $449.2 million and $533.5 million, respectively. Farmer Mac received $1.7 million, $2.0 million and $2.4 million in guarantee fees on those securities during 2010, 2009 and 2008, respectively.

The National Rural Utilities Cooperative Financial Corporation:

The National Rural Utilities Cooperative Financial Corporation ("CFC") became a related party in 2009 through the purchase of Farmer Mac Class A voting common stock. Although Farmer Mac conducted business with CFC during 2008, information about those transactions is not disclosed since CFC was not a related party during that year. As of December 31, 2010, CFC held 7.9 percent of Farmer Mac's outstanding Class A voting common stock (5.3 percent of total voting shares) and 57,578 shares (100 percent) of Series C Preferred Stock. As of December 31, 2009, CFC held 7.7 percent of Farmer Mac's outstanding Class A voting common stock (5.2 percent of total voting shares), 15,000 shares (20 percent) of Series B-1 Preferred Stock, and 57,578 shares (100 percent) of Series C Preferred Stock. Farmer Mac repurchased all of the outstanding shares of Series B Preferred Stock in January 2010. During 2009, Farmer Mac sold 48,378 shares of Series C Preferred Stock to CFC. The following transactions also occurred between Farmer Mac and CFC during 2010 and 2009.

Farmer Mac Loan Purchases and Guarantees

	For the Year Ended December 31,			
	2010		2009	
	(in thousands)			
Rural Utilities:				
Loans	$	313,028	$	28,644
On-balance sheet Farmer Mac Guaranteed Securities		650,000		1,695,000
Off-balance sheet Farmer Mac Guaranteed Securities		2,924		16,009
Total purchases	$	965,952	$	1,739,653

Those transactions with CFC represented 100 percent of Farmer Mac's loan purchase and guarantee volume under the Rural Utilities program for 2010 and 2009 and represented 32.5 percent and 69.2 percent of total program volume for 2010 and 2009, respectively. As of December 31, 2010 and for the year then ended, Farmer Mac had guarantee fees receivable of $1.2 million from CFC and earned guarantee fees of $6.0 million. As of December 31, 2009 and for the year then ended, Farmer Mac had guarantee fees receivable of $1.7 million from CFC and earned guarantee fees of $6.0 million. Farmer Mac also had interest receivable of $8.4 million and $8.7 million as of December 31, 2010 and 2009, respectively, and earned interest income of $32.7 million and $32.3 million during 2010 and 2009, respectively, related to its AgVantage transactions with CFC.

Other Related Party Transactions:

For all of the transactions discussed below, Farmer Mac has a related party relationship with each entity resulting from (1) a member of Farmer Mac's board of directors being affiliated with the entity in some capacity or (2) the entity being a holder of 5 percent or more of a class of Farmer Mac voting common stock.

The following is a summary of purchases of loans, USDA-guaranteed portions from other related parties during 2010, 2009 and 2008:

	For the Year Ended December 31,					
	2010		2009		2008	
	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance
	(dollars in thousands)					
Purchases:						
Loans:						
First Dakota National Bank	57	$27,023	14	$4,748	15	$4,849
USDA-guaranteed portions:						
Bath State Bank	27	4,643	35	7,031	26	7,232

Farmer Mac received the following guarantee fees with respect to transactions with other related parties:

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Bath State Bank	$ 69	$ 79	$ 73
First Dakota National Bank	248	229	228

During 2010, Farm Credit Bank of Texas converted $351.8 million of existing LTSPCs to Farmer Mac I Guaranteed Securities. The outstanding principal balance of converted securities by Farm Credit Bank of Texas as of December 31, 2010 was $300.1 million. Farm Credit Bank of Texas is a major holder of Farmer Mac Class B voting common stock. Farmer Mac received $1.1 million in guarantee fees on those securities during 2010. In 2010, Farm Credit Bank of Texas received $0.9 million in servicing fees for its work as a Farmer Mac central servicer.

During 2003 and 2006, Farm Credit West, ACA converted $722.3 million and $129.0 million, respectively, of existing LTSPCs to Farmer Mac I Guaranteed Securities. The LTSPCs converted to Farmer Mac I Guaranteed Securities in 2006 were originated by Sacramento Valley Farm Credit, ACA who merged with Farm Credit West, ACA in 2008. The outstanding principal balance of the converted securities as of December 31, 2010 was $576.5 million. Farmer Mac understands that the current owner of those Farmer Mac Guaranteed Securities is U.S. AgBank, FCB, which is a major holder of Farmer Mac Class B voting common stock. Farmer Mac received $2.6 million and $3.0 million in guarantee fees on those securities during 2010 and 2009, respectively. In 2010 and 2009, Farm Credit West, ACA received $1.9 million and $2.2 million, respectively, in servicing fees for its work as a Farmer Mac central servicer.

Farmer Mac owned $78.5 million par value of preferred stock issued by CoBank as of December 31, 2010 and $88.5 million as of December 31, 2009. As of December 31, 2010 and 2009, Farmer Mac owned $70.0 million of subordinated debt issued by CoBank. Farmer Mac has a related party relationship with CoBank because CoBank is a major holder of Farmer Mac Class B voting common stock.

On September 30, 2008, Farmer Mac sold 60,000 shares of Series B-1 Preferred Stock to AgFirst; AgriBank, FCB; CoBank; Farm Credit Bank of Texas; and U.S. AgBank, FCB (collectively, the “Initial Series B-1 Investors”). Each of the Initial Series B-1 Investors is a member of the FCS and, as of December 31, 2009 and 2008, together owned in the aggregate approximately 97.5 percent of the shares of Farmer Mac’s Class B Voting common stock. Also on September 30, 2008, Farmer Mac sold 5,000 shares of Series B-2 Preferred Stock to Zions Bancorporation, an affiliate of Zions. On January 25, 2010, Farmer Mac repurchased all of the outstanding Series B Preferred Stock.

4. INVESTMENT SECURITIES

The following tables present the amortized cost and estimated fair values of Farmer Mac's investments as of December 31, 2010 and 2009.

	December 31, 2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$74,100	$-	$(9,765)	$64,335
Floating rate asset-backed securities	29,437	24	(3)	29,458
Floating rate corporate debt securities	162,891	422	(125)	163,188
Floating rate Government/GSE guaranteed mortgage-backed securities	573,288	4,173	(681)	576,780
Fixed rate GSE guaranteed mortgage-backed securities	4,525	296	-	4,821
Floating rate GSE subordinated debt	70,000	-	(14,671)	55,329
Fixed rate GSE preferred stock	80,001	4,827	-	84,828
Fixed rate senior agency debt	5,500	-	-	5,500
Fixed rate U.S. Treasuries	692,808	232	(46)	692,994
Total available-for-sale	1,692,550	9,974	(25,291)	1,677,233
Trading:				
Floating rate asset-backed securities	5,961	-	(4,561)	1,400
Fixed rate GSE preferred stock	83,813	883	-	84,696
Total trading	89,774	883	(4,561)	86,096
Total investment securities	$1,782,324	$10,857	$(29,852)	$1,763,329

	December 31, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$74,100	$-	$(1,216)	$72,884
Floating rate asset-backed securities	58,157	26	(40)	58,143
Floating rate corporate debt securities	246,758	267	(1,420)	245,605
Floating rate Government/GSE guaranteed mortgage-backed securities	404,452	1,188	(1,419)	404,221
Fixed rate GSE guaranteed mortgage-backed securities	6,248	289	-	6,537
Floating rate GSE subordinated debt	70,000	-	(22,438)	47,562
Fixed rate GSE preferred stock	90,543	-	(1,332)	89,211
Fixed rate U.S. Treasuries	117,810	-	(50)	117,760
Total available-for-sale	1,068,068	1,770	(27,915)	1,041,923
Trading:				
Floating rate asset-backed securities	6,708	-	(4,884)	1,824
Fixed rate GSE preferred stock	89,637	-	(1,489)	88,148

Total trading	96,345	-	(6,373)	89,972
Total investment securities	$1,164,413	$1,770	$(34,288)	$1,131,895

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Farmer Mac did not recognize in earnings any other-than-temporary impairment losses on available-for-sale investment securities during 2010, compared to other-than-temporary impairment losses on available-for-sale investment securities of $2.7 million and $106.2 million in 2009 and 2008, respectively. The significant other-than-temporary impairment losses in 2008 stemmed from Farmer Mac's investments in Fannie Mae preferred stock and Lehman Brothers Holdings Inc. senior debt securities, which were subsequently liquidated in 2009. All of these losses were recorded in earnings and presented as "Other-than-temporary impairment losses" in the consolidated statements of operations because they were deemed to be credit losses or management had the intent to sell the security as of the balance sheet date.

During 2010, Farmer Mac received proceeds of $106.3 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.5 million and gross realized losses of $0.2 million. During 2009, Farmer Mac received proceeds of $306.5 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $4.6 million and gross realized losses of $1.2 million. During 2008, Farmer Mac received proceeds of $456.5 million from the sale of securities from its available-for-sale investment portfolio, resulting in gross realized gains of $0.6 million and gross realized losses of $0.3 million.

As of December 31, 2010, Farmer Mac's trading securities had a fair value of $86.1 million, which reflects an unrealized gain of $0.9 million and an unrealized loss of $4.6 million. As of December 31, 2009, Farmer Mac's trading securities had a fair value of $90.0 million, which reflects an unrealized loss of $6.4 million.

As of December 31, 2010 and 2009, unrealized losses on available-for-sale securities were as follows:

	December 31, 2010 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 corporate debt securities	$-	$-	$99,874	$(125)
Floating rate asset-backed securities	-	-	2,779	(3)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	64,335	(9,765)
Floating rate Government/GSE guaranteed mortgage-backed securities	159,294	(587)	4,138	(94)
Floating rate GSE subordinated debt	-	-	55,329	(14,671)
Fixed rate U.S. Treasuries	163,026	(46)	-	-
Total	$322,320	$(633)	$226,455	$(24,658)

	December 31, 2009 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 corporate debt securities	$-	$-	$182,745	$(1,420)
Floating rate asset-backed securities	-	-	17,319	(40)
Floating rate auction-rate certificates backed by Government guaranteed student loans	-	-	72,884	(1,216)
Floating rate Government/GSE guaranteed mortgage-backed securities	116,754	(645)	121,877	(774)
Floating rate GSE subordinated debt	-	-	47,562	(22,438)
Fixed rate GSE preferred stock	89,211	(1,332)	-	-
Fixed rate U.S. Treasuries	117,760	(50)	-	-
Total	$323,725	$(2,027)	$442,387	$(25,888)

The temporary unrealized losses presented above are principally due to a general widening of credit spreads from the dates of acquisition to December 31, 2010 and 2009, as applicable. The resulting decreases in fair values reflect an increase in the perceived risk by the financial markets related to those securities.

As of December 31, 2010, all of the investment securities in an unrealized loss position had credit ratings of at least “A”. As of December 31, 2009, all of the investment securities in an unrealized loss position had credit ratings of at least “A”, except two that were rated “AA-” and one that was not rated. The unrealized losses were on 47 and 86 individual investment securities as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, 29 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $24.7 million. As of December 31, 2009, 73 of the securities in loss positions had been in loss positions for more than 12 months and had a total unrealized loss of $25.9 million. The unrealized losses on those securities are principally due to a general widening of credit spreads from the dates of acquisition. Securities in unrealized loss positions 12 months or more have a fair value as of December 31, 2010 that is, on average, approximately 90 percent of their amortized cost basis. Farmer Mac believes that all these unrealized losses are recoverable within a reasonable period of time by way of changes in credit spreads or maturity. Accordingly, Farmer Mac has concluded that none of the unrealized losses on these available-for-sale investment securities represent other-than-temporary impairment as of December 31, 2010. 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.

Farmer Mac did not own any held-to-maturity investments as of December 31, 2010 and 2009. As of December 31, 2010, Farmer Mac owned trading investment securities with an amortized cost of $89.8 million, a fair value of $86.1 million and a weighted average yield of 8.12 percent. As of December 31, 2009, Farmer Mac owned trading investment securities with an amortized cost of $96.3 million, a fair value of $90.0 million and a weighted average yield of 8.11 percent.

The amortized cost, fair value and yield of investments by remaining contractual maturity for available-for-sale investment securities as of December 31, 2010 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 or mortgages.

	Investment Securities Available-for-Sale as of December 31, 2010		
	Amortized Cost	Fair Value	Weighted-Average Yield
	(dollars in thousands)		
Due within one year	$ 720,593	$ 720,910	0.07 %
Due after one year through five years	150,226	150,341	0.53 %
Due after five years through ten years	220,417	220,878	1.69 %
Due after ten years	601,314	585,104	2.60 %
Total	$ 1,692,550	$ 1,677,233	1.22 %

5. FARMER MAC GUARANTEED SECURITIES AND USDA GUARANTEED SECURITIES

The following table sets forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of December 31, 2010 and 2009.

	December 31, 2010		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 942,809	$ -	$ 942,809
Farmer Mac II	37,637	-	37,637
Rural Utilities	1,926,818	-	1,926,818
Farmer Mac Guaranteed Securities	2,907,264	-	2,907,264
USDA Guaranteed Securities	1,005,679	311,765	1,317,444
Total	$ 3,912,943	$ 311,765	$ 4,224,708
Amortized cost	$ 3,880,418	$ 315,655	$ 4,196,073
Unrealized gains	50,583	106	50,689
Unrealized losses	(18,058)	(3,996)	(22,054)
Fair value	$ 3,912,943	$ 311,765	$ 4,224,708

	December 31, 2009		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 56,864	$ -	$ 56,864
Farmer Mac II	764,792	422,681	1,187,473
Rural Utilities	1,703,211	451,448	2,154,659
Total	$ 2,524,867	$ 874,129	$ 3,398,996
Amortized cost	$ 2,493,644	$ 817,631	$ 3,311,275
Unrealized gains	39,657	56,569	96,226
Unrealized losses	(8,434)	(71)	(8,505)
Fair value	$ 2,524,867	$ 874,129	$ 3,398,996

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of acquisition to December 31, 2010 and December 31, 2009, as applicable. As of December 31, 2010, the unrealized losses presented above are related to Farmer Mac I, Farmer Mac II Guaranteed Securities, which are USDA-guaranteed portions of loans backed by the full faith and credit of the United States, and USDA Guaranteed Securities. As of December 31, 2009, the unrealized losses presented above are related to Farmer Mac II Guaranteed Securities. Accordingly, Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities represents an other-than-temporary impairment as of December 31, 2010 and 2009. 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.

Upon adoption of new consolidation guidance on January 1, 2010, Farmer Mac determined itself to be the primary beneficiary of certain VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of agricultural real estate mortgage loans or rural utilities loans. Prior to 2010, Farmer Mac presented these beneficial interests as “Farmer Mac Guaranteed Securities” on the consolidated balance sheets. Upon consolidation, Farmer Mac transferred these assets from “Farmer Mac Guaranteed Securities” to “Loans held for investment in consolidated trusts.” The transferred assets on January 1, 2010 included Farmer Mac Guaranteed Securities – Rural Utilities with an unpaid principal balance of $412.9 million and a fair value of $455.6 million and Farmer Mac I Guaranteed Securities with an unpaid principal balance of $5.3 million and a fair value of $5.6 million.

On January 25, 2010, Farmer Mac contributed substantially all of the assets comprising the Farmer Mac II program, 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-guaranteed portions that had not been securitized by Farmer Mac (i.e., transferred to a trust from which Farmer Mac II Guaranteed Securities were issued) but also included $35.0 million of Farmer Mac II Guaranteed Securities. Farmer Mac did not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA-guaranteed portions. The contributed USDA-guaranteed portions had previously been presented as Farmer Mac II Guaranteed Securities on the consolidated financial statements of Farmer Mac and are now presented as USDA Guaranteed Securities on the consolidated balance sheets. 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 2010 and 2009, Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities. During 2008, Farmer Mac realized gross gains from the sale of securities from its available-for-sale Farmer Mac Guaranteed Securities portfolio of $1.5 million.

As of December 31, 2010, of the total on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities, $2.7 billion are fixed rate or have floating rates that reset after one year. As of December 31, 2009, of the total on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities, $2.1 billion are fixed rate or have floating rates that reset after one year.

The table below presents a sensitivity analysis of the Corporation’s on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of December 31, 2010 and 2009.

