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

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

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____.
Commission File Number 001-14951

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

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

(202) 872-7700
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Exchange on which registered
Class A voting common stock	New York Stock Exchange
Class C non-voting common stock	New York Stock Exchange
5.875% Non-Cumulative Preferred Stock, Series A	New York Stock Exchange
6.875% Non-Cumulative Preferred Stock, Series B	New York Stock Exchange
6.000% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series C	New York Stock Exchange

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

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

Yes o No x

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

Yes x No o

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

Yes x No o

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

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

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

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

Yes o No x

The aggregate market value of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant was $297,772,287 as of June 30, 2015 based upon the closing prices for the respective classes on June 30, 2015 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 1, 2016, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,849,409 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2016 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part III of this Annual Report on Form 10-K).

Table of Contents

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

- the availability to Farmer Mac of debt and equity financing and, if available, the reasonableness of rates and terms;
- legislative or regulatory developments that could affect Farmer Mac, its sources of business, or the agricultural sector or the rural utilities industry;
- fluctuations in the fair value of assets held by Farmer Mac and its subsidiaries;
- the rate and direction of development of the secondary market for agricultural mortgage and rural utilities loans, including lender interest in Farmer Mac credit products and the secondary market provided by Farmer Mac;
- the general rate of growth in agricultural mortgage and rural utilities indebtedness;
- the impact of economic conditions, including the effects of drought and other weather-related conditions and fluctuations in agricultural real estate values, on agricultural mortgage lending and borrower repayment capacity;
- developments in the financial markets, including possible investor, analyst, and rating agency reactions to events involving government-sponsored enterprises, including Farmer Mac;
- changes in the level and direction of interest rates, which could, among other things, affect the value of collateral securing Farmer Mac's agricultural mortgage loan assets;
- the degree to which Farmer Mac is exposed to basis risk, which results from fluctuations in Farmer Mac's borrowing costs relative to market indexes such as LIBOR; and

Table of Contents

- volatility in commodity prices relative to costs of production and/or export demand for U.S. agricultural products.

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

PART I

Item 1. Business

GENERAL

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

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

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

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

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

Table of Contents

Farmer Mac's two principal sources of revenue are:

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

Farmer Mac funds its purchases of eligible loans (including participation interests in eligible loans) and guaranteed securities primarily by issuing debt obligations of various maturities in the public capital markets. The proceeds of debt issuance are also used to fund liquidity investments that must comply with policies adopted by Farmer Mac's board of directors and with FCA regulations, which establish limitations on dollar amount, issuer concentration, and credit quality. Those regulations can be found at 12 C.F.R. §§ 652.1-652.45 (the "Liquidity and Investment Regulations"). Farmer Mac's regular debt issuance supports its access to the capital markets, and Farmer Mac's liquidity investment assets provide an alternative source of funds should market conditions be unfavorable. As of December 31, 2015, Farmer Mac had $6.6 billion of discount notes and $7.4 billion of medium-term notes outstanding. For more information about Farmer Mac's eligible loan assets and liquidity investment assets, as well as its financial performance and sources of capital and liquidity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Secondary Market

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

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

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

Table of Contents

Lines of Business

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

- mortgage loans secured by first liens on agricultural real estate, including part-time farms and rural housing (comprising the assets eligible for the Farm & Ranch line of business);
- agricultural and rural development loans guaranteed by the United States Department of Agriculture ("USDA") (comprising the assets eligible for the USDA Guarantees line of business); and
- loans made by lenders organized as cooperatives to finance electrification and telecommunications systems in rural areas (comprising the assets eligible for the Rural Utilities line of business).

Farmer Mac also guarantees and purchases general obligations of lenders that are secured by pools of these types of eligible loans (comprising the assets eligible for the Institutional Credit line of business). As of December 31, 2015, the total outstanding business volume in all of Farmer Mac's lines of business was $15.9 billion.

Farm & Ranch

Under the Farm & Ranch line of business, Farmer Mac purchases eligible mortgage loans secured by first liens on agricultural real estate, which includes part-time farms and rural housing ("Farm & Ranch loans"). Farmer Mac also guarantees securities representing interests in pools of mortgage loans eligible for the Farm & Ranch line of business ("Farm & Ranch Guaranteed Securities"). Additionally, Farmer Mac commits to purchase, subject to the terms of the applicable LTSPC agreement, eligible Farm & Ranch mortgage loans. To be eligible, loans must meet Farmer Mac's credit underwriting, collateral valuation, documentation, and other specified standards that are discussed in "Business—Farmer Mac Lines of Business—Farm & Ranch." As of December 31, 2015, outstanding Farm & Ranch loans held by Farmer Mac and loans that either backed off-balance sheet Farm & Ranch Guaranteed Securities or were subject to LTSPCs totaled $5.7 billion.

USDA Guarantees

Under the USDA Guarantees line of business, Farmer Mac II LLC, a subsidiary of Farmer Mac, purchases the portions of certain agricultural, rural development, business and industry, and community facilities loans guaranteed by the USDA under the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et seq.). Farmer Mac refers to these USDA-guaranteed portions of loans as "USDA Securities." Farmer Mac II LLC also purchases USDA Securities in exchange for issuing securities to third parties backed by those USDA Securities, which are then also guaranteed by Farmer Mac ("Farmer Mac Guaranteed USDA Securities"). As of December 31, 2015, outstanding USDA Securities and Farmer Mac Guaranteed USDA Securities totaled $1.9 billion, of which $41.8 million were Farmer Mac Guaranteed USDA Securities.

Rural Utilities

Under the Rural Utilities line of business, Farmer Mac's authorized activities are similar to those conducted under the Farm & Ranch line of business – purchases of, and guarantees of securities backed

Table of Contents

by, eligible rural utilities loans ("Rural Utilities loans"). To be eligible, loans must meet Farmer Mac's credit underwriting and other specified standards that are discussed in "Business—Farmer Mac Lines of Business—Rural Utilities." As of December 31, 2015, the aggregate outstanding principal balance of Rural Utilities loans held by Farmer Mac or that were subject to LTSPCs totaled $1.5 billion. There currently are no guaranteed securities issued under the Rural Utilities line of business.

Institutional Credit

Under the Institutional Credit line of business, Farmer Mac purchases or guarantees general obligations of lenders that are secured by pools of the types of loans eligible for purchase under Farmer Mac's Farm & Ranch, USDA Guarantees, or Rural Utilities lines of business. AgVantage® is a registered trademark of Farmer Mac used to designate Farmer Mac's guarantees of securities related to these general obligations of lenders that are secured by pools of eligible loans and that comprise the Institutional Credit line of business. Farm & Ranch Guaranteed Securities, Farmer Mac Guaranteed USDA Securities, and AgVantage Securities are sometimes collectively referred to as "Farmer Mac Guaranteed Securities." For more information on the products currently offered under Farmer Mac's Institutional Credit line of business, see "Business—Farmer Mac Lines of Business—Institutional Credit." As of December 31, 2015, outstanding securities held or guaranteed by Farmer Mac in its Institutional Credit line of business totaled $6.7 billion.

Competition

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

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

Table of Contents

Mae, Freddie Mac, and highly-rated financial institutions, can impact the price and volume at which Farmer Mac issues debt and, consequently, its ability to offer savings to its customers in the form of competitive products.

Capital and Corporate Governance

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

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

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

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

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

The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 44 percent of the Class A voting common stock is held by three

Table of Contents

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

The dividend and liquidation rights of all three classes of Farmer Mac's common stock are the same. Dividends may be paid on Farmer Mac's common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to compliance with applicable capital requirements and the payment of dividends on any outstanding preferred stock issued by Farmer Mac. Upon liquidation, dissolution, or winding up of the business of Farmer Mac, after payment and provision for payment of outstanding debt of Farmer Mac, the holders of shares of Farmer Mac's currently outstanding 5.875% Non-Cumulative Preferred Stock, Series A ("Series A Preferred Stock"), 6.875% Non-Cumulative Preferred Stock, Series B ("Series B Preferred Stock"), 6.000% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series C ("Series C Preferred Stock"), and any other preferred stock then outstanding, would be paid at par value out of assets available for distribution, plus all declared and unpaid dividends, before the holders of shares of common stock received any payment. See also "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities" for more information regarding Farmer Mac's common stock, and "Business—Financing—Equity Issuance" for more information on Farmer Mac's common stock and preferred stock.

The assets of Farmer Mac II LLC are not directly available to satisfy the claims of Farmer Mac's creditors or stockholders. Those assets will only be available to the creditors and stockholders of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. Until March 30, 2015, Farmer Mac II LLC had preferred stock outstanding, which had been permanent equity of Farmer Mac II LLC and is included in the presentation of "Non-controlling interest" within total equity on Farmer Mac's consolidated balance sheets. On March 30, 2015, Farmer Mac II LLC redeemed all of the outstanding shares of its preferred stock. See "Business—Financing—Equity Issuance—Non-Controlling Interest in Farmer Mac II LLC."

