

FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-Q
May 09, 2013

As filed with the Securities and Exchange Commission on May 9, 2013

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013.
Commission File Number 001-14951

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

Federally chartered instrumentality of the United States (State or other jurisdiction of incorporation or organization) 52-1578738 (I.R.S. employer identification number)

1999 K Street, N.W., 4th Floor, Washington, D.C. (Address of principal executive offices) (Zip code) 20006
(202) 872-7700 (Registrant's telephone number, including area code)

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

Yes x No o

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

Yes x No o

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

Large accelerated filer o Accelerated filer x
Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of May 1, 2013, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,278,349 shares of Class C non-voting common stock.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2013 (in thousands)	December 31, 2012
Assets:		
Cash and cash equivalents	\$893,387	\$785,564
Investment securities:		
Available-for-sale, at fair value	2,296,187	2,498,382
Trading, at fair value	1,129	1,247
Total investment securities	2,297,316	2,499,629
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	5,100,080	4,766,258
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,569,160	1,486,595
Trading, at fair value	87,271	104,188
Total USDA Guaranteed Securities	1,656,431	1,590,783
Loans:		
Loans held for sale, at lower of cost or fair value	—	673,991
Loans held for investment, at amortized cost	2,212,211	1,503,559
Loans held for investment in consolidated trusts, at amortized cost	561,682	563,575
Allowance for loan losses	(7,967)	(11,351)
Total loans, net of allowance	2,765,926	2,729,774
Real estate owned, at lower of cost or fair value	4,417	3,985
Financial derivatives, at fair value	26,254	31,173
Interest receivable (includes \$3,243 and \$9,676, respectively, related to consolidated trusts)	66,535	103,414
Guarantee and commitment fees receivable	42,359	41,789
Deferred tax asset, net	—	3,123
Prepaid expenses and other assets	39,967	66,709
Total Assets	\$12,892,672	\$12,622,201
Liabilities and Equity:		
Liabilities:		
Notes payable:		
Due within one year	\$6,543,973	\$6,567,366
Due after one year	4,978,118	5,034,739
Total notes payable	11,522,091	11,602,105
Debt securities of consolidated trusts held by third parties	167,250	167,621
Financial derivatives, at fair value	133,838	150,682
Accrued interest payable (includes \$1,276 and \$2,534, respectively, related to consolidated trusts)	35,474	51,779
Guarantee and commitment obligation	38,905	37,803
Accounts payable and accrued expenses	350,578	13,710
Deferred tax liability, net	9,423	—
Reserve for losses	6,285	5,539
Total Liabilities	12,263,844	12,029,239

Commitments and Contingencies (Note 6)

Equity:

Preferred stock:

Series A, par value \$25 per share, 2,400,000 shares authorized, issued and outstanding	58,333	—
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Series C, par value \$1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	—	57,578
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Common stock:

Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
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Class B Voting, \$1 par value, no maximum authorization, 500,301 shares outstanding	500	500
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Class C Non-Voting, \$1 par value, no maximum authorization, 9,223,342 shares and 9,171,343 shares outstanding, respectively	9,223	9,171
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Additional paid-in capital	108,386	106,617
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Accumulated other comprehensive income, net of tax, related to available-for-sale securities	92,359	73,969
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Retained earnings	117,143	102,243
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Total Stockholders' Equity	386,975	351,109
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Non-controlling interest - preferred stock	241,853	241,853
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Total Equity	628,828	592,962
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Total Liabilities and Equity	\$12,892,672	\$12,622,201
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See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands, except per share amounts)	
Interest income:		
Investments and cash equivalents	\$5,734	\$6,232
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	31,721	37,746
Loans	24,043	29,153
Total interest income	61,498	73,131
Total interest expense	33,128	38,923
Net interest income	28,370	34,208
Provision for loan losses	(430)	(420)
Net interest income after provision for loan losses	27,940	33,788
Non-interest income:		
Guarantee and commitment fees	6,612	5,930
Gains on financial derivatives and hedging activities	4,494	6,400
Gains on trading assets	210	1,099
Gains on sale of available-for-sale investment securities	2	28
Gains on sale of real estate owned	47	—
Other income	1,080	721
Non-interest income	12,445	14,178
Non-interest expense:		
Compensation and employee benefits	4,698	4,485
General and administrative	2,917	2,758
Regulatory fees	594	563
Real estate owned operating costs, net	126	6
Provision for losses	746	30
Non-interest expense	9,081	7,842
Income before income taxes	31,304	40,124
Income tax expense	8,716	11,654
Net income	22,588	28,470
Less: Net income attributable to non-controlling interest - preferred stock dividends	(5,547)	(5,547)
Net income attributable to Farmer Mac	17,041	22,923
Preferred stock dividends	(851)	(720)
Net income attributable to common stockholders	\$16,190	\$22,203
Earnings per common share and dividends:		
Basic earnings per common share	\$1.51	\$2.14
Diluted earnings per common share	\$1.45	\$2.04
Common stock dividends per common share	\$0.12	\$0.10
See accompanying notes to consolidated financial statements.		

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Net income	\$22,588	\$28,470
Other comprehensive income/(loss), net of tax:		
Unrealized holding gains on available-for-securities (1)	21,812	36
Less reclassification adjustments included in:		
Gains on financial derivatives and hedging activities (2)	(3,207) —
Gains on sale of available-for-sale investment securities (3)	(1	) (18
Other income (4)	(214	) (265
Other comprehensive income/(loss)	18,390	(247
Comprehensive income	40,978	28,223
Less: Comprehensive income attributable to noncontrolling interest - preferred stock dividends	(5,547	) (5,547
Comprehensive income attributable to Farmer Mac	\$35,431	\$22,676

(1) Presented net of income tax expense of \$11.7 million and \$19,000 for the three months ended March 31, 2013 and 2012, respectively.

(2) Relates to the amortization of the fair value of the hedged items prior to hedge inception. Presented net of income tax benefit of \$1.7 million for the three months ended March 31, 2013.

(3) Represents realized gains on sales of available-for-sale investment securities. Presented net of income tax benefit of \$1,000 and \$10,000 for the three months ended March 31, 2013 and 2012, respectively.

(4) Represents amortization of deferred gains related to certain available-for-sale USDA Guaranteed Securities and Farmer Mac Guaranteed Securities. Presented net of income tax benefit of \$0.1 million for both the three months ended March 31, 2013 and 2012.

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended			
	March 31, 2013		March 31, 2012	
	Shares	Amount	Shares	Amount
	(in thousands)			
Preferred stock:				
Balance, beginning of period	58	\$57,578	58	\$57,578
Issuance of Series A preferred stock	2,400	58,333	—	—
Redemption of Series C preferred stock	(58	) (57,578) —	—
Balance, end of period	2,400	\$58,333	58	\$57,578
Common stock:				
Balance, beginning of period	10,702	\$10,702	10,357	\$10,357
Issuance of Class C common stock	52	52	16	16
Balance, end of period	10,754	\$10,754	10,373	\$10,373
Additional paid-in capital:				
Balance, beginning of period		\$106,617		\$102,821
Stock-based compensation expense		866		956
Issuance of Class C common stock		3		4
Tax effect of stock-based awards		900		429
Balance, end of period		\$108,386		\$104,210
Retained earnings:				
Balance, beginning of period		\$102,243		\$62,554
Net income attributable to Farmer Mac		17,041		22,923
Cash dividends:				
Preferred stock, Series A (\$0.2978 per share)		(715)	—
Preferred stock, Series C (\$2.36 per share in 2013 and \$12.50 per share in 2012)		(136	)	(720
Common stock (\$0.12 per share in 2013 and \$0.10 per share in 2012)		(1,290	)	(1,038
Balance, end of period		\$117,143		\$83,719
Accumulated other comprehensive income:				
Balance, beginning of period		\$73,969		\$79,370
Other comprehensive income/(loss), net of tax		18,390		(247
Balance, end of period		\$92,359		\$79,123
Total Stockholders' Equity		\$386,975		\$335,003
Non-controlling interest - preferred stock:				
Balance, beginning of period		\$241,853		\$241,853
Issuance of Preferred stock - Farmer Mac II LLC		—		—
Balance, end of period		\$241,853		\$241,853
Total Equity		\$628,828		\$576,856
See accompanying notes to consolidated financial statements.				