	As of December 31,					
	2010			2009		
	(dollars in thousands)					
Fair value of beneficial interests retained in Farmer Mac and USDA Guaranteed Securities	$	4,224,708		$	3,398,996	
Weighted-average remaining life (in years)		3.5			3.7	
Weighted-average prepayment speed (annual rate)		3.5	%		3.8	%
Effect on fair value of a 10% adverse change	$	(18	)	$	(18	)
Effect on fair value of a 20% adverse change	$	(17	)	$	(36	)
Weighted-average discount rate		2.3	%		2.8	%
Effect on fair value of a 10% adverse change	$	(20,257	)	$	(22,081	)
Effect on fair value of a 20% adverse change	$	(40,315	)	$	(44,531	)

These sensitivities are hypothetical. Changes in fair value based on 10 percent or 20 percent variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In fact, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might amplify or counteract the sensitivities.

Farmer Mac securitizes three types of assets: agricultural real estate mortgage loans, USDA-guaranteed portions of loans and rural utilities loans. Farmer Mac manages the credit risk of its securitized loans, both on- and off-balance sheet, together with its on-balance sheet loans and the loans underlying its off-balance sheet LTSPCs. See Note 8 for more information regarding this credit risk.

As part of fulfilling its guarantee obligations for Farmer Mac Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent 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 table below presents the outstanding principal balances as of the periods indicated for Farmer Mac's on- and off-balance sheet program assets.

Outstanding Balance of Farmer Mac Loans and Loans Underlying
Farmer Mac and USDA Guaranteed Securities and LTSPCs

	As of December 31,			
		2010		2009
	(in thousands)			
On-balance sheet:				
Farmer Mac I:				
Loans	$	972,206	$	733,422
Loans held in trusts:				
Beneficial interests owned by Farmer Mac		3,697		5,307
Beneficial interests owned by third party investors		821,411		-
Farmer Mac Guaranteed Securities - AgVantage		941,500		48,800
Farmer Mac II:				
USDA Guaranteed Securities		1,297,439		-
Farmer Mac Guaranteed Securities		39,856		1,164,996
Rural Utilities:				
Loans		339,963		28,644
Loans held in trusts:				
Beneficial interests owned by Farmer Mac		400,228		412,948
Farmer Mac Guaranteed Securities - AgVantage		1,887,200		1,675,000
Total on-balance sheet	$	6,703,500	$	4,069,117
Off-balance sheet:				
Farmer Mac I:				
Farmer Mac Guaranteed Securities - AgVantage	$	2,945,000	$	2,945,000
LTSPCs		1,754,597		2,165,706
Farmer Mac Guaranteed Securities		750,217		1,492,239
Farmer Mac II:				
Farmer Mac Guaranteed Securities		48,103		34,802
Rural Utilities:				
Farmer Mac Guaranteed Securities - AgVantage		15,292		14,240
Total off-balance sheet	$	5,513,209	$	6,651,987
Total	$	12,216,709	$	10,721,104

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as "removal-of-account" provisions). Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Subsequent to the purchase, such defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted

for on the cash basis. Any decreases in expected cash flows are recognized as impairment.

The following tables present information related to Farmer Mac's acquisition of defaulted loans for the years ended December 31, 2010, 2009 and 2008 and the outstanding balances and carrying amounts of all such loans as of December 31, 2010 and 2009, respectively.

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Unpaid principal balance at acquisition date	$ 6,082	$ 21,269	$ 58,279
Contractually required payments receivable	6,200	21,278	63,673
Impairment recognized subsequent to acquisition	1,736	8,492	5,200
Recovery/release of allowance for defaulted loans	3,005	-	-

	As of December 31,		
	2010	2009	2008
	(in thousands)		
Outstanding balance	$ 34,473	$ 50,409	$ 91,942
Carrying amount	30,365	29,994	69,308

Net credit losses and 90-day delinquencies as of and for the periods indicated for Farmer Mac Guaranteed Securities, loans and LTSPCs in the Farmer Mac I program are presented in the table below. Information is not presented for loans underlying Farmer Mac I 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, with some level of overcollateralization also required for Farmer Mac I AgVantage securities. 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 of December 31, 2010, there were no probable losses inherent in Farmer Mac I AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. To date, Farmer Mac has not experienced any credit losses on any Farmer Mac I AgVantage securities.

As of December 31, 2010, there were no probable losses inherent in the Farmer Mac II and Rural Utilities programs. Farmer Mac has not experienced any credit losses in either of these programs to date.

	90-Day Delinquencies (1) As of December 31,		Net Credit (Recoveries)/Losses (2) For the Year Ended December 31,		
	2010	2009	2010	2009	2008
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$37,665	$35,470	$(1,618)	$7,490	$5,292
Farmer Mac Guaranteed Securities	-	-	-	-	-
Total on-balance sheet	$37,665	$35,470	$(1,618)	$7,490	$5,292
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$32,583	$14,056	$-	$-	$-
Farmer Mac Guaranteed Securities	-	-	-	-	-
Total off-balance sheet	$32,583	$14,056	$-	$-	$-
Total	$70,248	$49,526	$(1,618)	$7,490	$5,292

(1) Includes loans and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, restructured after delinquency, and in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.
(2) Includes loans and loans underlying Farmer Mac I Guaranteed Securities, LTSPCs and REO.

Because Farmer Mac may, in its sole discretion, purchase loans in Farmer Mac Guaranteed Securities that are 90 days delinquent, Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans. Of the $37.7 million and $35.5 million of loans reported as 90 days delinquent as of December 31, 2010 and 2009, respectively, $7.9 million and $7.5 million are loans subject to these “removal-of-account” provisions.

6. FINANCIAL DERIVATIVES

Farmer Mac is required to recognize certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative. 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, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. During third quarter 2008, Farmer Mac, for the first time, purchased pay-fixed swaptions, which provide the option of entering into pay-fixed interest rate swaps, as part of its overall strategy in managing interest rate risk. Those swaptions were either terminated or expired unexercised during the third and fourth quarters of 2008. During fourth quarter 2009, Farmer Mac entered into credit default swaps for the first time. Farmer Mac entered into these swaps to mitigate the credit exposure related to its investment in corporate debt issued by HSBC Finance. Changes in the fair value of the credit default swaps are recorded in earnings; however, only

additional credit losses related to the HSBC Finance corporate debt will be recorded in earnings since management no longer intends to sell these securities.

Farmer Mac manages the interest rate risk related to loans it has committed to acquire, but has not yet purchased and permanently funded, through the use of forward sale contracts on the debt of other GSEs, futures contracts involving U.S. Treasury securities and interest rate swaps. Farmer Mac uses forward sale contracts on GSE securities to reduce its interest rate exposure to changes in both Treasury rates and spreads on Farmer Mac debt and Farmer Mac Guaranteed Securities. The notional amounts of these contracts are determined based on a duration-matched hedge ratio between the hedged item and the hedge instrument. Gains or losses generated by these hedge transactions should offset any changes in funding costs or Farmer Mac Guaranteed Securities sale prices that occur during the hedge period.

Market Risk:

Market risk is the risk of an adverse effect resulting from changes in interest rates or spreads on the value of a financial instrument. Farmer Mac manages market risk associated with financial derivatives by establishing and monitoring limits as to the degree of risk that may be undertaken. This risk is periodically measured as part of Farmer Mac's overall risk monitoring processes, which include market value of equity measurements, net interest income modeling and other measures.

Credit Risk:

Credit risk is the risk that a counterparty will fail to perform according to the terms of a financial contract in which Farmer Mac has an unrealized gain. Credit losses could occur in the event of non-performance by counterparties to the financial derivative contracts. Farmer Mac mitigates this counterparty credit risk by contracting only with counterparties that have investment grade credit ratings (i.e., at least BBB), establishing and maintaining collateral requirements based upon credit ratings and entering into netting agreements. Netting agreements provide for the calculation of the net amount of all receivables and payables under all transactions covered by the netting agreement between Farmer Mac and a single counterparty. Farmer Mac's exposure to credit risk related to its financial derivatives is represented by those counterparties for which Farmer Mac has a net receivable, including the effect of any netting arrangements. As of December 31, 2010 and 2009, Farmer Mac's credit exposure to interest rate swap counterparties, excluding netting arrangements, was $48.0 million and $22.0 million, respectively; however, including netting arrangements, Farmer Mac's credit exposure was $12.4 million and $6.5 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, 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.

Interest Rate Risk:

Farmer Mac uses financial derivatives to manage its interest rate risk exposure by effectively modifying the interest rate reset or maturity characteristics of certain assets and liabilities and by locking in the rates for certain forecasted issuances of liabilities. The primary financial derivatives Farmer Mac uses include interest rate swaps and forward sale contracts. Farmer Mac uses interest-rate swaps to assume fixed rate interest payments in exchange for floating rate interest payments and vice versa. Depending on the economic hedging relationship, the effects of these agreements are (a) the conversion of variable rate liabilities to longer-term fixed rate liabilities, (b) the conversion of long-term fixed rate assets to shorter-term floating rate assets, or (c) the reduction of the variability of future changes in interest rates on forecasted issuances of liabilities. The net payments on these agreements are recorded as gains and losses on financial derivatives in the consolidated statements of operations.

Farmer Mac accounts for its financial derivatives at fair value and not in any qualifying hedging relationship. As of December 31, 2010 and 2009, the net fair value of financial derivatives totaled $(72.2) million and $(92.3) million, respectively. (Losses)/gains on financial derivatives totaled $(17.2) million, $21.3 million and $(130.4) million for the years ended December 31, 2010, 2009 and 2008, respectively.

The following tables summarize information related to Farmer Mac's financial derivatives as of December 31, 2010 and 2009:

December 31, 2010

	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Interest rate swaps:							
Pay fixed callable	$ 13,144	$ -	$ (69)	5.11 %	0.29 %		7.12
Pay fixed non-callable	1,275,108	2,814	(108,503)	4.69 %	0.30 %		3.93
Receive fixed non-callable	2,874,534	39,551	(1,828)	0.44 %	1.40 %		1.70
Basis swaps	254,991	52	(3,411)	1.34 %	0.38 %		1.71
Credit default swaps	30,000	-	(216)	1.00 %	0.00 %		1.05
Agency forwards	37,336	-	(174)			101.03	
Treasury futures	1,300	-	(6)			119.95	
Credit valuation adjustment	-	(925)	520				
Total financial derivatives	$ 4,486,413	$ 41,492	$ (113,687)				

December 31, 2009

	Notional Amount	Fair Value Asset	Fair Value (Liability)	Weighted-Average Pay Rate	Weighted-Average Receive Rate	Weighted-Average Forward Price	Weighted-Average Remaining Life (in years)
	(dollars in thousands)						
Interest rate swaps:							
Pay fixed callable	$ 65,686	$ -	$ (1,725)	5.70 %	0.27 %		7.78
Pay fixed non-callable	1,236,156	5	(99,913)	4.95 %	0.26 %		4.62
Receive fixed callable	300,000	236	-	0.09 %	0.54 %		0.76
Receive fixed non-callable	2,262,714	14,298	(2,815)	0.41 %	1.80 %		2.25
Basis swaps	262,177	294	(3,673)	1.63 %	0.61 %		2.39
Credit default swaps	30,000	-	(214)	1.00 %	0.00 %		2.14
Agency forwards	75,511	453	-			101.22	
Treasury futures	20,500	3	-			115.47	
Credit valuation adjustment	-	(249)	973				
Total financial derivatives	$ 4,252,744	$ 15,040	$ (107,367)				

In the normal course of business, collateral requirements contained in Farmer Mac's derivative contracts are enforced by Farmer Mac and its counterparties. Upon enforcement of the collateral requirements, the amount of collateral posted is typically based on the net fair value of all derivative contracts with the counterparty, i.e., derivative assets net of derivative liabilities at the counterparty level. If Farmer Mac were to be in violation of certain provisions of the derivative contracts, the related counterparty could request payment or full collateralization on the derivative contracts. As of December 31, 2010, the fair value of Farmer Mac's derivatives in a net liability position at the counterparty level, which includes accrued interest but excludes any adjustment for nonperformance risk, was $96.1 million. As of December 31, 2010, Farmer Mac posted cash of $16.6 million as collateral for its derivatives in net liability positions. 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. If Farmer Mac had breached certain provisions of the derivative contracts as of December 31, 2010, it could have been required to settle its obligations under the agreements or post additional collateral of $79.5 million.

The following table summarizes the effects of Farmer Mac's financial derivatives on the consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008:

	(Losses)/Gains on Financial Derivatives For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Interest rate swaps	$ (13,071)	$ 24,377	$ (127,251)
Agency forwards	(3,246)	(2,359)	(2,132)
Treasury futures	(465)	(71)	(647)
Pay-fixed swaptions	-	-	50
Credit default swaps	(307)	(416)	-
Subtotal	(17,089)	21,531	(129,980)
Amortization of derivatives transition adjustment	(70)	(234)	(423)
Total	$ (17,159)	$ 21,297	$ (130,403)

As of December 31, 2010, Farmer Mac had reclassified all of the net after-tax unrealized gains and losses on financial derivatives included in accumulated other comprehensive income/(loss) related to the financial derivatives transition adjustment into earnings.

As of December 31, 2010, Farmer Mac had outstanding basis swaps with Zions First National Bank, a related party, with a total notional amount of $85.0 million and a fair value of $(3.4) million, compared to $105.2 million and $(3.7) million, respectively as of December 31, 2009. Under the terms of those basis swaps, Farmer Mac pays Constant Maturity Treasury-based rates and receives LIBOR. Those swaps hedge most of the interest rate basis risk related to loans Farmer Mac purchases that pay a Constant Maturity Treasury based-rate and the discount notes Farmer Mac issues to fund the loan purchases. The pricing of discount notes is closely correlated to LIBOR rates. Accordingly, Farmer Mac recorded unrealized gains/(losses) on those outstanding basis swaps of $0.3 million, $0.1 million and $(2.6) million for 2010, 2009 and 2008, respectively. See Note 3 for additional information on these related party transactions.

7. NOTES PAYABLE

Farmer Mac's borrowings consist of discount notes and medium-term notes, both of which are unsecured general obligations of the Corporation. Discount notes generally have original maturities of one year or less, whereas medium-term notes generally have maturities of six months to 15 years.

The following table sets forth information related to Farmer Mac's borrowings as of December 31, 2010 and 2009:

	December 31, 2010					
	Outstanding as of December 31,			Average Outstanding During the Year		
	Amount	Rate		Amount	Rate	
	(dollars in thousands)					
Due within one year:						
Discount notes	$3,810,232	0.23	%	$2,426,090	0.26	%
Medium-term notes	259,996	0.33	%	685,374	0.50	%
Current portion of long-term notes	439,191	1.21	%			
	$4,509,419	0.33	%			
Due after one year:						
Medium-term notes due in:						
2012	$652,731	1.81	%			
2013	582,120	1.66	%			
2014	984,090	3.69	%			
2015	892,643	2.35	%			
Thereafter	319,072	4.11	%			
	3,430,656	2.68	%			
Total	$7,940,075	1.35	%			

	December 31, 2009					
	Outstanding as of December 31,			Average Outstanding During the Year		
	Amount	Rate		Amount	Rate	
	(dollars in thousands)					
Due within one year:						
Discount notes	$2,300,352	0.23	%	$1,981,495	0.60	%
Medium-term notes	1,186,965	0.61	%	1,122,704	1.09	%
Current portion of long-term notes	175,581	2.77	%			
	$3,662,898	0.47	%			
Due after one year:						
Medium-term notes due in:						
2011	$92,181	4.31	%			
2012	547,591	2.08	%			
2013	79,841	3.55	%			
2014	1,069,429	3.66	%			
Thereafter	119,671	4.77	%			
	1,908,713	3.30	%			
Total	$5,571,611	1.44	%			

The maximum amount of Farmer Mac's discount notes outstanding at any month end during each of the years ended December 31, 2010 and 2009 was $3.8 billion and $2.6 billion, respectively.

Callable medium-term notes give Farmer Mac the option to redeem the debt at par value on a specified call date or at any time on or after a specified call date. The following table summarizes by maturity date, the amounts and costs for Farmer Mac debt callable in 2011 as of December 31, 2010.