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

Farmer Mac's policy is to require financial institutions to own a requisite amount of Farmer Mac common stock, based on the size and type of institution, to participate in the Farm & Ranch line of business. As a result of this requirement, coupled with the ability of holders of Class A and Class B voting common stock to elect two-thirds of Farmer Mac's board of directors, Farmer Mac regularly conducts business with "related parties," including institutions affiliated with members of Farmer Mac's board of directors and institutions that own large amounts of Farmer Mac's voting common stock. Farmer Mac has adopted a Code of Business Conduct and Ethics that governs any conflicts of interest that may arise in these

Table of Contents

transactions, and Farmer Mac's policy is to require that any transactions with related parties be conducted in the ordinary course of business, with terms and conditions comparable to those available to any other counterparty not related to Farmer Mac. For more information about related party transactions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions" and Note 3 to the consolidated financial statements.

Regulatory Oversight

Farmer Mac's charter assigns to FCA, acting through the separate Office of Secondary Market Oversight ("OSMO") within FCA, the responsibility for the examination of Farmer Mac and the general supervision of the safe and sound performance of the powers, functions, and duties vested in Farmer Mac by the charter. The charter also authorizes FCA, acting through OSMO, to apply its general enforcement powers to Farmer Mac. Farmer Mac's charter requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of FCA's regulatory activities, including the cost of any examination. Farmer Mac is also required to file quarterly reports of condition with OSMO. In addition, as a publicly-traded corporation, Farmer Mac is required to comply with the periodic reporting requirements of the SEC. For a more detailed discussion of Farmer Mac's regulatory and governmental relationships, see "—Government Regulation of Farmer Mac."

Capital

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

Employees and Property

As of December 31, 2015, Farmer Mac employed 71 people, located primarily at its office at 1999 K Street, N.W., 4th Floor, Washington, D.C. 20006. Farmer Mac also maintains an office at 5408 NW 88th Street, Suite 120, Johnston, Iowa 50131. Farmer Mac's main telephone number is (202) 872-7700.

Available Information

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

Table of Contents

Table of Contents

FARMER MAC LINES OF BUSINESS

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

Lines of Business - Outstanding Business Volume

	As of December 31, 2015	As of December 31, 2014
	(in thousands)	
On-balance sheet:		
Farm & Ranch:		
Loans	$2,249,864	$2,118,867
Loans held in trusts:		
Beneficial interests owned by third party investors	708,111	421,355
USDA Guarantees:		
USDA Securities	1,876,451	1,756,224
Farmer Mac Guaranteed USDA Securities	31,554	27,832
Rural Utilities:		
Loans(1)	1,008,126	718,213
Loans held in trusts:		
Beneficial interests owned by Farmer Mac(1)	—	267,396
Institutional Credit:		
AgVantage Securities	5,439,383	5,410,413
Total on-balance sheet	$11,313,489	$10,720,300
Off-balance sheet:		
Farm & Ranch:		
LTSPCs	$2,253,273	$2,240,866
Guaranteed Securities	514,051	636,086
USDA Guarantees:		
Farmer Mac Guaranteed USDA Securities	10,272	13,978
Rural Utilities:		
LTSPCs(2)	522,864	—
Institutional Credit:		
AgVantage Securities	984,871	986,528
Revolving floating rate AgVantage facility(3)	300,000	—
Total off-balance sheet	$4,585,331	$3,877,458
Total	$15,898,820	$14,597,758

(1) Reflects the dissolution of certain consolidated trusts that caused loans that were previously consolidated as "Loans held in trusts" to be included within "Loans."

(2) Includes $8.8 million related to a one-year loan purchase commitment on which Farmer Mac receives a nominal unused commitment fee.

(3) As of December 31, 2015, this facility had not been utilized. Farmer Mac receives a fixed fee based on the full dollar amount of the facility. If the counterparty draws on the facility, the amounts drawn will be presented as AgVantage Securities, and Farmer Mac will earn interest income on those securities.

Table of Contents

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

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Farm & Ranch:			
Loans	$748,368	$697,824	$824,881
LTSPCs	427,795	369,857	540,798
USDA Guarantees:			
USDA Securities	363,621	335,359	361,894
Farmer Mac Guaranteed USDA Securities	13,314	7,627	—
Rural Utilities:			
Loans	108,337	75,500	86,965
LTSPCs	522,262	—	—
Institutional Credit:			
AgVantage Securities	743,158	1,279,655	1,273,500
Revolving floating rate AgVantage facility	300,000	—	—
Total purchases, guarantees, and LTSPCs	$3,226,855	$2,765,822	$3,088,038

Farm & Ranch

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

Loan Eligibility

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

- be secured by a fee simple mortgage or a long-term leasehold mortgage, with status as a first lien on agricultural real estate (including part-time farms and rural housing) located within the United States;
- be an obligation of a citizen or national of the United States, an alien lawfully admitted for permanent residence in the United States, or a private corporation or partnership that is majority-owned by U.S. citizens, nationals, or legal resident aliens;
- be an obligation of a person, corporation, or partnership having training or farming experience that is sufficient to ensure a reasonable likelihood that the loan will be repaid according to its terms; and
- meet the credit underwriting, collateral valuation, documentation, and other specified standards for the Farm & Ranch line of business. See "—Underwriting and Collateral Valuation (Appraisal) Standards" and "—Approved Lenders" for a description of these standards.

Table of Contents

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

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

Farmer Mac's charter authorizes a maximum loan size (adjusted annually for inflation) for an eligible Farm & Ranch loan secured by more than 1,000 acres of agricultural real estate. That maximum loan size was $12.3 million as of December 31, 2015 and increased to $12.6 million as of January 1, 2016. Although the charter does not prescribe a maximum loan size or a total borrower exposure for an eligible Farm & Ranch loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac currently limits the size of those loans to:

- $50.0 million in cumulative exposure to any one borrower or related borrowers for transactions involving direct exposure to credit risk on loans (e.g., loan purchases, LTSPC transactions, and non-AgVantage Farm & Ranch Guaranteed Securities, which are not backed by a general obligation of a lender); and
- $75.0 million in cumulative exposure through a single lender to any one borrower or related borrowers (with the amount of any direct borrower exposure described above not counting toward the $75.0 million limit) for AgVantage transactions, which involve the general obligation of a lender that is in turn secured by eligible loans, resulting in indirect exposure to credit risk on those loans. See "Farmer Mac Lines of Business—Institutional Credit."

Farmer Mac includes its part-time farm loans and rural housing loans in the Farm & Ranch line of business. Farmer Mac defines a "part-time farm" as agricultural real estate meeting the eligibility requirements described above on which is located a primary residence whose value is at least 30 percent of the property's aggregate value at origination. When analyzing borrower repayment capacity for part-time farm loans, Farmer Mac typically considers off-farm income as a more important factor than for Farm & Ranch loans that are not part-time farm loans. Part-time farm loans do not represent a significant part of Farmer Mac's business, with a total of $211.1 million of those loans in Farmer Mac's portfolio as of December 31, 2015.

For the rural housing portion of this line of business, an eligible loan must be secured by a mortgage on a one- to four-family, owner-occupied, moderately priced principal residence located in a community with a population of 2,500 or fewer. The current maximum purchase price or current appraised value for a dwelling, excluding the land to which the dwelling is affixed, that secures a rural housing loan is $269,807. That limit is generally adjusted annually based on changes in home values during the previous year, though it was not adjusted in 2015. In addition to the dwelling itself, an eligible rural housing loan can be secured by land associated with the dwelling having an appraised value of no more than 50 percent of the total appraised value of the combined property. Rural housing loans do not represent a significant part of Farmer Mac's business, with a total of $3.3 million of those loans in Farmer Mac's portfolio as of December 31, 2015.

Summary of Farm & Ranch Transactions

During the year ended December 31, 2015, Farmer Mac added a total of $1.2 billion of new business volume under the Farm & Ranch line of business. That new business volume was partially offset by repayments on existing assets (principal paydowns and maturities) during the year, resulting in $5.7 billion

Table of Contents

of total outstanding business volume in this line of business as of December 31, 2015, compared to $5.4 billion as of December 31, 2014.

During 2015, Farmer Mac purchased eligible loans from 163 entities (the top ten institutions generated 55 percent of the purchase volume) and placed loans under LTSPCs with 28 entities in the Farm & Ranch line of business. During 2014, Farmer Mac purchased eligible loans from 166 entities (the top ten institutions generated 61 percent of the purchase volume) and placed loans under LTSPCs with 32 entities. During 2013, Farmer Mac purchased eligible loans from 218 entities (the top ten institutions generated 53 percent of the purchase volume) and placed loans under LTSPCs with 25 entities.