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Cash flows from operating activities:		
Net income	\$22,588	\$28,470
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of deferred gains, premiums and discounts on loans, investments, Farmer Mac Guaranteed Securities, and USDA Guaranteed Securities	2,712	3,672
Amortization of debt premiums, discounts and issuance costs	3,286	3,362
Net change in fair value of trading securities, hedged assets, financial derivatives, and loans held for sale	(8,997	) (16,768
Gains on the sale of available-for-sale investment securities	(2	) (28
Gains on the sale of real estate owned	(47) —
Total provision for losses	1,176	450
Deferred income taxes	1,992	5,190
Stock-based compensation expense	865	956
Proceeds from repayment of trading investment securities	315	288
Purchases of loans held for sale	—	(27,991
Proceeds from repayment of loans purchased as held for sale	66,095	46,873
Net change in:		
Interest receivable	36,879	36,717
Guarantee and commitment fees receivable	(570	) 129
Other assets	27,003	6,690
Accrued interest payable	(16,305	) (19,017
Other liabilities	5,069	3,783
Net cash provided by operating activities	142,059	72,776
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(244,819	) (649,645
Purchases of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(222,187	) (301,725
Purchases of loans held for investment	(190,149	) (106,845
Purchases of defaulted loans	(140	) (729
Proceeds from repayment of available-for-sale investment securities	439,135	291,065
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	163,508	177,551
Proceeds from repayment of loans purchased as held for investment	93,587	88,440
Proceeds from sale of available-for-sale investment securities	15,014	5,028
Proceeds from sale of Farmer Mac Guaranteed Securities	25,042	3,380
Proceeds from sale of real estate owned	203	—
Net cash provided by/(used in) investing activities	79,194	(493,480
Cash flows from financing activities:		
Proceeds from issuance of discount notes	15,653,949	16,835,683
Proceeds from issuance of medium-term notes	703,268	565,987
Payments to redeem discount notes	(16,021,517) (16,436,929
Payments to redeem medium-term notes	(419,000) (332,000

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Excess tax benefits related to stock-based awards	613	623	
Payments to third parties on debt securities of consolidated trusts	(25,413) (48,162)
Proceeds from common stock issuance	888	4	
Proceeds from Series A Preferred stock issuance	58,333	—	
Retirement of Series C Preferred stock	(57,578) —	
Dividends paid - Non-controlling interest - preferred stock	(5,547	) (5,547)
Dividends paid on common and preferred stock	(1,426	) (1,038)
Net cash (used in)/provided by financing activities	(113,430	) 578,621	
Net increase in cash and cash equivalents	107,823	157,917	
Cash and cash equivalents at beginning of period	785,564	817,046	
Cash and cash equivalents at end of period	\$893,387	\$974,963	
See accompanying notes to consolidated financial statements.			

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

1. ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Corporation") and subsidiaries have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted as permitted by SEC rules and regulations. The December 31, 2012 consolidated balance sheet presented in this report has been derived from the Corporation's audited 2012 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2012 consolidated financial statements of Farmer Mac and subsidiaries included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 18, 2013. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Below is a summary of Farmer Mac's significant accounting policies.

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 (2) Farmer Mac II LLC, whose principal activity is the operation of substantially all of the business related to the USDA Guarantees line of business – primarily the acquisition of USDA-guaranteed portions. 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 1(f) 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 \$2.6 million and for both the three months ended March 31, 2013 and 2012. 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.

(a) 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

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