	Debt Callable in 2011 as of December 31, 2010			
Maturity		Amount	Rate	
	(dollars in thousands)			
2011	$	-	-	
2012		-	-	
2013		174,000	1.42	%
2014		-	-	
2015		313,000	2.48	%
Thereafter		142,000	3.96	%
	$	629,000	2.52	%

The following schedule summarizes the earliest interest rate reset date of total borrowings outstanding as of December 31, 2010, including callable and non-callable medium-term notes, assuming callable notes are redeemed at the initial call date.

	Earliest Interest Rate Reset Date of Borrowings Outstanding			
		Amount	Weighted-Average Rate	
	(dollars in thousands)			
Debt with interest rate resets in:				
2011	$	5,187,122	0.60	%
2012		602,771	1.93	%
2013		408,346	1.75	%
2014		984,090	3.69	%
2015		580,228	2.28	%
Thereafter		177,518	4.22	%
Total	$	7,940,075	1.35	%

During 2010 and 2009, Farmer Mac called $0.8 billion and $1.0 billion of callable medium-term notes, respectively.

Authority to Borrow from the U.S. Treasury

Farmer Mac's statutory charter authorizes it to borrow up to $1.5 billion from the U.S. Treasury, if necessary, to fulfill its obligations under any guarantee. The debt would bear interest at a rate determined by the U.S. Treasury based on the then current cost of funds to the United States. The charter requires the debt to be repaid within a reasonable time. As of December 31, 2010, Farmer Mac had not utilized this borrowing authority and does not expect to utilize this borrowing authority in the near future.

Gains and Losses on the Repurchase of Outstanding Debt

Farmer Mac did not repurchase any of its outstanding debt in 2010 or 2009. During 2008, Farmer Mac recognized $0.9 million of net gains on the repurchase of $120.0 million of outstanding Farmer Mac debt. All of the repurchases were from outstanding Farmer Mac fixed rate debt that had been previously swapped to become floating rate debt. Upon the repurchase of those debt securities, the interest rate swaps were cancelled and the debt was replaced with new funding to match the duration of related floating rate assets.

8. ALLOWANCE FOR LOSSES AND CONCENTRATIONS OF CREDIT RISK

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities. As of December 31, 2010 and 2009, Farmer Mac recorded specific allowances for losses of $7.4 million and $0.6 million, respectively. No allowance for losses has been provided for the Farmer Mac II and Rural Utilities programs and Farmer Mac I AgVantage securities as of December 31, 2010 or 2009. See Note 2(j), Note 5 and Note 12 for more information about Farmer Mac Guaranteed Securities. Farmer Mac's allowance for losses is presented in two components on its consolidated balance sheets:

- an "Allowance for loan losses" on loans held; and
- an allowance for losses on loans underlying LTSPCs and Farmer Mac Guaranteed Securities, which is presented as "Reserve for losses" on the consolidated balance sheets.

The allowance for losses is increased through periodic provisions for loan losses that are charged against net interest income and provisions for losses that are charged to non-interest expense and is reduced by charge-offs for actual losses, net of recoveries. Negative provisions, 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 following is a summary of the changes in the allowance for losses for each year in the three-year period ended December 31, 2010:

	Allowance for Loan Losses	Reserve for Losses (in thousands)	Total Allowance for Losses
Balance as of January 1, 2008	$ 1,690	$ 2,197	$ 3,887
Provision for losses	14,531	3,309	17,840
Charge-offs	(5,308)	-	(5,308)
Recoveries	16	-	16
Balance as of December 31, 2008	$ 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

During 2010, Farmer Mac recorded provisions to its allowance for loan losses of $1.9 million, charge-offs of $0.6 million and recoveries of $2.2 million. The provisions to the allowance for loan losses during 2010 include:

- the reclassification of $2.0 million from the reserve for losses to the allowance for loan losses upon adoption of new consolidation guidance in first quarter 2010;
- increased provisions of $2.1 million; offset by
- recoveries of $2.2 million on a loan secured by an ethanol plant.

During 2009 and 2008, Farmer Mac recorded provisions to its allowance for loan losses of $2.9 million and $14.5 million, charge-offs of $8.5 million and $5.3 million, and recoveries of $1.0 million and $16,000, respectively. The activity in the allowance for loan losses in 2009 and 2008 was largely attributable to defaulted ethanol loans previously purchased from AgStar Financial Services, a related party at the time of purchase, pursuant to the terms of an LTSPC agreement.

During 2010, Farmer Mac recorded provisions to its reserve for losses of $4.4 million. The provisions recorded during 2010 primarily relate to Farmer Mac's exposure to the ethanol and timber industries pursuant to loans underlying LTSPCs. These provisions were partially offset by the reclassification of $2.0 million from the reserve for losses to the allowance for loan losses upon adoption of the new consolidation guidance in first quarter 2010. During 2009 and 2008, Farmer Mac recorded provisions to its reserve for losses of $2.4 million and $3.3 million, respectively. These provisions were largely attributable to Farmer Mac's exposure to the ethanol industry.

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The following table presents Farmer Mac's reserve for losses for off-balance sheet Farmer Mac I Guaranteed Securities and LTSPCs as of December 31, 2010 and 2009.

	As of December 31, 2010	As of December 31, 2009
	(in thousands)	
Off-balance sheet Farmer Mac I Guaranteed Securities	$ 635	$ 2,033
LTSPCs	9,677	5,862
Total reserve for losses	$ 10,312	$ 7,895

The following tables present the ending balances of loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities and the related allowance for losses by impairment method and commodity type as of December 31, 2010.

	As of December 31, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
				(in thousands)			
Ending Balance							
Evaluated collectively for impairment	$ 1,699,477	$ 835,254	$ 1,130,466	$ 282,400	$ 239,933	$ 22,514	$ 4,210,044
Evaluated individually for impairment	31,903	30,221	15,992	8,745	6,790	425	94,076
	$ 1,731,380	$ 865,475	$ 1,146,458	$ 291,145	$ 246,723	$ 22,939	$ 4,304,120
Allowance for Losses							
Evaluated collectively for impairment	$ 1,499	$ 783	$ 2,236	$ 222	$ 7,947	$ 13	$ 12,700
Evaluated individually for impairment	2,073	2,754	513	223	1,850	2	7,415
	$ 3,572	$ 3,537	$ 2,749	$ 445	$ 9,797	$ 15	$ 20,115

Farmer Mac recognized interest income of approximately $2.1 million, $2.6 million and $3.5 million on impaired loans during the years ended December 31, 2010, 2009 and 2008, respectively. During 2010, 2009 and 2008, Farmer Mac's average investment in impaired loans was $105.8 million, $140.5 million and $63.6 million, respectively. The following table presents the recorded investment of impaired loans with a specific allowance for losses and the recorded investment of impaired loans with no specific allowance for losses as of December 31, 2010 and 2009.

	As of December 31,					
	2010			2009		
	Balance	Specific Allowance	Net Balance	Balance	Specific Allowance	Net Balance
	(in thousands)					
Impaired loans:						
Specific allowance for losses	$58,472	$(7,415)	$51,057	$2,489	$(550)	$1,939
No specific allowance for losses	34,487	-	34,487	98,721	-	98,721
Total	$92,959	$(7,415)	$85,544	$101,210	$(550)	$100,660

In 2010, the specific allowance for losses includes amounts determined through an aggregate analysis of impaired assets without updated valuations. For prior years, the amounts determined through such aggregate analyses are included in the general allowance for losses.

The unpaid principal balances, recorded investment and specific allowance for losses related to impaired loans by commodity type as of December 31, 2010 and a summary of loans on nonaccrual status by commodity type as of December 31, 2010 are presented below.

	As of December 31, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Impaired Loans:							
With no specific allowance:							
Recorded investment	$ 16,015	$ 10,549	$ 6,873	$ 1,050	$ -	$ -	$ 34,487
Unpaid principal balance	17,274	10,895	7,087	1,072	-	-	36,328
With a specific allowance:							
Recorded investment	15,414	18,949	9,052	7,788	6,839	430	58,472
Unpaid principal balance	14,630	19,326	8,905	7,672	6,790	425	57,748
Associated allowance	2,073	2,754	513	223	1,850	2	7,415
Total:							
	31,429	29,498	15,925	8,838	6,839	430	92,959

Recorded investment							
Unpaid principal balance	31,904	30,221	15,992	8,744	6,790	425	94,076
Associated allowance	2,073	2,754	513	223	1,850	2	7,415
Recorded Investment of Loans on Nonaccrual Status:	$ 13,828	$ 8,793	$ 3,267	$ 4,380	$ 8,796	$ -	$ 39,064

In accordance with the terms of all applicable trust agreements, Farmer Mac generally acquires all loans that collateralize Farmer Mac Guaranteed Securities that become and remain either 90 or 120 days (depending on the provisions of the applicable agreement) or more past due on the next subsequent loan payment date. In accordance with the terms of all LTSPCs, Farmer Mac acquires loans that are either 90 days or 120 days (depending on the provisions of the applicable agreement) delinquent upon the request of the counterparty.

Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore regains effective control over the transferred loans.

During 2010, Farmer Mac purchased 22 defaulted loans having an unpaid principal balance of $6.1 million from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. During 2009, Farmer Mac purchased 24 defaulted loans having a principal balance of $21.3 million from pools underlying Farmer Mac I Guaranteed Securities and LTSPCs. The following table presents Farmer Mac's purchases of defaulted loans underlying Farmer Mac I Guaranteed Securities and LTSPCs.

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Defaulted loans purchased underlying off-balance sheet Farmer Mac I Guaranteed Securities	$ 3,456	$ 1,157	$ 647
Defaulted loans underlying on-balance sheet Farmer Mac I Guaranteed Securities transferred to loans	-	2,216	1,072
Defaulted loans purchased underlying LTSPCs	2,626	17,896	56,560
Total	$ 6,082	$ 21,269	$ 58,279

Credit Quality Indicators

The following tables present credit quality indicators related to loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of December 31, 2010. Farmer Mac uses 90-day delinquency information to evaluate its credit risk exposure on these program assets because historically it has been the best measure of borrower credit quality deterioration. Most of the loans held and underlying LTSPCs and Farmer Mac I Guaranteed Securities have annual (January 1) or semi-annual (January 1 and July 1) payment dates and are supported by less frequent and less predictable revenue sources, such as the cash flows generated from the maturation of crops, sales of livestock and government farm support programs. Taking into account the reduced frequency of payment due dates and revenue sources, Farmer Mac considers the 90-day delinquency point to be the most significant observation point when evaluating its credit risk exposure.

	As of December 31, 2010						
	Crops	Permanent Plantings	Livestock	Part-time Farm	AgStorage and Processing (including ethanol facilities)	Other	Total
	(in thousands)						
Credit risk profile by internally assigned grade (1)							
Grade:							
Acceptable	$ 1,625,995	$ 792,061	$ 993,542	$ 268,111	$ 116,248	$ 20,321	$ 3,816,278
Other assets especially mentioned ("OAEM") (2)	59,768	17,112	86,500	9,652	76,947	639	250,618
Substandard (2)	45,617	56,302	66,416	13,382	53,528	1,979	237,224
Total	$ 1,731,380	$ 865,475	$ 1,146,458	$ 291,145	$ 246,723	$ 22,939	$ 4,304,120

	Greater than 90 days	In Bankruptcy and REO	Total Nonperforming
Age analysis of past due loans (1)			
Crops	$ 21,423	$ 4,886	$ 26,308
Permanent Plantings	26,312	3,712	30,025
Livestock	7,177	1,395	8,572
Part-time Farm	3,803	1,537	5,340
AgStorage and processing (including ethanol facilities)	10,892	-	10,892
Other	641	-	641
Total	$ 70,248	$ 11,530	$ 81,778

(1) Amounts represent unpaid principal balance of risk-rated loans, which is the basis Farmer Mac uses to analyze its portfolio, and recorded investment of past due loans. Amounts include real estate owned, at lower of cost or fair

value less estimated selling costs, of $2.0 million.

(2) Assets in the OAEM category generally have potential weaknesses due to performance issues but are currently considered to be adequately secured. Substandard assets have a well-defined weakness or weaknesses and there is a distinct possibility that some loss will be sustained if deficiencies are not corrected.

Concentrations of Credit Risk

The following table sets forth the geographic and commodity/collateral diversification, as well as the range of original loan-to-value ratios, for all loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs as of December 31, 2010 and 2009:

	As of December 31, 2010	As of December 31, 2009
	(in thousands)	
By commodity/collateral type:		
Crops	$ 1,731,380	$ 1,694,235
Permanent plantings	865,475	853,554
Livestock	1,146,458	1,218,614
Part-time farm	291,145	325,666
AgStorage and processing (including ethanol facilities)	246,723	276,848
Other	22,939	27,725
Total	$ 4,304,120	$ 4,396,642
By geographic region (1):		
Northwest	$ 660,845	$ 642,086
Southwest	1,626,398	1,722,181
Mid-North	934,879	979,714
Mid-South	521,294	537,682
Northeast	317,715	346,176
Southeast	242,989	168,803
Total	$ 4,304,120	$ 4,396,642
By original loan-to-value ratio:		
0.00% to 40.00%	$ 1,030,580	$ 1,092,520
40.01% to 50.00%	770,744	755,698
50.01% to 60.00%	1,246,675	1,218,330
60.01% to 70.00%	1,056,132	1,108,683
70.01% to 80.00%	155,363	172,503
80.01% to 90.00%	44,626	48,908
Total	$ 4,304,120	$ 4,396,642

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

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

9. EQUITY

Common Stock

Farmer Mac has three classes of common stock outstanding:

- Class A voting common stock, which may be held only by banks, insurance companies and other financial institutions or similar entities that are not institutions of the FCS. By federal statute, 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;
- Class B voting common stock, which may be held only by institutions of the FCS. There are no restrictions on the maximum holdings of Class B voting common stock; and
- Class C non-voting common stock, which has no ownership restrictions.

From fourth quarter 2004 through fourth quarter 2008, Farmer Mac paid a quarterly dividend of $0.10 per share on all classes of the Corporation's common stock. Beginning in first quarter 2009 and continuing throughout 2010, Farmer Mac paid a quarterly dividend of $0.05 per share on all classes of the Corporation's common stock. On February 3, 2011, Farmer Mac's board of directors declared a quarterly dividend of $0.05 per share on the Corporation's common stock payable on March 31, 2011. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Farmer Mac made no common stock repurchases during 2010 or 2009. During 2008, Farmer Mac repurchased 31,691 shares of its Class C non-voting common stock at an average price of $26.13 per share. These repurchases reduced the Corporation's stockholders' equity by approximately $0.8 million. The aggregate number of shares purchased by Farmer Mac under its stock repurchase program reached the maximum number of authorized shares during first quarter 2008, thereby terminating the program according to its terms. All of the repurchased shares under Farmer Mac's stock repurchase programs were purchased in open market transactions and were retired to become authorized but unissued shares available for future issuance.

Preferred Stock

Farmer Mac has had three series of preferred stock outstanding. The first, Series A, was permanent equity, was a component of Stockholders' Equity on the consolidated balance sheets, and was repurchased and retired on December 15, 2008. The second, Series B, was newly issued on September 30, 2008 and on December 15, 2008, was temporary equity and was reported as Mezzanine Equity on the consolidated balance sheets and was repurchased and retired on January 25, 2010. This preferred stock was temporary equity because it contained redemption features that, although remote, were not solely within the control of Farmer Mac. The third, Series C, was newly issued during fourth quarter 2008 and is permanent equity and a component of Stockholders' Equity on the consolidated balance sheets. Farmer Mac's ability to declare and pay dividends on its outstanding preferred stock could be restricted if it failed to comply with regulatory capital requirements. All series of Farmer Mac's preferred stock are included as components of core capital for regulatory and statutory capital compliance measurements.

Series B Preferred Stock

On September 30, 2008, Farmer Mac issued 60,000 shares of its newly issued Series B-1 Senior Cumulative Perpetual Preferred Stock ("Initial Series B-1 Preferred Stock") and 5,000 shares of its newly issued Series B-2 Senior Cumulative Perpetual Preferred Stock ("Series B-2 Preferred Stock"), each having a par value and initial liquidation preference of $1,000 per share (collectively, the Initial Series B-1 Preferred Stock and Series B-2 Preferred Stock, the "Initial Series B Preferred Stock") for an aggregate purchase price of $65.0 million, or $1,000 per share. Farmer Mac incurred $4.0 million of direct costs related to the issuance of the Initial Series B Preferred Stock, which reduced the amount of mezzanine equity recorded as of September 30, 2008.