The following table summarizes loans purchased or newly placed under LTSPCs under the Farm & Ranch line of business for each of the years ended December 31, 2015, 2014, and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Loans	$748,368	$697,824	$824,881
LTSPCs	427,795	369,857	540,798
Total	$1,176,163	$1,067,681	$1,365,679

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

	As of December 31,	
	2015	2014
	(in thousands)	
On-balance sheet:		
Loans	$2,249,864	$2,118,867
Loans held in trusts:		
Beneficial interests owned by third party investors	708,111	421,355
Total on-balance sheet	$2,957,975	$2,540,222
Off-balance sheet:		
LTSPCs	$2,253,273	$2,240,866
Guaranteed Securities	514,051	636,086
Total off-balance sheet	$2,767,324	$2,876,952
Total	$5,725,299	$5,417,174

Loan Purchases

Farmer Mac offers loan products designed to increase the secondary market liquidity of agricultural real estate mortgage loans and the lending capacity of financial institutions that originate those loans. Farmer Mac enters into mandatory delivery commitments to purchase loans and offers rates for those commitments daily. Farmer Mac also purchases portfolios of newly originated and seasoned loans that are current in payment on a negotiated basis. Farmer Mac purchases both fixed and adjustable rate loans that have a variety of maturities and often include balloon payments. Loans purchased may sometimes include provisions that require a yield maintenance payment or some other form of prepayment penalty in the event a borrower prepays a loan (depending upon the level of interest rates at the time of prepayment). Of the $748.4 million of loans purchased in the Farm & Ranch line of business during 2015, 61 percent

16

Table of Contents

included balloon payments and none included yield maintenance prepayment protection. By comparison, of the $697.8 million of loans purchased in the Farm & Ranch line of business during 2014, 59 percent included balloon payments and none included yield maintenance prepayment protection.

Guarantees and Commitments

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

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

LTSPCs. An LTSPC commits Farmer Mac, subject to the terms of the applicable LTSPC agreement, to a future purchase of one or more loans from an identified pool of eligible loans that met Farmer Mac's standards at the time the transaction was entered into and Farmer Mac assumed the credit risk on the loans. The LTSPC structure, which is not a guarantee of loans or securities, permits the lender to retain the loan pool in its portfolio until such time, if ever, as the lender elects to deliver some or all of the loans in the pool to Farmer Mac for purchase under the terms of the LTSPC agreement. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives commitment fees payable monthly in arrears in an amount approximating what would have been the guarantee fees if the transaction were structured as Farm & Ranch Guaranteed Securities. Farmer Mac offers different options under LTSPC arrangements to meet the credit and liquidity needs of its counterparties. Some LTSPCs provide that the underlying loans can be converted into Farm & Ranch Guaranteed Securities at the option of the counterparty with no conversion fee paid to Farmer Mac. Some LTSPCs contain risk sharing arrangements that provide for the counterparty to absorb up to a specified amount (typically between one and five percent of the original principal balance of the loan pool) of any losses incurred on the loans in the pool. As of December 31, 2015 and 2014, approximately 7.8 percent and 8.2 percent, respectively, of

Table of Contents

total LTSPCs and Farm & Ranch Guaranteed Securities, including those consolidated as loans on Farmer Mac's balance sheet, contained risk sharing arrangements.

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

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

- fair value or in exchange for Farm & Ranch Guaranteed Securities (if the loans are not delinquent), in accordance with the terms of the applicable agreement.

In 2015, Farmer Mac entered into $427.8 million of LTSPCs, compared to $369.9 million in 2014, in the Farm & Ranch line of business. In 2015, LTSPCs remained the preferred credit enhancement alternative for new off-balance sheet transactions, and they continue to be a significant portion of the Farm & Ranch line of business. During 2015 and 2014, there were no conversions of LTSPCs into Farm & Ranch Guaranteed Securities. As of December 31, 2015, Farmer Mac's outstanding LTSPCs covered 4,057 mortgage loans with an aggregate principal balance of $2.3 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

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

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

Table of Contents

Of the $15.9 billion outstanding principal balance of assets included in Farmer Mac's four lines of business as of December 31, 2015, $1.2 billion were in the form of Farm & Ranch Guaranteed Securities created from the deposit of eligible loan assets into securitization trusts that issue "pass-through" certificates representing interests in the underlying assets. This type of securitization structure may involve the deposit of either whole loans or loan participation interests into the trusts.

As of December 31, 2015, Farmer Mac had outstanding Farm & Ranch Guaranteed Securities of $708.1 million that represent interests in whole loans and $514.1 million that represent interests in loan participations as a result of conversions from LTSPCs. Both types of transactions involve the deposit of eligible assets into securitization trusts along with all of the rights under related agreements that provide for, among other things, remedies for any breaches of representations and warranties made by the lender and the servicing of the underlying assets. In each of these transactions, the related trust has issued securities that represent interests in the assets of the trust and that Farmer Mac guarantees as to the timely payment of principal and interest.

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

For the years ended December 31, 2015 and 2014, Farmer Mac sold Farm & Ranch Guaranteed Securities in the amounts of $336.9 million and $175.8 million, respectively. No gains or losses resulted from these sales in either 2015 or 2014. During 2015 and 2014, there were no conversions of LTSPCs into Farm & Ranch Guaranteed Securities. As of December 31, 2015, Farmer Mac's outstanding Farm & Ranch Guaranteed Securities, which may or may not be consolidated on-balance sheet depending on the primary beneficiary determination described above, were backed by 3,952 mortgage loans with an aggregate principal balance of $1.2 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume."

Table of Contents

Underwriting and Collateral Valuation (Appraisal) Standards

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

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

In addition to these minimum standards, agricultural mortgage loans on which Farmer Mac assumes direct credit exposure, such as loans purchased, subject to an LTSPC, or underlying Farm & Ranch Guaranteed Securities, are also typically required to meet more specific underwriting standards established by Farmer Mac, as described below.

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

Underwriting. To manage Farmer Mac's credit risk and to provide guidance for the management, administration, and conduct of underwriting to all participating and potential Farm & Ranch lenders, Farmer Mac has adopted credit underwriting standards that vary by loan type and loan product. Farmer Mac developed these standards based on industry practices for similar mortgage loans and designed them to assess the creditworthiness of the borrower, as well as the risk to Farmer Mac for having assumed the credit risk on those loans. Furthermore, Farmer Mac requires Farm & Ranch lenders to make representations and warranties regarding the conformity of eligible mortgage loans to these standards and any other requirements that Farmer Mac may impose from time to time. Farmer Mac has the ability to require repurchase of the loan upon a material breach of these representations and warranties. The underwriting standards described in this section apply to Farmer Mac's Farm & Ranch loans other than part-time farm and rural housing loans, whose underwriting standards more closely resemble generally-accepted industry standards for residential lending, including fully verified repayment capacity and use of credit scores.

Farmer Mac's credit underwriting standards for Farm & Ranch loans generally require that the original LTV of any loan not exceed 70 percent. Farmer Mac may require lower original LTV thresholds for some categories of loans, such as loans secured by property located in certain geographic regions, unseasoned loans, single purpose facility loans, and loans exceeding certain dollar thresholds. Farmer Mac, from time to time, allows higher LTV thresholds for loans secured by swine and poultry facilities that are supported by a strong production contract with a reputable processor (up to 75 percent original LTV) and rural housing and part-time farm loans secured primarily by owner-occupied residences (up to 80 percent original LTV). The original LTV of a loan is calculated by dividing the loan's principal balance at the time of guarantee, purchase, or commitment by the lower of the appraised value or the purchase price at the

Table of Contents

date of loan origination or, when available, updated appraised value at the time of guarantee, purchase, or commitment.

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

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

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

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

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

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

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

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

Farmer Mac's use of compensating strengths is not intended to provide a basis for waiving or lessening the requirement that eligible mortgage loans under the Farm & Ranch line of business be of consistently high quality. Loans approved on the basis of compensating strengths are fully underwritten and have experienced lower cumulative rates of loss following default compared to loans that were approved on the basis of conformance with all applicable underwriting ratios.

Table of Contents

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

- it has been outstanding for at least five years and has an LTV of 60 percent or less;
- there have been no payments more than 30 days past due during the three-year period immediately before the date the loan is either purchased by Farmer Mac or made subject to an LTSPC; and
- there have been no material restructurings or modifications for credit reasons during the previous five years.

A seasoned loan that has been outstanding for more than one year but less than five years must substantially comply with the applicable underwriting standards for newly originated loans as of the date the loan was originated by the lender.

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

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

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

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

As Farmer Mac develops new credit products, it establishes underwriting guidelines for them. Those guidelines result in industry-specific measures that meet or exceed the minimum underwriting standards contained in Farmer Mac's charter and provide Farmer Mac with the flexibility to deliver the benefits of a secondary market to farmers, ranchers, and rural homeowners in diverse sectors of the rural economy. Farmer Mac does not require that each loan's compliance with the applicable underwriting standards be re-evaluated after Farmer Mac purchases the loan or approves it for inclusion in a pool that backs a guaranteed security or an LTSPC pool.

Collateral Valuation Standards. Farmer Mac has adopted collateral valuation standards for newly originated loans purchased or underlying Farm & Ranch Guaranteed Securities or LTSPCs. Those standards require, among other things, that a current valuation be performed, or have been performed within the preceding 12 months, independently of the credit decision-making process. Farmer Mac generally requires appraisals to conform to the Uniform Standards of Professional Appraisal Practice ("USPAP") promulgated by the Appraisal Standards Board.

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

Table of Contents

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

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

In October 2014, Farmer Mac formed a collateral valuation subsidiary, Contour Valuation Services, LLC ("Contour"). Contour's principal activity is to provide appraisal services related to agricultural real estate in an effort to meet the needs of Farmer Mac's customer base. As of December 31, 2015, Farmer Mac owned 65 percent of Contour, which represented an initial investment of $325,000 and additional contributions totaling approximately $450,000 made during 2015. Conterra Holdings, LLC, Farmer Mac's business partner with experience in creating and managing a collateral valuation function, owns the remaining 35 percent of Contour. Although Farmer Mac owns the majority interest in Contour, Farmer Mac does not run the day-to-day operations of Contour, does not direct or supervise Contour's appraisers, and does not permit any individual who is an employee of Farmer Mac to also be employed by Contour, which ensures that the appraisals performed by Contour are independent of Farmer Mac's loan purchase process and not subject to conflicts of interest. The President of Contour has general supervisory authority for the management of Contour's business, subject to the oversight of a management committee to which Farmer Mac has appointed representatives in proportion to its ownership interest. The financial condition and results of Contour are reflected in the Corporate segment within Farmer Mac's consolidated financial statements.

Portfolio Diversification

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

Farmer Mac is not obligated to assume credit risk on every loan that meets its underwriting and collateral valuation standards submitted by an eligible participant. Farmer Mac may consider other factors, such as its overall portfolio diversification, commodity and farming forecasts, and risk management objectives, in deciding whether or not to accept a loan as part of the Farm & Ranch line of business. For example, if industry forecasts indicate possible weakness in a geographic area or agricultural commodity or product, Farmer Mac may decide not to purchase or commit to purchase an affected loan as part of managing

Table of Contents

Farmer Mac's overall portfolio exposure to areas of possible heightened risk exposure. Because Farmer Mac effectively assumes the credit risk on all loans under an LTSPC, Farmer Mac's commodity/product and geographic diversification disclosures reflect all loans under LTSPCs and any loans that have been purchased out of LTSPC pools. For information about the diversification of Farmer Mac's existing portfolio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees" and Note 8 to the consolidated financial statements.

Approved Lenders

As of December 31, 2015, Farmer Mac had 786 approved lenders eligible to participate in Farmer Mac's Farm & Ranch line of business, ranging from single-office to multi-branch institutions, spanning community banks, FCS institutions, mortgage companies, commercial banks, and insurance companies, compared to 792 eligible approved lenders as of December 31, 2014. In addition to participating directly in the Farm & Ranch line of business, some of the approved lenders facilitate indirect participation by other lenders by managing correspondent networks of lenders from which the approved lenders purchase loans to sell to Farmer Mac. As of December 31, 2015, of the 786 approved lenders eligible to participate, 187 lenders had been active participants in the Farm & Ranch line of business during the previous 12 months by either selling at least one loan to Farmer Mac or entering into an LTSPC transaction with Farmer Mac.

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

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

Servicing

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

Loans related to the participation interests underlying Farm & Ranch Guaranteed Securities that result from the conversion of LTSPCs are serviced for the benefit of Farmer Mac, as trustee and guarantor, by

Table of Contents

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

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

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

USDA Guarantees

General

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

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

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

Table of Contents

Summary of USDA Guarantees Transactions

Farmer Mac guarantees the timely payment of principal and interest on Farmer Mac Guaranteed USDA Securities backed by USDA Securities. Farmer Mac does not guarantee the repayment of the USDA Securities themselves. During the years ended December 31, 2015, 2014, and 2013, Farmer Mac II LLC purchased approximately $376.9 million, $343.0 million, and $361.9 million, respectively, of USDA Securities, all of which were retained on its balance sheet. Farmer Mac did not purchase any USDA Securities in 2015, 2014, or 2013. During 2015, 2014, and 2013, Farmer Mac and Farmer Mac II LLC conducted USDA Guarantees transactions with 209, 185, and 195 entities, respectively.

As of December 31, 2015 and 2014, $1.9 billion and $1.8 billion, respectively, of Farmer Mac Guaranteed USDA Securities and USDA Securities were outstanding. The following table presents activity in the USDA Guarantees line of business for each of the years indicated:

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Purchased and retained	$376,935	$342,986	$361,894
Purchased and sold	—	—	—
Total	$376,935	$342,986	$361,894

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

	As of December 31,	
	2015	2014
	(in thousands)	
On-balance sheet:		
USDA Securities	$1,876,451	$1,756,224
Farmer Mac Guaranteed USDA Securities	31,554	27,832
Off-balance sheet:		
Farmer Mac Guaranteed USDA Securities	10,272	13,978
Total	$1,918,277	$1,798,034

As of December 31, 2015, Farmer Mac had experienced no other-than-temporary impairment on any of its Farmer Mac Guaranteed USDA Securities or USDA Securities.

United States Department of Agriculture Guaranteed Loan Programs

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

Table of Contents

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

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

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

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

Lenders. Any lender authorized by the USDA to obtain a USDA guarantee on a loan may participate in Farmer Mac's USDA Guarantees line of business. During 2015, 209 lenders, consisting mostly of community and regional banks, sold USDA Securities to Farmer Mac, compared to 185 lenders that did so during 2014.

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

Rural Utilities

General

Under its charter, Farmer Mac is permitted to purchase, and guarantee securities backed by, rural electric and telephone loans made by lenders organized as cooperatives to borrowers who have received or are eligible to receive loans under the Rural Electrification Act of 1936 ("REA"). The REA is administered by the Rural Utilities Service ("RUS"), an agency of the USDA. None of Farmer Mac's business to date under the Rural Utilities line of business has involved telecommunications loans. Farmer Mac's Rural

Table of Contents

Utilities line of business encompasses purchases of eligible rural utilities loans and guarantees of securities backed by those loans, as well as the issuance of LTSPCs for pools of eligible rural utilities loans. Farmer Mac issued LTSPCs for pools of eligible rural utilities loans for the first time in the second half of 2015.

Summary of Rural Utilities Transactions

During the year ended December 31, 2015, Farmer Mac added $630.6 million of new Rural Utilities business, compared to $75.5 million and $87.0 million for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2015 and 2014, the aggregate outstanding principal balance of Rural Utilities loans held and underlying LTSPCs was $1.5 billion and $1.0 billion, respectively.

The following table summarizes new Rural Utilities business activity for each of the years ended December 31, 2015, 2014, and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Loans	$108,337	$75,500	$86,965
LTSPCs	522,262	—	—
Total	$630,599	$75,500	$86,965

The following table presents the outstanding balances of Rural Utilities loans held as of the dates indicated:

	As of December 31,	
	2015	2014
	(in thousands)	
On-balance sheet:		
Loans	$1,008,126	$718,213
Loans held in trusts:		
Beneficial interests owned by Farmer Mac[1]	—	267,396
Total on-balance sheet	$1,008,126	$985,609
Off-balance sheet:		
LTSPCs[2]	522,864	—
Total	$1,530,990	$985,609

(1) Reflects the dissolution of certain consolidated trusts with the effect that loans previously consolidated on the balance sheet as "Loans held in trusts" currently are included within "Loans."

(2) Includes $8.8 million related to a one-year loan purchase commitment on which Farmer Mac receives a nominal unused commitment fee.

Loan Eligibility

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

- be made for an electric or telephone facility by a lender organized as a cooperative to a borrower that has received or is eligible to receive a loan under the REA;

- be performing and not more than 30 days delinquent; and
- meet Farmer Mac's underwriting standards described in more detail below.