On December 15, 2008, Farmer Mac issued 70,000 shares of its newly issued Series B-3 Senior Cumulative Perpetual Preferred Stock ("Series B-3 Preferred Stock") having a par value and initial liquidation preference of $1,000 per share for a purchase price of $70.0 million and an additional 15,000 shares of Series B-1 Preferred Stock (the "Supplemental Series B-1 Preferred Stock") for a purchase price of $15.0 million. Farmer Mac incurred $1.8 million of direct costs related to the issuance of the Series B-3 Preferred Stock and Supplemental Series B-1 Preferred Stock, which reduced the amount of mezzanine equity recorded as of December 31, 2008. The Initial Series B Preferred Stock, the Supplemental Series B-1 Preferred Stock and the Series B-3 Preferred Stock are together referred to as the "Series B Preferred Stock."

On January 25, 2010, Farmer Mac repurchased and retired all $150.0 million of the outstanding Series B Preferred Stock and recognized a loss on retirement of preferred stock of $5.8 million on the consolidated statements of operations. Prior to that time, the Series B Preferred Stock ranked senior to Farmer Mac's outstanding Class A voting common stock, Class B voting common stock, Class C non-voting common stock and Series C Non-Voting Cumulative Preferred Stock ("Series C Preferred Stock")with respect to dividends, distributions upon a change in control, liquidation, and dissolution or winding up of Farmer Mac. Each series of Series B Preferred Stock ranked pari passu with the others.

Series C Preferred Stock

In fourth quarter 2008, Farmer Mac began to require its business partners to purchase an equity interest in Farmer Mac in the form of shares of Farmer Mac's Series C Preferred Stock in connection with transactions involving pools of loans in excess of $20.0 million. The amount of the required investment was equal to 1.25 percent greater than the Corporation's required statutory minimum capital for the pool of loans being accepted by Farmer Mac. The requirement was instituted to ensure that Farmer Mac had adequate capital to support new business in fulfilling its mission. In fourth quarter 2009, Farmer Mac eliminated the requirement to purchase Series C Preferred Stock in connection with new business.

Series C Preferred Stock has a par value of $1,000 per share, an initial liquidation preference of $1,000 per share and shall consist of up to 100,000 shares. Series C 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.

Dividends on Series C Preferred Stock compound quarterly at an annual rate of 5.0 percent of the then-applicable liquidation preference per share. The annual rate will increase to (1) 7.0 percent on the January 1st following the fifth anniversary of the applicable issue date and (2) 9.0 percent on the January 1st following the tenth anniversary of the applicable issue date. Dividends on Series C Preferred Stock will accrue and cumulate from the applicable issue date whether or not declared by the board of directors and will be payable quarterly in arrears out of legally available funds when and as declared by the board of directors on each dividend payment date—March 31, June 30, September 30 and December 31 of each year. Farmer Mac may pay dividends on Series C Preferred Stock without paying dividends on any outstanding class or series of stock that ranks junior to Series C Preferred Stock.

Farmer Mac has the right, but not the obligation, to redeem some or all of the issued and outstanding shares of Series C Preferred Stock at a price equal to the then-applicable liquidation preference beginning on the first anniversary of the applicable issue date and on each subsequent dividend payment date. Farmer Mac's redemption right with respect to Series C Preferred Stock is subject to receipt of the prior written approval of FCA, if required.

Farmer Mac did not sell any shares of Series C Preferred Stock in 2010. This was due to the elimination of the requirement for business partners to purchase an equity interest in Farmer Mac in the fourth quarter 2009. During 2009 and 2008, Farmer Mac sold 48,378 shares and 9,200 shares, respectively, of Series C Preferred Stock. Farmer Mac sold these shares without registration under the Securities Act of 1933, in reliance upon the exemption provided by Section 3(a)(2), for an aggregate purchase price of $48.4 million and $9.2 million, or $1,000 per share, respectively. Farmer Mac had 57,578 shares of Series C Preferred Stock outstanding as of December 31, 2010, all held by CFC, a related party.

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of $250.0 million of securities issued by a newly formed Delaware statutory trust. The trust securities represent undivided beneficial ownership interests in 250,000 shares of non-cumulative perpetual preferred stock (the "Farmer Mac II LLC Preferred Stock") of Farmer Mac's subsidiary, Farmer Mac II LLC, a Delaware limited liability company. The Farmer Mac II LLC Preferred Stock has a liquidation preference of $1,000 per share.

Dividends on the Farmer Mac II LLC Preferred Stock will be 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. For each quarterly period from the date of issuance to but excluding the payment date occurring on March 30, 2015, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 8.875 percent per annum. For each quarterly period from March 30, 2015 to but excluding the payment date occurring on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 10.875 percent per annum. For each quarterly period 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 will be non-cumulative, so dividends that are not declared for a payment date will not accrue. The Farmer Mac II LLC Preferred Stock is permanent equity of Farmer Mac II LLC and is presented as "Non-controlling interest – preferred stock" within permanent 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/(benefit).

Farmer Mac used part of the proceeds from the sale of $250.0 million of the Farmer Mac II LLC Preferred Stock to repurchase and retire all $150.0 million of the outstanding Series B Preferred Stock described above.

Equity-based Incentive Compensation Plans

In 1997, Farmer Mac adopted a stock option plan for directors, officers and other employees to acquire shares of Class C non-voting common stock. Upon stock option exercise, new shares are issued by the Corporation. Under the plan, stock options awarded vest annually in thirds, with the first third vesting one year after the date of grant. If not exercised, any options granted under the 1997 plan expire 10 years from the date of grant, except that options issued to directors since June 1, 1998, if not exercised, expire five years from the date of grant. For all stock options granted, the exercise price is equal to the closing price of the Class C non-voting common stock on or immediately preceding the date of grant. As of June 30, 2008, the plan had terminated pursuant to its terms and no further grants will be made under it.

At the June 5, 2008 Annual Meeting of Stockholders, Farmer Mac's stockholders approved the 2008 Omnibus Incentive Compensation Plan that authorizes the grants of restricted stock, stock options and SARs, among other alternative forms of equity-based compensation, to directors, officers and other employees. SARs awarded to officers and employees vest annually in thirds and SARs awarded to directors vest fully after approximately one year. If not exercised or terminated earlier due to the termination of employment or service on the Board, SARs granted to officers or employees expire after 10 years and those granted to directors expire after 7 years. For all SARs granted, the exercise price is equal to the closing price of the Class C non-voting common stock on the date of grant. SARs granted during 2010 have exercise prices ranging from $10.43 to $12.20 per share, SARs granted during 2009 have exercise prices ranging from $5.93 to $7.78 per share and SARS granted during 2008 have exercise prices ranging from $7.35 to $28.94 per share. During 2010 and 2009, restricted stock awards were granted to directors with a vesting period of one year, and restricted stock awards were granted to officers vesting in three years provided certain performance targets are met.

The following tables summarize stock options, SARs and non-vested restricted stock activity for the years ended December 31, 2010, 2009 and 2008:

	For the Year Ended December 31,					
	2010		2009		2008	
	Stock Options and SARs	Weighted-Average Exercise Price	Stock Options and SARs	Weighted-Average Exercise Price	Stock Options and SARs	Weighted-Average Exercise Price
Outstanding, beginning of year	1,799,465	$ 22.68	2,237,711	$ 25.54	2,218,199	$ 25.48
Granted	302,000	11.88	210,000	6.33	429,770	24.41
Exercised	(26,998)	11.96	-	-	(264,297)	21.43
Canceled	(150,334)	22.34	(648,246)	27.27	(145,961)	28.86
Outstanding, end of year	1,924,133	$ 21.16	1,799,465	$ 22.68	2,237,711	$ 25.54
Options and SARs exercisable at end of year	1,434,544	$ 24.59	1,398,262	$ 25.17	1,490,150	$ 25.25

	For the Year Ended December 31,					
	2010		2009		2008	
	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value	Non-vested Restricted Stock	Weighted-Average Grant-date Fair Value
Outstanding, beginning of year	200,548	$ 5.93	-	$ -	-	$ -
Granted	115,807	12.21	200,548	5.93	-	-
Canceled	(11,599)	8.15	-	-	-	-
Vested and issued	(122,147)	6.14	-	-	-	-
Outstanding, end of year	182,609	$ 9.63	200,548	$ 5.93	-	$ -

The cancellations of stock options, SARs and non-vested restricted stock during 2010, 2009 and 2008 were due either to unvested awards terminating in accordance with the provisions of the applicable stock option plans upon directors' or employees' departures from Farmer Mac, by voluntary forfeiture, or vested awards terminating unexercised on their expiration date. Of the 161,933 awards canceled in 2010, 76,702 were a result of employee or director departures from Farmer Mac and 85,231 were a result of awards terminating unexercised on their expiration date.

Farmer Mac received $0.2 million from the exercise of stock options during 2010. There were no exercises of stock options during 2009. Farmer Mac received $5.7 million from the exercise of stock options during 2008. During 2010 and 2008, the reduction of income taxes payable as a result of the deduction for the exercise of stock options and SARs and the vesting or accelerated tax elections of restricted stock was $0.8 million and $0.9 million, respectively. In total, the additional paid-in capital received from the exercise of stock options was $0.1 million and $5.9 million for 2010 and 2008, respectively.

During 2010 and 2009, Farmer Mac recorded reductions to additional paid-in capital of $0.2 million and $1.2 million, respectively, as vested stock options expired unexercised. There was no such reduction in 2008.

During the year ended December 31, 2010, 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 4,417 shares of Class C non-voting common stock with a fair value of $44,000 to the seven directors who elected to receive such stock in lieu of their cash retainers. During the year ended December 31, 2009, Farmer Mac issued 9,566 shares of Class C non-voting common stock with a fair value of $41,000 to the five directors who elected to receive such stock in lieu of their cash retainers. During the similar period ended December 31, 2008, Farmer Mac issued 5,166 shares of Class C non-voting common stock with a fair value of $70,000 to the seven directors who elected to receive such stock in lieu of their cash retainers. Fair values are determined based on the closing price of the Class C non-voting common stock as of each quarter end date.

The following tables summarize information regarding stock options, SARs and non-vested restricted stock outstanding as of December 31, 2010:

	Outstanding		Exercisable		Vested or Expected to Vest	
Range of Exercise Prices	Stock Options and SARs	Weighted-Average Remaining Contractual Life	Stock Options and SARs	Weighted-Average Remaining Contractual Life	Stock Options and SARs	Weighted-Average Remaining Contractual Life
$5.00 - $ 9.99	267,333	8.3 years	107,336	8.2 years	239,334	8.3 years
10.00 - 14.99	302,000	9.3 years	-	-	260,800	9.3 years
15.00 - 19.99	73,291	2.6 years	73,291	2.6 years	73,291	2.6 years
20.00 - 24.99	483,457	1.6 years	483,457	1.6 years	483,457	1.6 years
25.00 - 29.99	584,384	3.3 years	556,792	3.1 years	581,422	3.3 years
30.00 - 34.99	213,668	1.0 years	213,668	1.0 years	213,668	1.0 years
	1,924,133		1,434,544		1,851,972	

	Outstanding		Expected to Vest	
Weighted-Average Grant-Date Fair Value	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life	Nonvested Restricted Stock	Weighted-Average Remaining Contractual Life
$5.00 - $ 9.99	75,000	1.2 years	67,500	1.2 years
10.00 - 14.99	100,188	1.3 years	90,168	1.3 years
15.00 - 19.99	7,421	0.2 years	6,679	0.2 years
	182,609		164,347	

The weighted average exercise price of the 1,851,972 options or SARs vested or expected to vest as of December 31, 2010 was $21.58.

As of December 31, 2010 and 2009, the intrinsic value of options, SARs and non-vested restricted stock outstanding, exercisable and vested or expected to vest was $6.2 million and $1.4 million, respectively. During 2010, the total intrinsic value of options and SARs exercised was $0.2 million. During 2008, the total intrinsic value of options exercised was $2.6 million. There were no exercises during 2009. As of December 31, 2010, there was $2.9 million of total unrecognized compensation cost related to non-vested stock options, SARS and restricted stock awards. This cost is expected to be recognized over a weighted-average period of 1.7 years.

The weighted-average grant date fair values of options, SARs and restricted stock awards granted in 2010, 2009 and 2008 were $9.24, $5.11 and $9.71 per share, respectively. Under the fair value-based method of accounting for stock-based compensation cost, Farmer Mac recognized compensation expense of $2.8 million, $2.7 million and $2.8 million during 2010, 2009 and 2008, respectively. The fair values of stock options and SARs were estimated using the Black-Scholes option pricing model based on the following assumptions:

	For the Year Ended December 31,		
	2010	2009	2008
Risk-free interest rate	2.9%	1.6%	2.4%
Expected years until exercise	7 years	7 years	6 years
Expected stock volatility	91.5%	103.6%	52.2%
Dividend yield	1.8%	3.2%	2.2%

The risk-free interest rates used in the model were based on the U.S. Treasury yield curve in effect at the grant date. Farmer Mac used historical data to estimate the timing of option exercises and stock option cancellation rates used in the model. Expected volatilities were based on historical volatility of Farmer Mac's Class C common stock. The dividend yields were based on the expected dividends as a percentage of the value of Farmer Mac's Class C common stock on the grant date.

Since restricted stock awards will be issued upon vesting regardless of the stock price, expected stock volatility is not considered in determining grant date fair value. Restricted stock awards also accrue dividends which are paid at vesting. The weighted-average grant date fair value of the restricted stock awarded in 2010 and 2009 was $12.21 and $5.93 per share, respectively, which was the closing price of the stock on the date granted.

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to three statutory and regulatory capital requirements:

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

Farmer Mac is required to comply with the higher of the minimum capital requirement and the risk-based capital requirement.

As of December 31, 2010, Farmer Mac's minimum and critical capital requirements were $301.0 million and $150.5 million, respectively, and its actual core capital level was $460.6 million, which was $159.6 million above the minimum capital requirement and $310.1 million above the critical capital requirement as of that date. As of December 31, 2009, Farmer Mac's minimum and critical capital requirements were $217.0 million and $108.5 million, respectively, and its actual core capital level was $337.2 million, which was $120.2 million above the minimum capital requirement and $228.7 million above the critical capital requirement as of that date.

Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2010 was $42.1 million, and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $480.7 million exceeded that amount by approximately $438.6 million. As of December 31, 2009, Farmer Mac's risk-based capital requirement was $35.9 million, and Farmer Mac's regulatory capital of $351.3 million exceeded that amount by approximately $315.4 million.

10. INCOME TAXES

Farmer Mac is subject to federal income taxes but is exempt from state and local income taxes. The components of the federal income tax expense/(benefit) for the years ended December 31, 2010, 2009 and 2008 were as follows:

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Current income tax expense	$ 14,321	$ 16,902	$ 17,514
Deferred income tax (benefit)/expense	(524)	35,615	(40,378)
Income tax expense/(benefit)	$ 13,797	$ 52,517	$ (22,864)

A reconciliation of tax at the statutory federal tax rate to the income tax expense/(benefit) for the years ended December 31, 2010, 2009 and 2008 is as follows:

	For the Year Ended December 31,		
	2010	2009	2008
		(dollars in thousands)	
Tax expense/(benefit) at statutory rate	$ 23,274	$ 53,241	$ (60,630)
Non-taxable dividend income	(2,183)	(1,934)	(2,337)
Income from non-controlling interest	(7,248)	-	-
Valuation allowance	(235)	1,120	39,989
Other	189	90	114
Income tax expense/(benefit)	$ 13,797	$ 52,517	$ (22,864)
Statutory tax rate	35.0 %	35.0 %	35.0 %
Effective tax rate	20.7 %	34.5 %	13.2 %

The components of the deferred tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

	As of December 31,	
	2010	2009
	(in thousands)	
Deferred tax assets:		
Basis differences related to financial derivatives	$ 27,518	$ 34,192
Allowance for losses	7,040	4,965
Stock-based compensation	2,725	2,438
Capital loss carryforwards	37,887	37,408
Valuation allowance	(37,887)	(36,788)
Lower of cost or fair value adjustment on loans held for sale	3,110	-
Basis difference in subsidiary	2,437	-
Amortization of premiums on capital investments	2,987	4,322
Valuation allowance	(2,987)	(4,322)
Other	3,225	1,780
Total deferred tax assets	46,055	43,995
Deferred tax liability:		
Basis differences related to securities	20,047	17,941
Unrealized gains on available-for-sale securities	9,841	1,777
Other	1,637	131
Total deferred tax liability	31,525	19,849
Net deferred tax asset	$ 14,530	$ 24,146

A valuation allowance is required to reduce a deferred tax asset to an amount that is more likely than not to be realized. Future realization of the tax benefit from a deferred tax asset depends on the existence of sufficient taxable income of the appropriate character. After the evaluation of both positive and negative objective evidence regarding the likelihood that its deferred tax assets will be realized, Farmer Mac established a valuation allowance of $40.9 million and $41.1 million as of December 31, 2010 and 2009, respectively, which was attributable to non-deductible capital losses on investment securities. Farmer Mac did not establish a valuation allowance for the remainder of its deferred tax assets because it believes it is more likely than not that those deferred tax assets will be realized. In determining its deferred tax asset valuation allowance, Farmer Mac considered its taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback and carryforward periods available under the tax law. As of December 31, 2010, the amount of capital loss carryforwards was $106.0 million. These capital loss carryforwards will expire in 2014.

As of December 31, 2010 and 2009, both the recorded liability for uncertain tax positions and the corresponding deferred tax asset were $1.5 million and $1.4 million, respectively.

The following table presents the changes in unrecognized tax benefits for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Beginning balance	$ 1,392	$ 934	$ 851
Increases based on tax positions related to current year	62	458	126
Reductions for tax positions of prior years	-	-	(43)
Ending balance	$ 1,454	$ 1,392	$ 934

The resolution of the unrecognized tax benefits presented above would represent temporary differences between Farmer Mac's net income and taxable income and, therefore, would not result in a change to the Corporation's effective tax rate. As of December 31, 2010 and 2009, accrued interest payable and the associated interest expense related to unrecognized tax benefits was immaterial and is presented as a component of income taxes. Farmer Mac does not expect to be subject to, and has not recorded tax penalties. It is reasonably possible that changes in the gross balance of unrecognized tax benefits may occur within the next 12 months due to the lapse of statutory limitations. Any changes would not be material to Farmer Mac's consolidated financial statements. Tax years 2007 through 2010 remain subject to examination.

11. EMPLOYEE BENEFITS

Farmer Mac makes contributions to a defined contribution retirement plan for all of its employees. Farmer Mac contributed 13.2 percent of the lesser of an employee's gross salary or the maximum compensation permitted under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") ($245,000 for 2010 and 2009, and $230,000 for 2008), plus 5.7 percent of the difference between: (1) the lesser of the gross salary or the amount established under EGTRRA; and (2) the Social Security Taxable Wage Base. Employees are fully vested after having been employed for approximately three years. Expense for this plan for the years ended December 31, 2010, 2009 and 2008 was $0.9 million, $0.8 million and $0.7 million, respectively.

12. OFF-BALANCE SHEET GUARANTEES AND LTSPCs, COMMITMENTS AND CONTINGENCIES

Farmer Mac offers approved agricultural and rural residential mortgage lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through the Farmer Mac I program, the Farmer Mac II program or the Rural Utilities program, and (2) LTSPCs, which are available through the Farmer Mac I program or Rural Utilities program. For securitization trusts where Farmer Mac is the primary beneficiary, as described in Note 2(q), the trust assets and liabilities are included on Farmer Mac's consolidated balance sheet. Upon consolidation, Farmer Mac eliminates the portion of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. For the remainder of these transactions, or in the event of deconsolidation, both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac. Farmer Mac accounts for these transactions and other financial guarantees in accordance with FASB guidance on accounting for guarantees. Farmer Mac records, at the inception of a guarantee, a liability for the fair value of its obligation to stand ready to perform under the terms of each guarantee and an asset that is equal to the fair value of the fees that will be received over the life of each guarantee. The fair values of the guarantee obligation and asset at inception are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are

derived using a Monte Carlo simulation model. The guarantee obligation and corresponding asset are subsequently amortized into guarantee and commitment fee income in relation to the decline in the unpaid principal balance on the underlying agricultural real estate mortgage loans.

The contractual terms of Farmer Mac's guarantees range from less than 1 year to 30 years. However, the actual term of each guarantee may be significantly less than the contractual term based on the prepayment characteristics of the related agricultural real estate mortgage loans. Farmer Mac's maximum potential exposure under these guarantees is comprised of the unpaid principal balance of the underlying agricultural real estate mortgage loans. Guarantees issued or modified on or after January 1, 2003 are recorded in the consolidated balance sheets. Farmer Mac's maximum potential exposure was $5.2 billion and $6.2 billion as of December 31, 2010 and 2009, respectively. Farmer Mac's maximum potential exposure for guarantees issued prior to January 1, 2003, which are not recorded on the consolidated balance sheets, was $246.8 million and $377.2 million as of December 31, 2010 and 2009, respectively. The maximum exposure from these guarantees is not representative of the actual loss Farmer Mac is likely to incur, based on historical loss experience. In the event Farmer Mac was required to make payments under its guarantees, Farmer Mac would have the right to enforce the terms of the loans, and in the event of default, would have access to the underlying collateral. For information on Farmer Mac's methodology for determining the reserve for losses for its financial guarantees, see Note 2(j) and Note 8. The following table presents changes in Farmer Mac's guarantee and commitment obligations in the consolidated balance sheets for the years ended December 31, 2010, 2009 and 2008.

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Beginning balance, January 1	$ 48,526	$ 54,954	$ 52,130
Additions to the guarantee and commitment obligation (1)	4,539	3,168	8,512
Adjustments related to new consolidation guidance	(12,812)	-	-
Amortization of the guarantee and commitment obligation	(9,945)	(9,596)	(5,688)
Ending balance, December 31	$ 30,308	$ 48,526	$ 54,954

(1) Represents the fair value of the guarantee and commitment obligation at inception.

Off-Balance Sheet Farmer Mac Guaranteed Securities

Agricultural real estate mortgage loans, rural utilities loans and other related assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. Farmer Mac is obligated under its guarantee to ensure that the securities make timely payments to investors of principal and interest based on the underlying loans, regardless of whether the trust has actually received such scheduled loan payments. As consideration for Farmer Mac's assumption of the credit risk on these securities, Farmer Mac receives guarantee fees that are recognized as earned on an accrual basis over the life of the loan and based upon the outstanding balance of the Farmer Mac Guaranteed Security.

Farmer Mac is required to perform under its obligation when the underlying loans for the off-balance sheet Farmer Mac Guaranteed Securities do not make their scheduled installment payments. When a loan underlying a Farmer Mac I Guaranteed Security becomes 90 days or more past due, Farmer Mac may, in its sole discretion, repurchase the loan from the trust and generally does repurchase such loans, thereby reducing the principal balance of the outstanding Farmer Mac I Guaranteed Security.

The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of December 31, 2010 and 2009, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans.

Outstanding Balance of Off-Balance Sheet
Farmer Mac Guaranteed Securities

	As of December 31,			
		2010		2009
	(in thousands)			
Farmer Mac I:				
Farmer Mac Guaranteed Securities - AgVantage	$	2,945,000	$	2,945,000
Farmer Mac Guaranteed Securities		750,217		1,492,239
Farmer Mac II:		48,103		34,802
Farmer Mac Guaranteed Securities				
Rural Utilities:				
Farmer Mac Guaranteed Securities - AgVantage		15,292		14,240
Total off-balance sheet Farmer Mac Guaranteed Securities	$	3,758,612	$	4,486,281

If Farmer Mac repurchases a loan that is collateral for a Farmer Mac Guaranteed Security, Farmer Mac would have the right to enforce the terms of the loan, and in the event of a default, would have access to the underlying collateral. Farmer Mac typically recovers its investment in the defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties or foreclosure and sale of the property securing the loans.

Farmer Mac has recourse to the USDA for any amounts advanced for the timely payment of principal and interest on Farmer Mac II Guaranteed Securities. That recourse is the USDA guarantee, a full faith and credit obligation of the United States that becomes enforceable if a lender fails to repurchase the USDA-guaranteed portion from its owner within 30 days after written demand from the owner when (a) 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, or (b) the lender has failed to remit to the owner the payment made by the borrower on the USDA-guaranteed portion or any related

loan subsidy within 30 days after the lender's receipt of the payment.

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

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Proceeds from new securitizations	$ 8,594	$ 28,736	$ 98,843
Guarantee fees received	7,488	12,206	12,134
Purchases of assets from the trusts	(3,456)	(1,157)	(647)
Servicing advances	(32)	(20)	(9)
Repayments of servicing advances	22	29	2

For those securities issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the consolidated balance sheets. This liability approximated $17.7 million and $33.9 million as of December 31, 2010 and 2009, respectively. The decrease in 2010 is primarily the result of the new accounting guidance related to consolidations. Upon adoption of the new consolidation guidance on January 1, 2010, Farmer Mac eliminated $15.5 million of the guarantee and commitment obligation related to the consolidated trusts. During second quarter 2010, Farmer Mac deconsolidated $414.5 million of certain securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities because Farmer Mac was no longer determined to be the primary beneficiary when the counterparty to the transaction ceased being a related party as a result of changes to the membership of Farmer Mac's board of directors. This deconsolidation resulted in an increase to the guarantee and commitment obligation of $2.7 million as of June 30, 2010. See Note 2(q) for more information. As of December 31, 2010 and 2009, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.7 years and 13.3 years, respectively. As of December 31, 2010 and 2009, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 2.4 years and 3.4 years, respectively. For information on Farmer Mac's methodology for determining the reserve for losses on off-balance sheet Farmer Mac Guaranteed Securities, see Note 2(j) and Note 8.

Long-Term Standby Purchase Commitments

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

An LTSPC permits a seller to nominate from its portfolio a segregated pool of loans for participation in the Farmer Mac I program, which are retained in the seller's portfolio and serviced by the seller. Farmer Mac reviews the loan pool to confirm that it conforms to Farmer Mac's underwriting standards. Upon Farmer Mac's approval of the eligible loans, the seller effectively transfers the credit risk on those loans to Farmer Mac, thereby reducing the seller's credit and concentration risk exposures and, consequently, its regulatory capital requirements and its loss reserve requirements. Credit risk is transferred through Farmer Mac's commitment to purchase the segregated loans from the counterparty based on Farmer Mac's original credit review and acceptance of the credit risk on the loans.

The specific events or circumstances that would require Farmer Mac to purchase some or all of the segregated loans under its LTSPCs include: (1) the failure of the borrower under any loan to make installment payments under that loan for a period of either 90 days or 120 days (depending on the provisions of the applicable agreement); or (2) the determination by the holder of the LTSPC to sell or exchange some or all of the loans under the LTSPC to Farmer Mac.

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 provisions of the applicable 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 as received;
- a mark-to-market price or in exchange for Farmer Mac I Guaranteed Securities (if the loans are not delinquent and are standard loan products as to which Farmer Mac offers daily rates for commitments to purchase); or
- either (1) a mark-to-market negotiated price for all (but not some) loans in the pool, based on the sale of Farmer Mac I Guaranteed Securities in the capital markets or the funding obtained by Farmer Mac through the issuance of matching debt in the capital markets, or (2) in exchange for Farmer Mac I Guaranteed Securities (if the loans are not delinquent for either 90 days or 120 days, depending on the provisions of the applicable agreement).

As of December 31, 2010 and 2009, the maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was $1.8 billion and $2.2 billion, respectively.

In the event of loan default, Farmer Mac would have the right to enforce the terms of the loans including the right to foreclose upon the collateral underlying such loans. Farmer Mac believes that it will typically recover its investment in the defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties or foreclosure and sale of the collateral.

As of December 31, 2010 and 2009, the weighted-average remaining maturity of all loans underlying LTSPCs was 13.8 years and 14.9 years, respectively. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the consolidated balance sheet. This liability approximated $12.6 million as of December 31, 2010 and $14.7 million as of December 31, 2009. For information on Farmer Mac's methodology for determining the reserve for losses for LTSPCs, see Note 2(j) and Note 8.

Commitments

Farmer Mac enters into mandatory and optional delivery commitments to purchase loans. Most loan purchase commitments entered into by Farmer Mac are mandatory commitments, in which Farmer Mac charges a fee to extend or cancel the commitment. As of December 31, 2010 and 2009, commitments to purchase Farmer Mac I and II loans totaled $62.4 million and $33.2 million, respectively, all of which were mandatory commitments. As of December 31, 2010 and 2009, commitments to purchase rural utilities loans totaled $18.0 million and $20.8 million, respectively. Any optional loan purchase commitments are sold forward under optional commitments to deliver Farmer Mac Guaranteed Securities that may be cancelled by Farmer Mac without penalty.

Farmer Mac is exposed to interest rate risk from the time it commits to purchase a loan to the time it either: (a) sells Farmer Mac Guaranteed Securities backed by the loan or (b) issues debt to retain the loan in its portfolio. There were no commitments to sell Farmer Mac Guaranteed Securities as of December 31, 2010 and 2009. Farmer Mac manages the interest rate risk related to loans not yet sold or funded as a retained investment through the use of forward sale contracts involving government-sponsored enterprise debt, futures contracts involving U.S. Treasury securities and interest rate swaps. See Note 2(h) and Note 6 for information regarding financial derivatives.

Rental expense for Farmer Mac's office space for each of the years ended December 31, 2010, 2009 and 2008 was $0.7 million, $0.7 million and $0.6 million, respectively. The future minimum lease payments under Farmer Mac's non-cancelable leases for its office space and other contractual obligations are as follows:

	Future Minimum Lease Payments	Other Contractual Obligations
	(in thousands)	
2011	$ 1,230	$ 755
2012	1,218	358
2013	1,246	123
2014	1,264	3
2015	1,281	-
Thereafter	12,305	-
Total	$ 18,544	$ 1,239

The future minimum lease payments in the table above include the sublease for new office space that begins on October 1, 2011. Other contractual obligations in the table above include minimum amounts due under non-cancelable agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. These agreements include agreements for the provision of consulting services, information technology support, equipment maintenance, and financial analysis software and services. The amounts actually paid under these agreements will likely be higher due to the variable components of some of these agreements under which the ultimate obligation owed is determined by reference to actual usage or hours worked.

Legal Proceedings

On December 5, 2008, a lawsuit was filed in the United States District Court for the District of Columbia against Farmer Mac and certain of its present and former officers and directors on behalf of purchasers of the securities of the Corporation between March 15, 2007 and September 12, 2008. This lawsuit was voluntarily dismissed by the lead plaintiffs on February 26, 2010.

13. FAIR VALUE DISCLOSURES

Fair Value Measurement

Fair value is defined as 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).

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 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.

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 standard describes the following three levels used 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.

Farmer Mac performs a detailed analysis of the assets and liabilities carried at fair value to determine the appropriate level based on the transparency of the inputs used in the valuation techniques. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Farmer Mac's assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument. While Farmer Mac believes its valuation methods are appropriate and consistent with those of other market participants, using different methodologies or assumptions to determine fair value could result in a materially different estimate of the fair value of some financial instruments.

The following is a description of the fair value techniques used for instruments measured at fair value as well as the general classification of such instruments pursuant to the valuation hierarchy described above. Fair value measurements related to financial instruments that are reported at fair value in the consolidated financial statements each period are referred to as recurring fair value measurements. Fair value measurements related to financial instruments that are not reported at fair value each period but are subject to fair value adjustments in certain circumstances are referred to as non-recurring fair value measurements.

Recurring Fair Value Measurements and Classification

Available-for-Sale and Trading Investment Securities

The fair value of investments in U.S. Treasuries is based on unadjusted quoted prices in active markets. Farmer Mac classifies these fair value measurements as level 1.

For a significant portion of Farmer Mac's investment portfolio, including most asset-backed securities, corporate debt securities, senior agency debt securities, Government/GSE guaranteed mortgage-backed securities and preferred stock issued by GSEs, fair value is primarily determined using a reputable and nationally recognized third party pricing service. The prices obtained are non-binding and generally representative of recent market trades. The fair value of certain asset-backed and Government guaranteed mortgage-backed securities are estimated based on quotations from brokers or dealers. Farmer Mac corroborates its primary valuation source by obtaining a secondary price from another independent third party pricing service. Farmer Mac classifies these fair value measurements as level 2.