Underwriting

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

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

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

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

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

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

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

- the equity to total assets ratio equals or exceeds 10 percent;
- the modified debt service coverage ratio equals or exceeds 1.10;

Table of Contents

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

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

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

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

Collateral

It is customary in loans to distribution cooperatives and G&T cooperatives for the lender to take a security interest in substantially all of the borrower's assets. In cases in which Farmer Mac purchases a rural utilities loan with a pledge of all assets and a lender also has a lien on all assets, Farmer Mac verifies that a lien accommodation results in either a shared first lien or a first lien in favor of Farmer Mac. In cases where debt indentures are used, Farmer Mac determines if available collateral is adequate to support the loan program and Farmer Mac's investment. As of December 31, 2015, all of the Rural Utilities loans held by Farmer Mac consisted of loans with a pledge of all assets.

Servicing

Farmer Mac generally does not directly service the Rural Utilities loans held in its portfolio. Those loans are serviced by a servicer designated by Farmer Mac. National Rural Utilities Cooperative Finance Corporation ("CFC") currently services all of the Rural Utilities loans in Farmer Mac's portfolio. CFC is a related party to Farmer Mac by virtue of CFC's stock ownership in Farmer Mac. As of December 31, 2015, CFC held approximately 8 percent of Farmer Mac's outstanding Class A voting common stock (or approximately 5 percent of total voting shares). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions."

Approved Lenders

Farmer Mac's charter requires eligible rural utilities loans be made by a lender organized as a cooperative. Currently, the only two rural utilities lenders that are cooperatives are CFC and CoBank, ACB ("CoBank"), an institution of the FCS. To date, CFC is the only lender to have participated in Farmer Mac's Rural Utilities line of business.

Table of Contents

Portfolio Diversification

Rural utilities loans are made throughout the entire United States. Farmer Mac analyzes the geographic distribution of loans to cooperatives and considers regional concentration levels in connection with its business activities under the Rural Utilities program. As of December 31, 2015, Farmer Mac had direct credit exposure on 1,136 loans to electric cooperatives constituting $1.5 billion across 38 states.

Farmer Mac's charter does not prescribe a maximum loan size for an eligible rural utilities loan, but Farmer Mac currently has a $50.0 million limit in place for cumulative direct credit exposure on those loans (e.g., purchases of loans, LTSPCs, or guarantees of securities representing interests in loans) to any one borrower or related borrowers. For indirect credit exposures on rural utilities loans (e.g., AgVantage transactions), Farmer Mac's current limit is $75.0 million for cumulative loan exposure to any one borrower or related borrowers, with the amount of any direct exposure to a borrower not counting toward the $75.0 million limit. See "—Institutional Credit." As of December 31, 2015, Farmer Mac's direct credit exposure to rural utilities loans consisted of $1.3 billion in loans to distribution cooperatives and $0.2 billion in loans to G&T cooperatives.

Institutional Credit

Under the Institutional Credit line of business, Farmer Mac provides advances against eligible loans by guaranteeing and purchasing general obligations of institutions approved by Farmer Mac, which obligations are also secured by a pool of guaranteed securities or the types of loans eligible for one of Farmer Mac's other lines of business. Farmer Mac refers to these obligations as AgVantage® securities. Farmer Mac guarantees the timely payment of principal and interest on AgVantage securities and may retain AgVantage securities in its portfolio or sell them to third parties in the capital markets as Farmer Mac Guaranteed Securities.

Farmer Mac has direct credit exposure to the issuers of AgVantage securities and assumes the ultimate credit risk of issuer default on the AgVantage securities. Before approving an institution as an issuer in an AgVantage transaction, Farmer Mac assesses the institution's creditworthiness as well as its loan performance. Farmer Mac continues to monitor the counterparty risk assessment on an ongoing basis after the AgVantage security is issued. In addition to being a general obligation of the issuing institution, AgVantage securities must be secured by eligible loans or guaranteed securities in an amount at least equal to the outstanding principal amount of the security. As a result, Farmer Mac has indirect credit exposure to the loans or guaranteed securities that are pledged to secure the AgVantage securities, which would be available to Farmer Mac in the event of a default by the issuer.

Loans pledged under AgVantage securities are serviced by the issuers of the securities in accordance with that institution's servicing procedures. Farmer Mac reviews these servicing procedures before entering into those transactions. In AgVantage transactions, the issuer 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.

Table of Contents

For AgVantage securities secured by loans eligible for Farmer Mac's Farm & Ranch line of business, Farmer Mac currently requires the general obligation to be overcollateralized, either by more eligible loans or any of the following types of assets:

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

The required collateralization level for the AgVantage securities secured by Farm & Ranch loans currently ranges from 102 percent to 125 percent. Within this range, Farmer Mac generally requires higher collateralization levels for securities issued by institutions without long-term debt ratings from a nationally recognized statistical rating organization ("NRSRO"). The required collateralization level is established at the time the AgVantage facility is entered into with the counterparty and does not change during the life of the AgVantage securities issued under such facility.

For AgVantage securities that are secured by Farm & Ranch loans, Farmer Mac requires that the loans meet the minimum standards set forth in the charter for those types of loans and that the value is supported by either appraisals that conform to the USPAP or similar collateral valuation methods based upon Farmer Mac's evaluation of the lender's collateral valuation protocols and history. Although the charter does not prescribe a maximum loan size or a total borrower exposure for an eligible Farm & Ranch loan secured by 1,000 acres or less of agricultural real estate, Farmer Mac currently limits the size of those loans to $75.0 million in cumulative exposure through a single lender to any one borrower or related borrowers (with the amount of any direct borrower exposure not counting toward the $75 million limit) for AgVantage transactions.

In July 2014, Farmer Mac expanded the AgVantage product to a new type of issuer – institutional investors in agricultural assets that qualify as collateral for the types of loans eligible for the Farm & Ranch line of business. Farmer Mac refers to this product variation as the Farm Equity AgVantage® product. This product has similar requirements for AgVantage securities secured by Farm & Ranch loans described above, but Farmer Mac also requires that Farm Equity AgVantage transactions (1) generally maintain a higher collateralization level, through lower loan-to-value ratio thresholds and higher overcollateralization requirements, and (2) generally contain specified financial covenants for the life of the related Farm Equity AgVantage security to avoid default. As of December 31, 2015, Farmer Mac had $194.3 million of outstanding Farm Equity AgVantage securities.

For AgVantage securities secured by loans eligible for Farmer Mac's Rural Utilities line of business, Farmer Mac requires:

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

Table of Contents

Although Farmer Mac has only indirect credit exposure on the rural utilities loans pledged to secure AgVantage securities, the same underwriting standards that apply to loans made to distribution cooperatives on which Farmer Mac assumes direct credit exposure also apply to loans made to distribution cooperatives that secure the general obligation of the lender in AgVantage transactions. See "—Rural Utilities—Underwriting." For loans made to G&T cooperatives that secure the general obligation of the issuer in AgVantage transactions, the G&T cooperative must either (1) have a rating from an NRSRO of BBB- (or equivalent rating) or better or (2) meet the following underwriting standards (based on the average of the most recent three years):

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

Farmer Mac's charter does not prescribe a maximum loan size or a total borrower exposure for an eligible rural utilities loan, but Farmer Mac's current limit for AgVantage transactions is $75.0 million for cumulative loan exposure to any one borrower or related borrowers (with the amount of any direct exposure to a borrower not counting towards the $75 million limit). Farmer Mac also permits up to 20 percent of rural utilities loans pledged to secure AgVantage securities to be unsecured or secured by less than all of the borrower's assets. As of December 31, 2015, all AgVantage securities secured by eligible rural utilities loans were issued by CFC, which is a related party to Farmer Mac by virtue of CFC's stock ownership in Farmer Mac. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions."

As of December 31, 2015, Farmer Mac had not experienced any credit losses, nor had it been called upon to make a guarantee payment to third parties, on any of its AgVantage securities. For more information on Farmer Mac's AgVantage securities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Institutional."

Summary of Institutional Credit Transactions

During the year ended December 31, 2015, Farmer Mac added a total of $1.0 billion of new business volume under the Institutional Credit line of business, including a $0.3 billion revolving floating rate AgVantage facility entered into with CFC, which had not been drawn upon as of December 31, 2015. That new business volume was partially offset by repayments on existing assets (principal paydowns and maturities) during the year, resulting in $6.7 billion of total outstanding business volume in this line of business as of December 31, 2015 compared to $6.4 billion as of December 31, 2014.

As of both December 31, 2015 and 2014, the outstanding principal amount of AgVantage securities held by Farmer Mac on its balance sheet was $5.4 billion . As of December 31, 2015 , the aggregate outstanding principal amount of off-balance sheet AgVantage securities sold to third parties totaled $1.3 billion compared to $1.0 billion as of December 31, 2014. The amount as of December 31, 2015 includes a $0.3 billion revolving floating rate AgVantage facility entered into with CFC that had not been drawn upon as of that date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Business Volume" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Institutional." The following table summarizes new Institutional Credit line of business activity for each of the years ended December 31, 2015, 2014, and 2013:

Table of Contents

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
AgVantage Securities	$743,158	$1,279,655	$1,273,500
Revolving floating rate AgVantage facility	300,000	—	—
	$1,043,158	$1,279,655	$1,273,500

The following table presents the outstanding principal amount of AgVantage securities held by Farmer Mac and off-balance sheet AgVantage securities as of the dates indicated:

	As of December 31,	
	2015	2014
	(in thousands)	
On-balance sheet:		
AgVantage Securities	$5,439,383	$5,410,413
Off-balance sheet:		
AgVantage Securities	$984,871	$986,528
Revolving floating rate AgVantage facility[1]	300,000	—
Total off-balance sheet	$1,284,871	$986,528
Total	$6,724,254	$6,396,941

(1) As of December 31, 2015, this facility had not been utilized by CFC. Farmer Mac receives a fixed fee based on the full dollar amount of the facility. If CFC draws on the facility, the amounts drawn will be presented as on-balance sheet AgVantage securities, and Farmer Mac will earn interest on the drawn balance.

FUNDING OF GUARANTEE AND LTSPC OBLIGATIONS

The principal sources of funding for the payment of Farmer Mac's obligations under its guarantees and LTSPCs are the fees Farmer Mac receives for its guarantees and commitments, net effective spread, proceeds of debt issuances, loan repayments, and maturities of AgVantage securities. Farmer Mac satisfies its obligations under LTSPCs and its guarantees by purchasing defaulted loans out of LTSPCs and from the related trusts for Farmer Mac Guaranteed Securities. Farmer Mac typically recovers a significant portion of the value of defaulted loans purchased either through borrower payments, loan payoffs, payments by third parties, or foreclosure and sale of the property securing the loans. Ultimate credit losses arising from Farmer Mac's guarantees and commitments are reflected in Farmer Mac's charge-offs against its allowance for losses, gains and losses on the sale of real estate owned ("REO"), which consists of real estate acquired through foreclosure, and fair value adjustments of REOs held. During 2015, Farmer Mac had net credit losses of $3.9 million, compared to net credit recoveries of $6,000 during 2014, primarily due to an increase in the level of charge-offs in 2015.

Farmer Mac's charter requires Farmer Mac to maintain in its accounts a portion of the guarantee fees it receives from its guarantee activities as a reserve against losses. As of December 31, 2015, this reserve against losses arising from Farmer Mac's guarantee activities was $56.4 million. Farmer Mac calculates the amount of this statutorily required reserve against losses arising from its guarantee activities based on the credit risk component of guarantee fees received on all Farmer Mac Guaranteed Securities, including AgVantage securities. This amount does not represent either anticipated credit losses or estimated probable credit losses and does not directly relate to either the allowance for loan losses or the reserve for losses in Farmer Mac's consolidated balance sheets. Rather, this is the amount that must be exhausted

Table of Contents

before Farmer Mac may issue obligations to the U.S. Treasury against the $1.5 billion that Farmer Mac is statutorily authorized to borrow from the U.S. Treasury to fulfill its guarantee obligations. That borrowing authority is not intended to be a routine funding source and has never been used. For a more detailed discussion of Farmer Mac's borrowing authority from the U.S. Treasury, see "Business—Farmer Mac's Authority to Borrow from the U.S. Treasury."

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

FINANCING

Debt Issuance

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

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

Farmer Mac's board of directors has authorized the issuance of up to $18.0 billion of discount notes and medium-term notes (of which $14.1 billion was outstanding as of December 31, 2015), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing needs. Farmer Mac invests the proceeds of its debt issuances in loan purchases, Farmer Mac Guaranteed Securities, and liquidity investment assets in accordance with policies established by its board of directors that comply with FCA's Liquidity and Investment Regulations, which establish limitations on dollar amount, issuer concentration, and credit quality. Farmer Mac's regular debt issuance supports its access to the capital markets, and Farmer Mac's liquidity investment assets provide an alternative source of funds should market conditions be unfavorable. Farmer Mac's current policies authorize liquidity investments in:

- obligations of or guaranteed by the United States;
- obligations of GSEs;
- municipal securities;

Table of Contents

- international and multilateral development bank obligations;
- money market instruments;
- diversified investment funds;
- asset-backed securities;
- corporate debt securities; and
- mortgage-backed securities.

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

Equity Issuance

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

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

Common Stock

As of December 31, 2015, the following shares of Farmer Mac common stock were outstanding:

- 1,030,780 shares of Class A voting common stock;
- 500,301 shares of Class B voting common stock; and
- 9,155,661 shares of Class C non-voting common stock.

Farmer Mac may obtain additional capital from future issuances of voting and non-voting common stock and non-voting preferred stock.

On September 8, 2015, Farmer Mac's board of directors approved a share repurchase program authorizing Farmer Mac to repurchase up to $25 million of its outstanding Class C non-voting common stock over the next two years. As of December 31, 2015, Farmer Mac had repurchased approximately 362,000 shares of

Table of Contents

Class C non-voting common stock at a cost of approximately $10.5 million under the share repurchase program. Farmer Mac did not repurchase any common stock during 2014.

The following table presents the dividends declared on Farmer Mac's common stock during and subsequent to 2015:

Date Dividend Declared	Per Share Amount	For Holders Of Record As Of	Date Paid
February 5, 2015	$0.16	March 16, 2015	March 31, 2015
June 3, 2015	$0.16	June 17, 2015	June 30, 2015
August 6, 2015	$0.16	September 15, 2015	September 30, 2015
November 4, 2015	$0.16	December 16, 2015	December 31, 2015
March 2, 2016	$0.26	March 21, 2016	*

* The dividend declared on March 2, 2016 is scheduled to be paid on March 31, 2016.

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

Preferred Stock

As of December 31, 2015, the following shares of Farmer Mac preferred stock were outstanding:

- 2,400,000 shares of Series A Preferred Stock, all of which were issued on January 17, 2013;
- 3,000,000 shares of Series B Preferred Stock, all of which were issued on March 25, 2014; and
- 3,000,000 shares of Series C Preferred Stock, all of which were issued on June 20, 2014.

The Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock (collectively referred to as the "Outstanding Preferred Stock") each has a par value of $25.00 per share and an initial liquidation preference of $25.00 per share. Since each of their respective issuances, Farmer Mac has not issued any additional shares of any series of Outstanding Preferred Stock. Each series of Outstanding 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 issues in the future. The Series A Preferred Stock and the Series B Preferred Stock pay an annual dividend rate fixed at 5.875 percent and 6.875 percent, respectively, for the life of the securities. The Series C Preferred Stock pays an annual dividend rate of 6.000 percent from the date of issuance to and including the quarterly payment date occurring on July 17, 2024, and thereafter, at a floating rate equal to three-month LIBOR plus 3.260 percent. Dividends on all series of Outstanding Preferred Stock are non-cumulative, which means that if the Board of Directors has not declared a dividend before the applicable dividend payment date for any dividend period, such dividend will not be paid or cumulate, and Farmer Mac will have no obligation to pay dividends for such dividend period, whether or not dividends on any series of Outstanding Preferred Stock are declared for any future dividend period. Farmer Mac may pay dividends on the Outstanding Preferred Stock without paying dividends on any class or series of stock Farmer Mac may issue in the future that ranks junior to the Outstanding Preferred Stock. The Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock rank equally with each other and will rank equally with any other class or series of stock Farmer Mac may issue in the future of equal priority as to dividends and upon liquidation. Farmer Mac has the right, but not the obligation, to redeem some or all of the issued and outstanding shares of Series A Preferred Stock on and anytime after January 17, 2018, the Series B Preferred Stock on and anytime after April 17, 2019, and the Series C Preferred Stock on and anytime after July 18, 2024, all at a price equal to the then-applicable liquidation preference. The Outstanding Preferred Stock is considered Tier 1 capital for Farmer Mac. For more information on Farmer Mac's capital requirements, see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards."

Farmer Mac incurred direct costs of $1.7 million related to the issuance of the Series A Preferred Stock, direct costs of $1.9 million related to the issuance of the Series B Preferred Stock, and direct costs of $1.6 million related to the issuance of the Series C Preferred Stock. Farmer Mac used the proceeds from the sale of the Series A Preferred Stock to redeem and retire on January 17, 2013 Farmer Mac's then-outstanding shares of Series C Non-Voting Cumulative Preferred Stock, which is different than the Series C Preferred Stock that is currently outstanding and which had a par value and liquidation preference of $1,000 per share and had been issued in 2008 and 2009.