For investment securities that are thinly traded or not quoted, Farmer Mac estimates fair value using internally-developed models that employ a discounted cash flow approach. Farmer Mac maximizes the use of observable market data, including prices of financial instruments with similar maturities and characteristics, duration, interest rate yield curves, measures of volatility and prepayment rates. Farmer Mac generally considers a market to be thinly traded or not quoted if the following conditions exist: (1) there are few transactions for the financial instruments; (2) the prices in the market are not current; (3) the price quotes vary significantly either over time or among independent pricing services or dealers; or (4) there is a limited availability of public market information. Farmer Mac classifies these fair value measurements as level 3.

Farmer Mac classifies its estimates of fair value for ARCs as level 3 measurements. During 2008 and 2009, Farmer Mac used a discounted cash flow model to determine the estimated fair value of these investments as of each quarter end. The assumptions used in preparing the model include estimates for the amount and timing of future interest and principal payments and the rate of return required by investors to own these securities in the current environment. In making these assumptions, Farmer Mac considered relevant factors including: the formula for each security that defines the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the underlying student loans are backed by the full faith and credit of the United States; and, publicly available pricing data for student loan asset-backed securities that are not subject to auctions. Beginning in 2010, Farmer Mac used unadjusted quotes from a broker specializing in these types of securities to determine the estimated fair value of these investments as of each quarter end. Farmer Mac believes these quotes are the best indication of fair value as of the measurement date, although there is uncertainty regarding the ability to transact at such levels. Considering (1) there is no active secondary market for these securities, although limited observable transactions do occasionally occur, (2) price quotes vary significantly among dealers or independent pricing services, if provided at all, and (3) there is little transparency in the price determination, Farmer Mac believes these measurements are appropriately classified as level 3. The increase in the unrealized losses recognized on the ARCs as of December 31, 2010 compared to December 31, 2009 was the result of the change in the pricing methodology described above.

Net transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets and liabilities as of the beginning of the quarterly reporting period. Transfers within the fair value hierarchy for the fair value measurements of Farmer Mac’s investment securities during 2009 and 2010 are described below.

During second quarter 2009, Farmer Mac transferred its investment in the subordinated debt of CoBank, ACB with a par value of $70.0 million from level 2 to level 3 for purposes of estimating its fair value. Farmer Mac determined that the third party pricing service used to estimate fair value for this security as a level 2 investment, in second quarter 2009, provided a price that, while representative of a recent market trade, was not reflective of an orderly transaction. Farmer Mac used its internally-developed models as an alternative valuation technique to estimate fair value as a level 3 investment.

During first quarter 2010, Farmer Mac transferred its investments in the subordinated debt and preferred stock of CoBank, ACB and its investment in the preferred stock of AgFirst Farm Credit Bank, with par values of $70.0 million, $88.5 million and $88.0 million, respectively, as of December 31, 2009, from level 3 measurements to level 2 measurements. Taking into consideration its own recently executed trades during first quarter 2010, along with an increase in observable trading activity for these securities, Farmer Mac determined that the best estimates of fair value for these securities as of March 31, 2010, and continuing throughout 2010, were the fair values provided by an independent third party pricing service.

Available-for-Sale and Trading Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

Farmer Mac estimates the fair value of its Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Farmer Mac classifies these measurements as level 3 because there is limited market activity and therefore little or no price transparency. On a sample basis, Farmer Mac corroborates the fair value of its Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by obtaining a secondary valuation from an independent third party service.

Transfers out of level 3 during 2009 and 2010 resulted from the consolidation of certain trusts whereby the underlying assets were no longer reported at fair value on a recurring basis. Transfers out of level 3 are based on the fair values of the assets as of the beginning of the quarterly reporting period and are described in more detail below.

In first quarter 2009, Farmer Mac transferred $263.4 million amortized cost basis of available-for-sale Farmer Mac I Guaranteed Securities to loans held-for-sale upon the consolidation of certain trusts in which Farmer Mac held 100 percent of the beneficial ownership interests. Farmer Mac then terminated the trusts and sold a portion of the underlying loans. Because loans held-for-sale are subject to fair value adjustments only when the amortized cost exceeds the fair value, these fair value measurements will be classified as level 3 on a nonrecurring basis.

Upon the adoption of the new consolidation guidance on January 1, 2010, Farmer Mac was deemed to be the primary beneficiary of certain VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of agricultural real estate mortgage loans or rural utilities loans. Prior to 2010, Farmer Mac presented these beneficial interests as "Farmer Mac Guaranteed Securities" on the consolidated balance sheets and reported them at their fair value. Upon consolidation, Farmer Mac transferred these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts." These loans are reported at their amortized cost and are no longer included in recurring fair value measurements. Farmer Mac transferred these securities out of level 3 based on their fair values as of the beginning of the first quarter 2010.

Financial Derivatives

The fair value of exchange-traded U.S. Treasury futures is based on unadjusted quoted prices for identical financial instruments. Farmer Mac classifies these fair value measurements as level 1.

Farmer Mac's derivative portfolio consists primarily of interest rate swaps, credit default swaps and forward sales contracts on the debt of other GSEs. Farmer Mac estimates the fair value of these financial instruments based upon the counterparty valuations. Farmer Mac internally values its derivative portfolio using a discounted cash flow valuation technique and obtains a secondary valuation for certain interest rate swaps to corroborate the counterparty valuations. Farmer Mac also regularly reviews the counterparty valuations as part of the collateral exchange process. Farmer Mac classifies these fair value measurements as level 2.

Certain basis swaps are nonstandard interest rate swap structures and are therefore internally modeled using significant assumptions and unobservable inputs, resulting in level 3 classification. Farmer Mac uses a discounted cash flow valuation technique, using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discounted rates commensurate with the risks involved.

As of December 31, 2010, the consideration of credit risk, Farmer Mac's and the counterparties', resulted in an adjustment to the valuations of Farmer Mac's derivative portfolio of $(0.4) million. As of December 31, 2009, the consideration of credit risk, Farmer Mac's and the counterparties', resulted in an adjustment to the valuations of Farmer Mac's derivative portfolio of $0.7 million.

Nonrecurring Fair Value Measurements and Classification

Loans Held-for-Sale

Loans held for sale are reported at the lower of cost or fair value in the consolidated balance sheets. Farmer Mac internally models the fair value of loans by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. The fair values of these instruments are classified as level 3 measurements. As of December 31, 2010, Farmer Mac recorded an adjustment of $8.7 million to report loans held for sale at the lower of cost or fair value. As of December 31, 2009, Farmer Mac recorded an adjustment of $0.1 million to report loans held for sale at the lower of cost or fair value.

Real Estate Owned

Farmer Mac initially records REO properties at fair value less costs to sell and subsequently records them at the lower of carrying value or fair value less costs to sell. The fair value of REO is determined by third-party appraisals when available. When third-party appraisals are not available, fair value is estimated based on factors such as prices for similar properties in similar geographical areas and/or assessment through observation of such properties. Farmer Mac classifies the REO fair values as level 3 measurements.

Fair Value Classification and Transfers

As of December 31, 2010, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $4.6 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 49 percent of total assets and 71 percent of financial instruments measured at fair value as of December 31, 2010. As of December 31, 2009, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $3.7 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 61 percent of total assets and 80 percent of financial instruments measured at fair value as of December 31, 2009.

The following tables present information about Farmer Mac's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2010 and 2009, respectively, and indicates the fair value hierarchy of the valuation techniques used by Farmer Mac to determine such fair value.

Assets and Liabilities Measured at Fair Value as of December 31, 2010

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$-	$-	$64,335	$64,335
Floating rate asset-backed securities	-	29,458	-	29,458
Floating rate corporate debt securities	-	163,188	-	163,188
Floating rate Government/GSE guaranteed mortgage-backed securities	-	576,780	-	576,780
Fixed rate GSE guaranteed mortgage-backed securities	-	4,821	-	4,821
Floating rate GSE subordinated debt	-	55,329	-	55,329
Fixed rate GSE preferred stock	-	84,828	-	84,828
U.S. Treasuries	692,994	-	-	692,994
Senior agency debt	-	5,500	-	5,500
Total available-for-sale	692,994	919,904	64,335	1,677,233
Trading:				
Floating rate asset-backed securities	-	-	1,400	1,400
Fixed rate GSE preferred stock	-	84,696	-	84,696
Total trading	-	84,696	1,400	86,096
Total Investment Securities	692,994	1,004,600	65,735	1,763,329
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	942,809	942,809
Farmer Mac II	-	-	37,637	37,637
Rural Utilities	-	-	1,926,818	1,926,818
Total available-for-sale	-	-	2,907,264	2,907,264
Total Farmer Mac Guaranteed Securities	-	-	2,907,264	2,907,264
USDA Guaranteed Securities:				
Available-for-sale	-	-	1,005,679	1,005,679
Trading	-	-	311,765	311,765
Total USDA Guaranteed Securities	-	-	1,317,444	1,317,444
Financial derivatives	-	41,492	-	41,492
Total Assets at fair value	$692,994	$1,046,092	$4,290,443	$6,029,529
Liabilities:				
Financial derivatives	$6	$110,291	$3,390	$113,687
Total Liabilities at fair value	$6	$110,291	$3,390	$113,687
Nonrecurring:				
Assets:				
Loans held for sale	$-	$-	$331,076	$331,076
Loans held for investment	-	-	11,971	11,971
REO	-	-	1,925	1,925
Total Nonrecurring Assets at fair value	$-	$-	$344,972	$344,972

Assets and Liabilities Measured at Fair Value as of December 31, 2009

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$-	$-	$72,884	$72,884
Floating rate asset-backed securities	-	58,143	-	58,143
Floating rate corporate debt securities	-	245,605	-	245,605
Floating rate Government/GSE guaranteed mortgage-backed securities	-	404,221	-	404,221
Fixed rate GSE guaranteed mortgage-backed securities	-	6,537	-	6,537
Floating rate GSE subordinated debt	-	-	47,562	47,562
Fixed rate GSE preferred stock	-	-	89,211	89,211
U.S. Treasuries	117,760	-	-	117,760
Total available-for-sale	117,760	714,506	209,657	1,041,923
Trading:				
Floating rate asset-backed securities	-	-	1,824	1,824
Fixed rate GSE preferred stock	-	-	88,148	88,148
Total trading	-	-	89,972	89,972
Total Investment Securities	117,760	714,506	299,629	1,131,895
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	56,864	56,864
Farmer Mac II	-	-	764,792	764,792
Rural Utilities	-	-	1,703,211	1,703,211
Total available-for-sale	-	-	2,524,867	2,524,867
Trading:				
Farmer Mac II	-	-	422,681	422,681
Rural Utilities	-	-	451,448	451,448
Total trading	-	-	874,129	874,129
Total Farmer Mac Guaranteed Securities	-	-	3,398,996	3,398,996
Financial derivatives	3	15,037	-	15,040
Total Assets at fair value	$117,763	$729,543	$3,698,625	$4,545,931
Liabilities:				
Financial derivatives	$-	$103,714	$3,653	$107,367
Total Liabilities at fair value	$-	$103,714	$3,653	$107,367
Nonrecurring:				
Assets:				
Loans held for sale	$-	$-	$28,505	$28,505
Total Nonrecurring Assets at fair value	$-	$-	$28,505	$28,505

The following tables present additional information about assets and liabilities measured at fair value on a recurring and nonrecurring basis for which Farmer Mac has used significant level 3 inputs to determine fair value. Net transfers in and/or out of level 3 are based on the fair values of the assets and liabilities as of the beginning of the quarterly reporting period.

Level 3 Assets and Liabilities Measured at Fair Value for the Year Ended December 31, 2010

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$72,884	$ -	$ -	$ (8,549)	$ -	$ 64,335
Floating rate GSE subordinated debt	47,562	-	-	-	(47,562)	-
Fixed rate GSE preferred stock	89,211	-	-	-	(89,211)	-
Total available-for-sale	209,657	-	-	(8,549)	(136,773)	64,335
Trading:						
Floating rate asset-backed securities(1)	1,824	(748)	324	-	-	1,400
Fixed rate GSE preferred stock	88,148	-		-	(88,148)	-
Total trading	89,972	(748)	324	-	(88,148)	1,400
Total Investment Securities	299,629	(748)	324	(8,549)	(224,921)	65,735
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	56,864	892,670	-	(1,340)	(5,385)	942,809
Farmer Mac II	764,792	(1,607)	-	(2,364)	(723,184)	37,637
Rural Utilities	1,703,211	212,202	-	11,405	-	1,926,818
Total available-for-sale	2,524,867	1,103,265	-	7,701	(728,569)	2,907,264
Trading:						
Farmer Mac II	422,681	-		-	(422,681)	-
Rural Utilities	451,448	-	-	-	(451,448)	-
Total trading	874,129	-	-	-	(874,129)	-
Total Farmer Mac Guaranteed Securities	3,398,996	1,103,265	-	7,701	(1,602,698)	2,907,264
USDA Guaranteed Securities:						
Available-for-sale	-	277,987	-	4,508	723,184	1,005,679

Trading(2)	-	(113,491)	2,575	-	422,681	311,765
Total USDA Guaranteed Securities	-	164,496	2,575	4,508	1,145,865	1,317,444
Total Assets at fair value	$3,698,625	$1,267,013	$ 2,899	$ 3,660	$ (681,754)	$ 4,290,443
Liabilities:						
Financial derivatives(3)	$(3,653)	$-	$ 263	$ -	$ -	$ (3,390)
Total Liabilities at fair value	$(3,653)	$-	$ 263	$ -	$ -	$ (3,390)
Nonrecurring:						
Assets:						
Loans held for sale	$28,505	$-	$ (8,748)	$ -	$ 311,319	$ 331,076
Loans held for investment	-	-	(4,743)	-	16,714	11,971
REO	-	-	(2,183)	-	4,108	1,925
Total Nonrecurring Assets at fair value	$28,505	$-	$ (15,674)	$ -	$ 332,141	$ 344,972

(1) Unrealized gains are attributable to assets still held as of December 31, 2010 and are recorded in gains/(losses) on trading assets.