The following table presents the dividends declared and paid on Series A Preferred Stock during and subsequent to 2015:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 5, 2015	$0.3672	January 18, 2015	April 17, 2015	April 17, 2015
June 3, 2015	$0.3672	April 18, 2015	July 17, 2015	July 17, 2015
August 6, 2015	$0.3672	July 18, 2015	October 17, 2015	October 17, 2015
November 4, 2015	$0.3672	October 18, 2015	January 17, 2016	January 17, 2016
March 2, 2016	$0.3672	January 18, 2016	April 17, 2016	*

* The dividend declared on March 2, 2016 is scheduled to be paid on April 17, 2016.

The following table presents the dividends declared and paid on Series B Preferred Stock during and subsequent to 2015:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 5, 2015	$0.4297	January 18, 2015	April 17, 2015	April 17, 2015
June 3, 2015	$0.4297	April 18, 2015	July 17, 2015	July 17, 2015
August 6, 2015	$0.4297	July 18, 2015	October 17, 2015	October 17, 2015
November 4, 2015	$0.4297	October 18, 2015	January 17, 2016	January 17, 2016
March 2, 2016	$0.4297	January 18, 2016	April 17, 2016	*

* The dividend declared on March 2, 2016 is scheduled to be paid on April 17, 2016.

Table of Contents

The following table presents the dividends declared and paid on Series C Preferred Stock during and subsequent to 2015:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 5, 2015	$0.3750	January 18, 2015	April 17, 2015	April 17, 2015
June 3, 2015	$0.3750	April 18, 2015	July 17, 2015	July 17, 2015
August 6, 2015	$0.3750	July 18, 2015	October 17, 2015	October 17, 2015
November 4, 2015	$0.3750	October 18, 2015	January 17, 2016	January 17, 2016
March 2, 2016	$0.3750	January 18, 2016	April 17, 2016	*

* The dividend declared on March 2, 2016 is scheduled to be paid on April 17, 2016.

Non-Controlling Interest in Farmer Mac II LLC

Until March 30, 2015, Farmer Mac II LLC had 250,000 shares of preferred stock outstanding ("Farmer Mac II LLC Preferred Stock") as a result of a private offering completed in January 2010 of $250.0 million aggregate face amount of securities issued by a newly formed Delaware statutory trust. The trust securities, called Farm Asset-Linked Capital Securities or "FALConS," represented undivided beneficial ownership interests in the 250,000 shares of Farmer Mac II LLC Preferred Stock. The Farmer Mac II LLC Preferred Stock did not constitute a Tier 1 capital-eligible security for Farmer Mac. Consistent with Farmer Mac's plan to increase its Tier 1 capital, Farmer Mac issued the Series B Preferred Stock and Series C Preferred Stock in 2014 and caused Farmer Mac II LLC to redeem all of the outstanding Farmer Mac II LLC Preferred Stock on March 30, 2015, the initial redemption date, using the proceeds of these two preferred stock offerings and cash on hand. The redemption of Farmer Mac II LLC Preferred Stock on March 30, 2015 triggered the redemption of all the outstanding FALConS securities on that same day. For more information on Farmer Mac's capital plan, see "Government Regulation of Farmer Mac—Capital Standards—Capital Adequacy Requirements."

Farmer Mac II LLC Preferred Stock had been permanent equity of Farmer Mac II LLC until it was redeemed and is included in the presentation of "Non-controlling interest" within total equity on the consolidated balance sheets of Farmer Mac. Farmer Mac II LLC incurred $8.1 million of direct costs related to the issuance of the Farmer Mac II LLC Preferred Stock, which reduced the amount of non-controlling interest and was recognized as expense in the period in which the Farmer Mac II LLC Preferred Stock was redeemed. Additionally, in May 2014, Farmer Mac purchased in the open market $6.0 million of FALConS, representing undivided beneficial ownership interests in 6,000 shares of Farmer Mac II LLC Preferred Stock, which is reflected as "Purchase of interest – Non-controlling interest – preferred stock" on the consolidated statements of equity of Farmer Mac.

The Farmer Mac II LLC Preferred Stock had a liquidation preference of $1,000 per share. Dividends on the Farmer Mac II LLC Preferred Stock were payable if, when, and as declared by Farmer Mac II LLC's board of directors, quarterly, on a non-cumulative basis, on March 30, June 30, September 30, and December 30 of each year. From the date of issuance to but excluding the quarterly payment date occurring on March 30, 2015, the annual dividend rate on the Farmer Mac II LLC Preferred Stock was 8.875 percent, at which time the annual dividend rate would have increased to 10.875 percent had the Farmer Mac II Preferred Stock not been redeemed on March 30, 2015. The accrual of declared dividends is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the

Table of Contents

consolidated statements of operations on a pre-tax basis. The consolidated tax benefit is included in "income tax expense" on the consolidated statements of operations.

The following table presents the dividends declared on Farmer Mac II LLC Preferred Stock during 2015, prior to its redemption on March 30, 2015:

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
February 5, 2015	$22.1875	December 30, 2014	March 29, 2015	March 30, 2015

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

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

- a portion of the guarantee fees assessed by Farmer Mac has been set aside as a reserve against losses arising out of Farmer Mac's guarantee activities in an amount determined by Farmer Mac's board of directors to be necessary and such reserve has been exhausted (that amount was $56.4 million as of December 31, 2015); and
- the proceeds of such obligations are needed to fulfill Farmer Mac's guarantee obligations.

Any debt obligations issued by Farmer Mac under this authority would bear interest at a rate determined by the U.S. Treasury, taking into consideration the average rate on outstanding marketable obligations of the United States as of the last day of the last calendar month ending before the date of the purchase of the obligations from Farmer Mac. Farmer Mac would be required to repurchase any of its debt obligations held by the U.S. Treasury within a "reasonable time." As of December 31, 2015, Farmer Mac had not used this borrowing authority and does not expect to use this borrowing authority in the future.

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

GOVERNMENT REGULATION OF FARMER MAC

General

Farmer Mac was created by federal statute in 1988 in the aftermath of the collapse of the agricultural credit delivery system. Farmer Mac's primary committees of jurisdiction in Congress – the Committee on Agriculture of the U.S. House of Representatives and the U.S. Senate Committee on Agriculture, Nutrition and Forestry – added requirements for Farmer Mac that had not been included in any of the other statutes establishing other GSEs. Unlike the other existing GSEs at the time, Farmer Mac was required to be regulated by an independent regulator, FCA, which has the authority to regulate Farmer Mac's safety and soundness. The statute creating Farmer Mac expressly requires that eligible loans meet minimum credit

Table of Contents

and appraisal standards that represent sound loans to profitable businesses. The enabling legislation also did not contain a specific federal securities law exemption as had been given to the housing GSEs, which had the effect of requiring Farmer Mac to comply with the periodic reporting requirements of the SEC, including filing annual and quarterly reports on the financial status of Farmer Mac and current reports when there are significant developments. Farmer Mac's statutory charter also requires offerings of Farmer Mac Guaranteed Securities to be registered under the Securities Act of 1933 and related regulations (collectively, the "Securities Act"), unless an exemption for an offering is available that is not related to Farmer Mac's status as an instrumentality of the United States.

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

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

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

Office of Secondary Market Oversight (OSMO)

As an institution of the FCS, Farmer Mac (including its subsidiaries) is subject to the regulatory authority of FCA. Farmer Mac's charter assigns to FCA, acting through OSMO within FCA, the responsibility for the examination of Farmer Mac and the general supervision of the safe and sound performance of the powers, functions, and duties vested in Farmer Mac by its charter. The charter also authorizes FCA, acting through OSMO, to apply its general enforcement powers to Farmer Mac. Farmer Mac (including its subsidiaries) is the only entity regulated by OSMO, which was created as a separate office in recognition of the different role that Farmer Mac plays in providing a secondary market, as compared to the roles of other FCS institutions as primary lenders. The Director of OSMO is selected by and reports to the FCA board.

Farmer Mac's charter requires an annual examination of the financial transactions of Farmer Mac and authorizes FCA to assess Farmer Mac for the cost of its regulatory activities, including the cost of any examination. Each year, OSMO conducts an examination of Farmer Mac to evaluate its safety and soundness, compliance with applicable laws and regulations, and mission achievement. The examination includes a review of Farmer Mac's capital adequacy, asset quality, management performance, earnings, liquidity, and sensitivity to interest rate risk. Farmer Mac is also required to file quarterly reports of condition with FCA.

Table of Contents

Capital Standards

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

- Statutory minimum capital requirement. Farmer Mac's minimum capital level is an amount of core capital (stockholders' equity less accumulated other comprehensive income) equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of Farmer Mac's aggregate off-balance sheet obligations, specifically including:

  the unpaid principal balance of outstanding Farmer Mac Guaranteed Securities;
  instruments issued or guaranteed by Farmer Mac that are substantially equivalent to Farmer Mac Guaranteed Securities, including LTSPCs; and
  other off-balance sheet obligations of Farmer Mac.