(2) Includes unrealized losses of $2.0 million attributable to assets still held as of December 31, 2010 that are recorded in gains/(losses) on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of December 31, 2010 and are recorded in (losses)/gains on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Year Ended December 31, 2009

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$178,577	$(119,850)	$ -	$ 14,157	$ -	$ 72,884
Floating rate GSE subordinated debt	-	-	-	(1,570)	49,132	47,562
Fixed rate GSE preferred stock	-	(114)	-	(1,332)	90,657	89,211
Total available-for-sale	178,577	(119,964)	-	11,255	139,789	209,657
Trading:						
Floating rate asset-backed securities(1)	2,211	(785)	398	-	-	1,824
Fixed rate GSE preferred stock(2)	161,552	(1,168)	18,421	-	(90,657)	88,148
Total trading	163,763	(1,953)	18,819	-	(90,657)	89,972
Total Investment Securities	342,340	(121,917)	18,819	11,255	49,132	299,629
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	349,292	(2,219)	-	(2,197)	(288,012)	56,864
Farmer Mac II	522,565	228,773	-	13,454	-	764,792
Rural Utilities	639,837	1,045,000	-	18,374	-	1,703,211
Total available-for-sale	1,511,694	1,271,554	-	29,631	(288,012)	2,524,867
Trading:						
Farmer Mac II(3)	496,863	(77,881)	3,699	-	-	422,681
Rural Utilities(1)	442,687	(11,994)	20,755	-	-	451,448
Total trading	939,550	(89,875)	24,454	-	-	874,129
Total Farmer Mac Guaranteed Securities	2,451,244	1,181,679	24,454	29,631	(288,012)	3,398,996
Total Assets at fair value	$2,793,584	$1,059,762	$ 43,273	$ 40,886	$ (238,880)	$ 3,698,625
Liabilities:						
Financial Derivatives(4)	$(3,719)	$ -	$ 66	$ -	$ -	$ (3,653)
Total Liabilities at fair value	$(3,719)	$ -	$ 66	$ -	$ -	$ (3,653)
Nonrecurring:						
Assets:						
Loans held for sale	$ -	$ -	$ (139)	$ -	$ 28,644	$ 28,505

REO	-	(41,786)	-	-	41,786	-
Total Nonrecurring Assets at fair value	$-	$(41,786)	$ (139)	$ -	$ 70,430	$ 28,505

(1)Unrealized gains are attributable to assets still held as of December 31, 2009 and are recorded in gains/(losses) on trading assets.
(2)Includes unrealized gains of $8.3 million for assets still held as of December 31, 2009 that are recorded in gains/(losses) on trading assets.
(3)Includes unrealized gains of approximately $1.4 million attributable to assets still held as of December 31, 2009 that are recorded in gains/(losses) on trading assets.
(4)Unrealized gains are attributable to liabilities still held as of December 31, 2009 and are recorded in (losses)/gains on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Year Ended December 31, 2008

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
	(in thousands)					
Recurring:						
Assets:						
Investment Securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans (1)	$ -	$ 62,406	$ -	$ (15,373)	$ 131,544	$ 178,577
Floating rate corporate debt securities	-	400,000	-	(669)	(399,331)	-
Fixed rate corporate debt securities	500,138	-	-	2,951	(503,089)	-
Total available-for-sale securities	500,138	462,406	-	(13,091)	(770,876)	178,577
Trading:						
Floating rate asset-backed securities(2)	8,179	(939)	(5,029)	-	-	2,211
Fixed rate mortgage-backed securities	415,813	29,367	13,846	-	(459,026)	-
Fixed rate GSE preferred stock(2)	-	(659)	(16,889)	-	179,100	161,552
Total trading	423,992	27,769	(8,072)	-	(279,926)	163,763
Total investment securities	924,130	490,175	(8,072)	(13,091)	(1,050,802)	342,340
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	338,958	(23,036)	-	8,378	24,992	349,292
Farmer Mac II	-	41,856	-	(12,869)	493,578	522,565
Rural Utilities	-	(270,000)	-	7,417	902,420	639,837
Total available-for-sale	338,958	(251,180)	-	2,926	1,420,990	1,511,694
Trading:						
Farmer Mac II(3)	428,670	55,234	12,959	-	-	496,863
Rural Utilities(2)	-	(5,734)	(10,605)	-	459,026	442,687
Total trading	428,670	49,500	2,354	-	459,026	939,550
Total Farmer Mac Guaranteed Securities	767,628	(201,680)	2,354	2,926	1,880,016	2,451,244
Total Assets at fair value	$ 1,691,758	$ 288,495	$ (5,718)	$ (10,165)	$ 829,214	$ 2,793,584
Liabilities:						
Financial Derivatives(4)	$ (1,106)	$ -	$ (2,613)	$ -	$ -	$ (3,719)
Total Liabilities at fair value	$ (1,106)	$ -	$ (2,613)	$ -	$ -	$ (3,719)

Nonrecurring:						
Loans held for sale	$-	$ (142,756)	$ -	$ -	$ 142,756	$-

(1) Includes the fair value of Farmer Mac's put rights related to $119.9 million (par value) of its ARC holdings. See Note 4 to the consolidated financial statements for more information related to these put rights.
(2) Unrealized losses are attributable to assets still held as of December 31, 2008 and are recorded in gains/(losses) on trading assets.
(3) Includes unrealized gains of approximately $13.8 million attributable to assets still held as of December 31, 2008 that are recorded in gains/(losses) on trading assets.
(4) Unrealized losses are attributable to liabilities still held as of December 31, 2008 and are recorded in (losses)/gains on financial derivatives.

Fair Value Option

Accounting guidance on the fair value option for financial instruments permits entities to make a one-time irrevocable election to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. This guidance provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

On January 1, 2008, with the adoption of this accounting guidance, Farmer Mac elected to measure $600.5 million of investment securities and $427.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Upon adoption, Farmer Mac recorded a cumulative effect of adoption adjustment of $12.1 million, net of tax, as an increase to the beginning balance of retained earnings. During 2008, Farmer Mac elected to measure an additional $113.3 million of Farmer Mac II Guaranteed Securities at fair value, with changes in fair value reflected in earnings as they occur. Farmer Mac selected all of these assets for the fair value option because they were funded or hedged principally with financial derivatives and, therefore, it was expected that the changes in fair value of the assets would provide partial economic and financial reporting offsets to the related financial derivatives. Due to the significant declines in the fair values of investment securities attributable to the widening of credit spreads experienced during 2008, such financial reporting offsets were not achieved. For 2008, Farmer Mac recorded net losses on trading assets of $5.6 million for changes in fair values of the assets selected for the fair value option. These losses are presented as "Gains/(losses) on trading assets" in the consolidated statements of operations.

During fourth quarter 2008, Farmer Mac also elected to measure put rights related to $119.9 million (par value) of its ARC holdings at fair value upon the election of the fair value option.

Farmer Mac made no fair value option elections during 2010 and 2009. For the year ended December 31, 2010 and 2009, Farmer Mac recorded gains of $4.9 million and $42.9 million, respectively, for changes in the fair value of the assets selected for the fair value option during 2008. These gains are presented as "Gains/(losses) on trading assets" in the consolidated statements of operations.

Disclosures about Fair Value of Financial Instruments

The following table sets forth the estimated fair values and the carrying values for financial assets, liabilities and guarantees and commitments as of December 31, 2010 and 2009 in accordance with FASB guidance on disclosures about fair value of financial instruments.

	As of December 31,			
	2010		2009	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$729,920	$729,920	$654,794	$654,794
Investment securities	1,763,329	1,763,329	1,131,895	1,131,895
Farmer Mac Guaranteed Securities	2,907,264	2,907,264	3,398,996	3,398,996
USDA Guaranteed Securities	1,317,444	1,317,444	-	-
Loans	2,642,399	2,558,599	779,185	753,720
Financial derivatives	41,492	41,492	15,040	15,040
Interest receivable	90,295	90,295	67,178	67,178
Guarantee and commitment fees receivable:				
LTSPCs	14,191	13,666	14,591	15,896
Farmer Mac Guaranteed Securities	19,058	21,086	36,135	39,120
Financial liabilities:				
Notes payable:				
Due within one year	4,510,758	4,509,419	3,665,282	3,662,898
Due after one year	3,530,656	3,430,656	1,964,526	1,908,713
Debt securities of consolidated trusts held by third parties	883,669	827,411	-	-
Financial derivatives	113,687	113,687	107,367	107,367
Accrued interest payable	57,131	57,131	39,562	39,562
Guarantee and commitment obligations:				
LTSPCs	13,152	12,627	13,370	14,676
Farmer Mac Guaranteed Securities	15,653	17,681	30,865	33,850

The carrying value of cash and cash equivalents, certain short-term investment securities, interest receivable and accrued interest payable is a reasonable estimate of their approximate fair value. Farmer Mac estimates the fair value of its loans, guarantee and commitment fees receivable/obligation and notes payable by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management’s best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are derived using a Monte Carlo simulation model.

Different market assumptions and estimation methodologies could significantly affect estimated fair value amounts.

14. BUSINESS SEGMENT REPORTING

Farmer Mac accomplishes its congressional mission of providing liquidity and lending capacity to rural lenders through three programs – Farmer Mac I, Farmer Mac II and Rural Utilities. Prior to first quarter 2010, Farmer Mac reported its financial results as a single segment using GAAP-basis income. Beginning in first quarter 2010, Farmer Mac revised its segment financial reporting, by using core earnings, a non-GAAP financial measure, to reflect the manner in which management has begun assessing the Corporation's performance since the contribution of substantially all of the Farmer Mac II program business to a subsidiary, Farmer Mac II LLC. Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings more accurately represents Farmer Mac's economic performance, transaction economics and business trends. Core earnings differs from GAAP net income primarily by excluding unrealized gains or losses on financial derivatives and trading assets, lower of cost or fair value adjustments on loans held for sale and other items related to the retirement of preferred stock and the amortization of premiums on assets consolidated at fair value. This non-GAAP financial measure may not be similar to non-GAAP financial measures disclosed by other companies.

The financial information presented below reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, the core earnings for Farmer Mac's reportable operating segments will differ from the stand-alone financial statements of Farmer Mac's subsidiaries. These differences will be due to various factors, including the reversal of unrealized gains and losses related to fair value changes of trading assets and financial derivatives, as well as the allocation of certain expenses such as dividends and interest expense related to the issuance of capital and the incurrence of indebtedness managed at the corporate level. The allocation of general and administrative expenses that are not directly attributable to an operating segment may also result in differences. The assets of Farmer Mac's subsidiary, 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, 2010, Farmer Mac II LLC held assets with a fair value of $1.4 billion, had debt outstanding of $124.0 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.

Management has determined that the Corporation's operations consist of three reportable segments – Farmer Mac I, Farmer Mac II and Rural Utilities. Farmer Mac uses these three segments to generate revenue and manage business risk, and each segment is based on distinct products and distinct business activities. In addition to these three program operating segments, a corporate segment is presented. That segment represents activity in Farmer Mac's non-program investment portfolio and other corporate activities. The segment financial results include directly attributable revenues and expenses. Corporate charges for administrative expenses that are not directly attributable to an operating segment are allocated based on headcount.

Each of the program operating segments generates revenue through purchasing loans or securities, committing to purchase loans, or guaranteeing securities backed by eligible loans. Purchases of both program and non-program assets are funded through debt issuance of various maturities. Management makes decisions about pricing, funding and guarantee and commitment fee levels based on inherent credit risks, resource allocation and target returns on equity separately for each segment.

Under the Farmer Mac I program, Farmer Mac purchases or commits to purchase eligible mortgage loans secured by first liens on agricultural real estate, including through the issuance of LTSPCs. Farmer Mac also guarantees securities representing interests in, or obligations secured by, pools of eligible agricultural real estate mortgage loans, and may purchase those securities.

Under the Farmer Mac II program, Farmer Mac II LLC purchases USDA-guaranteed portions of loans. Farmer Mac currently operates only that part of the Farmer Mac II program that involves the guarantee of Farmer Mac II Guaranteed Securities to investors other than Farmer Mac or Farmer Mac II LLC.

Under the Rural Utilities program, Farmer Mac's business activities include loan purchases, guarantees and purchases of securities with respect to eligible rural utilities loans. To date, all of the business under the Rural Utilities program has been with one lender, CFC, a related party.

The following tables present core earnings for Farmer Mac's reportable operating segments and a reconciliation to GAAP net income for the years ended December 31, 2010, 2009 and 2008. Farmer Mac has presented the financial information and disclosures for the prior periods to reflect the segment disclosures as if they had been in effect for all periods reported.

Core Earnings by Business Segment
For the Year Ended December 31, 2010

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$109,220	$ 55,129	$ 56,072	$27,497	$(9,207)	$238,711
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(4,627)	-	-	-	4,627	-
Interest expense (2)	(71,147)	(45,076)	(44,207)	(16,384)	34,146	(142,668)
Net effective spread	33,446	10,053	11,865	11,113	29,566	96,043
Guarantee and commitment fees	22,270	458	5,990	-	(4,627)	24,091
Other income/(expense) (3)	3,389	299	1	(1,711)	(21,095)	(19,117)
Non-interest income/(loss)	25,659	757	5,991	(1,711)	(25,722)	4,974
Provision for loan losses	(1,893)	-	-	-	-	(1,893)
Reserve for losses	(2,417)	-	-	-	-	(2,417)
Other non-interest expense	(15,430)	(2,796)	(4,335)	(7,649)	-	(30,210)
Non-interest expense (4)	(17,847)	(2,796)	(4,335)	(7,649)	-	(32,627)
Core earnings before income taxes	39,365	8,014	13,521	1,753	3,844 (5)	66,497
Income tax (expense)/benefit	(13,778)	(2,805)	(4,733)	8,864	(1,345)	(13,797)
Core earnings before preferred stock dividends, attribution of income to non-controlling interest, and loss on retirement of preferred stock	25,587	5,209	8,788	10,617	2,499 (5)	52,700
Preferred stock dividends	-	-	-	(4,129)	-	(4,129)
Non-controlling interest	-	-	-	(20,707)	-	(20,707)
Loss on retirement of preferred stock	-	-	-	-	(5,784)	(5,784)
Segment core earnings	$25,587	$ 5,209	$ 8,788	$(14,219)	$(3,285)(5)	$22,080
Total assets at carrying value	$2,800,367	$ 1,378,265	$ 2,727,332	$2,573,950	$ -	$9,479,914
Total on- and off-balance sheet program assets at principal balance	8,188,628	1,385,398	2,642,683	-	-	12,216,709

(1) Includes reconciling adjustments for yield maintenance income and discount amortization on certain prepaid loans, and amortization of premiums on assets consolidated at fair value to reflect core earnings amounts.

(2) Based on effective funding cost determined for each operating segment, including the expense related to interest rate swaps, which is included in (Losses)/gains on financial derivatives on the GAAP financial statements.

(3) Includes reconciling adjustments for the reclassification of yield maintenance, discount amortization on certain prepaid loans and the expense related to interest rate swaps and fair value adjustments on loans held for sale and financial derivatives and trading assets.

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

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

Core Earnings by Business Segment
For the Year Ended December 31, 2009

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$44,251	$ 47,523	$ 55,538	$28,727	$454	$176,493
Interest expense (2)	(20,036)	(40,909)	(49,677)	(15,639)	35,676	(90,585)
Net effective spread	24,215	6,614	5,861	13,088	36,130	85,908
Guarantee and commitment fees	23,062	2,778	5,965	-	-	31,805
Other income/(expense) (3)	3,475	-	-	(2,165)	65,639	66,949
Non-interest income/(loss)	26,537	2,778	5,965	(2,165)	65,639	98,754
Provision for loan losses	(2,853)	-	-	-	-	(2,853)
Reserve for losses	(2,389)	-	-	-	-	(2,389)
Other non-interest expense	(12,557)	(3,560)	(4,068)	(7,118)	-	(27,303)
Non-interest expense (4)	(14,946)	(3,560)	(4,068)	(7,118)	-	(29,692)
Core earnings before income taxes	32,953	5,832	7,758	3,805	101,769 (5)	152,117
Income tax expense	(11,533)	(2,041)	(2,715)	(609)	(35,619)	(52,517)
Core earnings before preferred stock dividends	21,420	3,791	5,043	3,196	66,150 (5)	99,600
Preferred stock dividends	-	-	-	(17,302)	-	(17,302)
Segment core earnings	$21,420	$ 3,791	$ 5,043	$(14,106)	$ 66,150 (5)	$82,298
Total assets at carrying value	$850,134	$ 1,211,198	$ 2,201,688	$1,875,793	$ -	$6,138,813
Total on- and off-balance sheet program assets at principal balance	7,391,213	1,199,798	2,130,832	-	-	10,721,843

(1) Includes reconciling adjustments for yield maintenance income to reflect core earnings amounts.
(2) Based on effective funding cost determined for each operating segment, including the expense related to interest rate swaps, which is included in (Losses)/gains on financial derivatives on the GAAP financial statements.
(3) Includes reconciling adjustments for the reclassification of yield maintenance and the expense related to interest rate swaps and fair value adjustments on financial derivatives and trading assets.
(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.
(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and segment core earnings to corresponding GAAP measures: income before income taxes, net income, and net income available to common stockholders, respectively.

Core Earnings by Business Segment
For the Year Ended December 31, 2008

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$67,128	$ 48,211	$ 48,865	$87,935	$ 3,556	$255,695
Interest expense (2)	(41,879)	(44,395)	(44,556)	(63,125)	26,975	(166,980)
Net effective spread	25,249	3,816	4,309	24,810	30,531	88,715
Guarantee and commitment fees	24,825	2,407	1,149	-	-	28,381
Other income/(expense) (3)	6,458	20	-	(107,479)	(142,179)	(243,180)
Non-interest income/(loss)	31,283	2,427	1,149	(107,479)	(142,179)	(214,799)
Provision for loan losses	(14,531)	-	-	-	-	(14,531)
Reserve for losses	(3,309)	-	-	-	-	(3,309)
Other non-interest expense	(13,352)	(4,073)	(3,733)	(8,145)	-	(29,303)
Non-interest expense (4)	(16,661)	(4,073)	(3,733)	(8,145)	-	(32,612)
Core earnings before income taxes	25,340	2,170	1,725	(90,814)	(111,648)(5)	(173,227)
Income tax (expense)/benefit	(8,869)	(760)	(604)	(5,981)	39,078	22,864
Core earnings before preferred stock dividends	16,471	1,410	1,121	(96,795)	(72,570)(5)	(150,363)
Preferred stock dividends	-	-	-	(3,717)	-	(3,717)
Segment core earnings	$16,471	$ 1,410	$ 1,121	$(100,512)	$(72,570)(5)	$(154,080)
Total assets at carrying value	$1,210,244	$ 1,041,678	$ 1,095,657	$1,759,728	$ -	$5,107,307
Total on- and off-balance sheet program assets at principal balance	7,984,561	1,043,425	1,054,941	-	-	10,082,927

(1) Includes reconciling adjustments for yield maintenance income to reflect core earnings amounts.
(2) Based on effective funding cost determined for each operating segment, including the expense related to interest rate swaps, which is included in (Losses)/gains on financial derivatives on the GAAP financial statements.
(3) Includes reconciling adjustments for the reclassification of yield maintenance and the expense related to interest rate swaps and fair value adjustments on financial derivatives and trading assets.
(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.
(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and segment core earnings to corresponding GAAP measures: income before income taxes, net income, and net income available to common stockholders, respectively.

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2010 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
	(in thousands, except per share amounts)			
Interest income:				
Interest income	$62,077	$58,575	$57,327	$60,732
Interest expense	36,308	33,526	35,719	37,115
Net interest income	25,769	25,049	21,608	23,617
(Provision)/recovery for loan losses	(501)	(412)	1,870	(2,850)
Net interest income after (provision)/recovery for loan losses	25,268	24,637	23,478	20,767
Non-interest income:				
Guarantee and commitment fees	6,485	5,977	5,710	5,919
Gains/(losses) on financial derivatives	11,349	(6,864)	(15,840)	(5,804)
(Losses)/gains on trading assets	(1,433)	(1,722)	5,058	3,367
Gains on sale of available-for-sale investment securities	2	24	-	240
Gain on Sale of REO	10	-	-	-
Lower of cost or fair value adjustment on loans held for sale	(5,658)	(906)	90	(2,274)
Other income	64	140	211	829
Non-interest income/(loss)	10,819	(3,351)	(4,771)	2,277
Non-interest expense	9,509	8,138	9,861	5,119
Income before income taxes	26,578	13,148	8,846	17,925
Income tax expense	7,820	885	756	4,336
Net income	18,758	12,263	8,090	13,589
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,547)	(5,546)	(5,546)	(4,068)
Net income attributable to Farmer Mac	13,211	6,717	2,544	9,521
Preferred stock dividends	(719)	(720)	(720)	(1,970)
Loss on retirement of preferred stock	-	-	-	(5,784)
Net income available to common stockholders	$12,492	$5,997	$1,824	$1,767
Earnings per common share:				
Basic earnings per common share	$1.21	$0.58	$0.18	$0.17
Diluted earnings per common share	$1.16	$0.56	$0.17	$0.17
Common stock dividends per common share	$0.05	$0.05	$0.05	$0.05

	2009 Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
	(in thousands, except per share amounts)			
Interest income:				
Interest income	$44,762	$42,828	$41,750	$47,153
Interest expense	21,992	23,031	21,849	23,713
Net interest income	22,770	19,797	19,901	23,440
(Provision)/recovery for loan losses	(1,914)	(3,098)	5,693	(3,534)
Net interest income after (provision)/recovery for loan losses	20,856	16,699	25,594	19,906
Non-interest income:				
Guarantee and commitment fees	8,319	8,168	7,908	7,410
Gains/(losses) on financial derivatives	5,791	(7,733)	21,528	1,711
(Losses)/gains on trading assets	(13,434)	25,047	35	31,625
Other-than-temporary impairment losses	-	(1,621)	(2,292)	(81)
Gains/(losses) on sale of available-for-sale investment securities	440	63	(300)	3,150
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	-	-	1,581
Lower of cost or fair value adjustment on loans held for sale	176	(315)	-	-
Other income	54	1,189	101	234
Non-interest income	1,346	24,798	26,980	45,630
Non-interest expense	7,043	6,132	6,525	9,992
Income before income taxes	15,159	35,365	46,049	55,544
Income tax expense	4,796	13,097	16,534	18,090
Net income	10,363	22,268	29,515	37,454
Preferred stock dividends	(4,868)	(4,368)	(4,130)	(3,936)
Net income available to common stockholders	$5,495	$17,900	$25,385	$33,518
Earnings per common share:				
Basic earnings per common share	$0.54	$1.77	$2.50	$3.31
Diluted earnings per common share	$0.53	$1.74	$2.49	$3.31
Common stock dividends per common share	$0.05	$0.05	$0.05	$0.05

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Management's Evaluation of Disclosure Controls and Procedures. Farmer Mac maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the Corporation's periodic filings under the Exchange Act, including this Annual Report on Form 10-K, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Corporation's management on a timely basis to allow decisions regarding required disclosure. Management, including Farmer Mac's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2010. Based on management's assessment, the Chief Executive Officer and the Chief Financial Officer have concluded that Farmer Mac's disclosure controls and procedures were effective as of December 31, 2010.

See Item 8 above for management's report on internal control over financial reporting and the accompanying reports of independent registered public accounting firms.

(b) Changes in Internal Control Over Financial Reporting. There were no changes in Farmer Mac's internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, Farmer Mac's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Farmer Mac has adopted a Code of Business Conduct and Ethics (the "Code") that applies to all directors, officers, employees and agents of Farmer Mac, including Farmer Mac's principal executive officer, principal financial officer, principal accounting officer and other senior financial officers. A copy of the Code is available in the "Investors—Corporate Governance" section of Farmer Mac's internet website (www.farmermac.com). Farmer Mac will post any amendment to, or waiver from, a provision of the Code in that same section of its internet website. A print copy of the Code is available free of charge upon written request to Farmer Mac's Corporate Secretary.

Additional information required by this item is incorporated by reference to the Corporation's definitive proxy statement to be filed on or about April 28, 2011.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Corporation's definitive proxy statement to be filed on or about April 28, 2011.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the Corporation's definitive proxy statement to be filed on or about April 28, 2011.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the Corporation's definitive proxy statement to be filed on or about April 28, 2011.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the Corporation's definitive proxy statement to be filed on or about April 28, 2011.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements.

Refer to Item 8 above.

(2) Financial Statement Schedules.

All schedules are omitted since they are not applicable, not required or the information required to be set forth therein is included in the consolidated financial statements or in notes thereto.

(3) Exhibits.

*	3.1	-	Title VIII of the Farm Credit Act of 1971, as most recently amended by the Food, Conservation and Energy Act of 2008 (Form 10-Q filed August 12, 2008).
**	3.2	-	Amended and Restated By-Laws of the Registrant.
*	4.1	-	Specimen Certificate for Farmer Mac Class A Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.2	-	Specimen Certificate for Farmer Mac Class B Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.3	-	Specimen Certificate for Farmer Mac Class C Non-Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.4	-	Amended and Restated Certificate of Designation of Terms and Conditions of Non-Voting Cumulative Preferred Stock, Series C (Previously filed as Exhibit 4.7 to Form 10-Q filed November 9, 2009).
†*	10.1	-	Amended and Restated 1997 Incentive Plan (Form 10-Q filed November 14, 2003).
†*	10.1.1	-	Form of stock option award agreement under 1997 Incentive Plan (Form 10-K filed March 16, 2005).
†*	10.1.2	-	2008 Omnibus Incentive Plan (Form 10-Q filed August 12, 2008).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

†*	10.1.3	-	Form of SAR Agreement under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10 to Form 8-K filed June 11, 2008).
†*	10.1.4	-	Form of Restricted Stock Agreement (Officers) under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10.1 to Form 8-K filed June 10, 2009).
†*	10.1.5	-	Form of Restricted Stock Agreement (Directors) under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10.2 to Form 8-K filed June 10, 2009).
†*	10.2	-	Employment Agreement dated as of March 1, 2009 between Michael A. Gerber and the Registrant (Form 10-Q filed May 12, 2009).
†*	10.3	-	Compiled Amended and Restated Employment Contract dated as of June 5, 2008 between Tom D. Stenson and the Registrant (Form 10-Q filed August 12, 2008).
†*	10.4	-	Compiled Amended and Restated Employment Contract dated June 5, 2008 between Timothy L. Buzby and the Registrant (Form 10-Q filed August 12, 2008).
†*	10.4.1	-	Amendment No. 6 to Employment Contract between Timothy L. Buzby and the Registrant, dated as of April 2, 2009 (Form 10-Q filed August 10, 2009).
	10.5	-	Exhibit number reserved for future use.
†**	10.6	-	Description of compensation agreement between the Registrant and its directors.
*	10.7	-	Farmer Mac I Seller/Servicer Agreement dated as of August 7, 1996 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.8	-	Medium-Term Notes U.S. Selling Agency Agreement dated as of October 1, 1998 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.9	-	Discount Note Dealer Agreement dated as of September 18, 1996 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*#	10.10	-	ISDA Master Agreement and Credit Support Annex dated as of June 26, 1997 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*#	10.11	-	Amended and Restated Master Central Servicing Agreement dated as of May 1, 2004 between Zions First National Bank and the Registrant (Previously filed as Exhibit 10.11.2 to Form 10-Q filed August 9, 2004).
*#	10.11.1	-	Amendment No. 1 to Amended and Restated Master Central Servicing Agreement between Zions First National Bank and the Registrant, dated as of June 1, 2009 (Form 10-Q filed August 10, 2009).
*#	10.11.2	-	Amendment No. 2 to Amended and Restated Master Central Servicing Agreement between Zions First National Bank and the Registrant, dated as of August 25, 2010 (Form 10-Q filed August 10, 2010).
*#	10.12	-	Loan Closing File Review Agreement dated as of August 2, 2005 between Zions First National Bank and the Registrant (Form 10-Q filed November 9, 2005).
*#	10.13	-	Long Term Standby Commitment to Purchase dated as of August 1, 1998 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).
*#	10.13.1	-	Amendment No. 1 dated as of January 1, 2000 to Long Term Standby Commitment to Purchase dated as of August 1, 1998 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.13.2	-	Amendment No. 2 dated as of September 1, 2002 to Long Term Standby Commitment to Purchase dated as of August 1, 1998, as amended by Amendment No. 1 dated as of January 1, 2000, between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.14	-	Lease Agreement, dated June 28, 2001 between EOP – Two Lafayette, L.L.C. and the Registrant (Previously filed as Exhibit 10.10 to Form 10-K filed March 27, 2002).
*#	10.15	-	Long Term Standby Commitment to Purchase dated as of August 1, 2007 between Farm Credit Bank of Texas and the Registrant (Previously filed as Exhibit 10.20 to Form 10-Q filed November 8, 2007).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*#	10.16	-	Long Term Standby Commitment to Purchase dated as of June 1, 2003 between Farm Credit Bank of Texas and the Registrant (Form 10-Q filed November 9, 2004).
*#	10.16.1	-	Amendment No. 1 dated as of December 8, 2006 to Long Term Standby Commitment to Purchase dated as of June 1, 2003 between Farm Credit Bank of Texas and the Registrant (Form 10-K filed March 15, 2007).
*#	10.17	-	Central Servicer Delinquent Loan Servicing Transfer Agreement dated as of July 1, 2004 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 9, 2004).
†*	10.18	-	Form of Indemnification Agreement for Directors (Previously filed as Exhibit 10.1 to Form 8-K filed April 9, 2008).
	10.19	-	Exhibit number reserved for future use.
†*	10.20	-	Agreement and General Release dated as of January 30, 2009 between Henry D. Edelman and the Registrant (Form 10-Q filed May 12, 2009).
†*	10.21	-	Agreement and General Release dated as of February 6, 2009 between Nancy E. Corsiglia and the Registrant (Form 10-Q filed May 12, 2009).
*	10.22		Master Trust, Sale and Servicing Agreement dated as of October 20, 2006 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation, U.S. Bank National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.23		Registration Rights Agreement Series 2007-1 dated as of February 15, 2007 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.24		Registration Rights Agreement Series 2007-2 dated as of August 10, 2007 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).
*	10.25		Note Purchase Agreement dated as of December 15, 2008 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.25.1		First Amendment to Note Purchase Agreement dated as of July 13, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*	10.26	Pledge Agreement dated as of December 15, 2008 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.26.1	First Amendment to Pledge Agreement dated as of September 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.27	Setoff Rights Letter Agreement dated as of December 15, 2008 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.28	Note Purchase Agreement dated as of February 5, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.28.1	First Amendment to Note Purchase Agreement dated as of July 13, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.29	Pledge Agreement dated as of February 5, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.29.1	First Amendment to Pledge Agreement dated as of September 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.30	Setoff Rights Letter Agreement dated as of February 5, 2009 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).

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**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*	10.31	Note Purchase Agreement dated as of March 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.32	Pledge Agreement dated as of March 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.32.1	First Amendment to Pledge Agreement dated as of September 23, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.33	Setoff Rights Letter Agreement dated as of March 23, 2009 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.34	Note Purchase Agreement dated as of May 22, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.35	Pledge Agreement dated as of May 22, 2009 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.36	Setoff Rights Letter Agreement dated as of May 22, 2009 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.37	Master Sale and Servicing Agreement dated as of July 24, 2009 between National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).
*	10.37.1	Amendment No. 1 to Master Sale and Servicing Agreement dated as of February 1, 2010 between National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).

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**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

*#	10.38		Credit Support Agreement dated as of September 1, 2009 between National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).
*	10.39		Indenture dated as of September 1, 2009 between National Rural Utilities Cooperative Finance Corporation, U.S. Bank National Association and the Registrant (Form 10-Q filed August 9, 2010).
**	10.40		Note Purchase Agreement dated as of January 11, 2011 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant.
**	10.41		Pledge Agreement dated as of January 11, 2011 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank Trust National Association, and the Registrant.
**	10.42		Setoff Rights Letter Agreement dated as of January 11, 2011 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant.
**#	10.43	-	Sublease Agreement dated as of December 6, 2010 between Mayer Brown LLP and the Registrant.
*	21	-	List of the Registrant's subsidiaries (Form 10-K filed March 16, 2010).
**	31.1	-	Certification of Chief Executive Officer relating to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	31.2	-	Certification of Chief Financial Officer relating to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	32	-	Certification of Chief Executive Officer and Chief Financial Officer relating to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*	Incorporated by reference to the indicated prior filing.
**	Filed with this report.
†	Management contract or compensatory plan.
#	Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

/s/ Michael A. Gerber		March 16, 2011
By:	Michael A. Gerber President and Chief Executive Officer	Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Lowell L. Junkins Lowell L. Junkins	Chairman of the Board and Director	March 16, 2011
/s/ Michael A. Gerber Michael A. Gerber	President and Chief Executive Officer (Principal Executive Officer)	March 16, 2011
/s/ Timothy L. Buzby Timothy L. Buzby	Senior Vice President – Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 16, 2011

Name	Title	Date
/s/ Julia Bartling Julia Bartling	Director	March 16, 2011
/s/ Dennis L. Brack Dennis L. Brack	Director	March 16, 2011
/s/ Richard H. Davidson Richard H. Davidson	Director	March 16, 2011
/s/ James R. Engebretsen James R. Engebretsen	Director	March 16, 2011
/s/ Dennis A. Everson Dennis A. Everson	Director	March 16, 2011
/s/ Sara L. Faivre-Davis Sara L. Faivre-Davis	Director	March 16, 2011
/s/ Ernest M. Hodges Ernest M. Hodges	Director	March 16, 2011
/s/ Brian P. Jackson Brian P. Jackson	Director	March 16, 2011
/s/ Mitchell A. Johnson Mitchell A. Johnson	Director	March 16, 2011
/s/ Glen O. Klippenstein Glen O. Klippenstein	Director	March 16, 2011
/s/ Clark B. Maxwell Clark B. Maxwell	Director	March 16, 2011
/s/ Brian J. O’Keane Brian J. O’Keane	Director	March 16, 2011
/s/ John Dan Raines, Jr. John Dan Raines, Jr.	Director	March 16, 2011
/s/ Myles J. Watts Myles J. Watts	Director	March 16, 2011