- Statutory critical capital requirement. Farmer Mac's critical capital level is an amount of core capital equal to 50 percent of the total minimum capital requirement at that time.

- Risk-based capital. The charter directs FCA to establish a risk-based capital stress test for Farmer Mac, using specified stress-test parameters.

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

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

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

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

As of December 31, 2015, Farmer Mac's statutory minimum and critical capital requirements were $462.1 million and $231.0 million, respectively, and its actual core capital level was $564.5 million, which is $102.4 million above the statutory minimum capital requirement and $333.5 million above the statutory critical capital requirement. Based on the risk-based capital stress test, Farmer Mac's risk-based capital requirement as of December 31, 2015 was $71.7 million and Farmer Mac's regulatory capital of $571.1 million exceeded that amount by approximately $499.4 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" for a presentation of Farmer Mac's current regulatory capital position.

Enforcement Levels. Farmer Mac's charter directs FCA to classify Farmer Mac within one of four enforcement levels for purposes of determining compliance with the capital standards established by

Table of Contents

Farmer Mac's charter. As of December 31, 2015, Farmer Mac was classified as within level I – the highest compliance level.

Failure to comply with the applicable required capital level in the charter would result in Farmer Mac being classified as within level II (below the applicable risk-based capital level, but above the minimum capital level), level III (below the minimum capital level, but above the critical capital level) or level IV (below the critical capital level). In the event that Farmer Mac were classified as within level II, III or IV, the charter requires the Director of OSMO to take a number of mandatory supervisory measures and provides the Director with discretionary authority to take various optional supervisory measures depending on the level in which Farmer Mac is classified. The mandatory measures applicable to levels II and III include:

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

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

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

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

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

Capital Adequacy Requirements. Under FCA's rule on capital planning, Farmer Mac must develop and submit to OSMO for approval annually a plan for capital that considers the sources and uses of Farmer Mac's capital, addresses capital projections under stress scenarios, assesses Farmer Mac's overall capital adequacy, and incorporates a Farmer Mac board-approved policy on capital adequacy. In accordance with this regulation, Farmer Mac's board of directors has established a policy that will require Farmer Mac to maintain an adequate level of "Tier 1" capital, consisting of retained earnings, paid-in-capital, common

Table of Contents

stock, qualifying preferred stock, and accumulated other comprehensive income allocable to "non-program" investments that are not included in the Farm & Ranch, USDA Guarantees, Rural Utilities, and Institutional Credit lines of business. Under this policy, Farmer Mac must maintain at all times during 2015 a Tier 1 capital ratio of not less than 4.25 percent of risk-weighted assets, calculated using an advanced internal ratings based ("AIRB") asset risk weighting regime that is consistent with current Basel-based principles, with the minimum Tier 1 capital ratio increasing by 0.25 percent annually to reach 5.0 percent in 2018.

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

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

These distribution restrictions will remain for so long as the Tier 1 capital conservation buffer remains at or below the minimum level of 2.5 percent, and Farmer Mac's board of directors may consider other factors, such as GAAP earnings and other regulatory requirements, in determining whether to restrict capital distributions, including dividends and bonus payments. As of December 31, 2015, Farmer Mac's Tier 1 capital ratio was 10.5%. Farmer Mac does not expect its compliance on an ongoing basis with FCA's rule on capital planning, including Farmer Mac's policy on Tier 1 capital, to materially affect Farmer Mac's operations or financial condition.

Item 1A. Risk Factors

Farmer Mac's business activities, financial performance, and results of operations are, by their nature, subject to a number of risks and uncertainties, including those related to access to the capital markets, the agricultural sector, the rural utilities industry, the regulatory environment, and the level of prevailing interest rates and overall market conditions. The following risk factors could materially affect Farmer Mac's financial condition and operating results and should be considered in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K, including the risks and uncertainties described in the "Forward-Looking Statements" section. Furthermore, because new risk factors likely will emerge from time to time, management can neither predict all such risk factors nor assess the effects of such factors on Farmer Mac's business, operating results, and financial condition or the extent to which any factor, or combination of factors, may affect Farmer Mac's actual results and financial condition. If any of the following risks

Table of Contents

materialize, Farmer Mac's business, financial condition, or results of operations could be materially and adversely affected. Farmer Mac undertakes no obligation to update or revise this risk factor discussion, except as required by law.

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

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

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

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

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

- severe protracted or sudden adverse weather conditions, animal and plant disease outbreaks, restrictions on water supply, limited access to transportation to move agricultural products to markets, or other conditions affecting particular geographic regions or industries;
- volatility in production expenses, including in commodity or fuel prices or labor costs or availability within any particular industry;
- fluctuations in currency exchange markets or changes in the global economy that would reduce export demand for U.S. agricultural products;
- slow or negative economic growth, which could reduce demand for U.S. agricultural products;

Table of Contents

- adverse changes in interest rates, agricultural land values, or other factors that may affect delinquency levels and credit losses on agricultural real estate mortgage loans;
- legislative or regulatory developments or actions adversely affecting the agricultural sector or rural utilities industry;
- changes in the general economy that could affect the availability of off-farm sources of income and prices of real estate for borrowers; and
- economic conditions that may negatively affect the market for electricity in rural areas and consequently limit the ability of rural electric cooperatives to provide electricity or raise rates to achieve profitable levels.

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

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

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

Farmer Mac's business development, profitability, and capital depend on the continued growth of the secondary market for agricultural real estate mortgage loans and for rural utilities loans, which may be constrained by a number of factors.

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

- reduced growth rates in the agricultural mortgage market caused by prevailing conditions in the overall economy;
- the increase in capital levels or the availability of other sources of capital for customers of Farmer Mac;
- the acceptance by Federal Home Loan Banks of agricultural real estate mortgage loans as collateral;
- the historical preference of many agricultural lending institutions to retain loans in their portfolios rather than to sell them into the secondary market;

Table of Contents

- the small number of business partners that currently provide a significant portion of Farmer Mac's business volume, resulting in vulnerability as existing business volume pays down or matures and the status of these business partners evolves; and
- expanded funding alternatives available to rural utilities.

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

Farmer Mac's business and ability to generate revenues and profits largely depends on its ability to purchase eligible loans or place eligible loans under guarantees or purchase commitments. Farmer Mac conducts a significant portion of its business with a small number of business partners. This results in vulnerability as existing assets pay down or mature and the status and needs of Farmer Mac's business partners evolve. In 2015, ten institutions generated approximately 55 percent of loan purchase volume in the Farm & Ranch line of business. As of December 31, 2015, approximately 95.7 percent of the $6.7 billion outstanding principal amount of AgVantage securities were issued by three institutions. Transactions with CFC have represented 100 percent of business volume under Farmer Mac's Rural Utilities line of business since its inception in 2008. Farmer Mac's ability to maintain the current relationships with its business partners or customers and the business generated by those business partners or customers is significant to Farmer Mac's business. Consequently, the loss of business from any one of Farmer Mac's key business partners could negatively impact Farmer Mac's revenues and profitability. Furthermore, Farmer Mac may not be able to replace the loss of business of a key business partner or customer with alternate sources of business due to limitations on the types of assets eligible for the secondary market provided by Farmer Mac under its charter, which could adversely affect Farmer Mac's business and result in a decrease in its revenues and profits.

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

As of December 31, 2015, Farmer Mac had $6.7 billion of AgVantage securities outstanding, of which $1.4 billion and $1.6 billion will be maturing in 2016 and 2017, respectively. AgVantage securities are guaranteed by Farmer Mac as to the timely payment of interest and principal. The terms of most AgVantage securities do not require the periodic payment of principal based on amortization schedules and instead have fixed maturity dates when the secured general obligation is due. If the issuer of a maturing AgVantage security defaults and does not pay the outstanding principal amount due upon maturity, Farmer Mac's liquidity position could be negatively affected because Farmer Mac will be required to obtain funds in a significant amount to pay the holder of the AgVantage security or, for AgVantage securities owned by Farmer Mac, to pay off the debt securities used to fund the purchase of the AgVantage securities. Farmer Mac's income could also be adversely affected if the issuer of a maturing AgVantage security does not issue new AgVantage securities to replace the maturing securities and Farmer Mac does not find alternate sources of business, or if the net interest margin earned by Farmer Mac on new AgVantage securities that replace maturing AgVantage securities is lower than the margin earned on the maturing AgVantage securities.

Table of Contents

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

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

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

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

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

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

Farmer Mac's earnings depend significantly on the performance of its eligible loan assets and the spread between the interest, guarantee fees, and commitment fees earned on such assets and interest paid on

Table of Contents

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

In the Farm & Ranch line of business, repayment of eligible loans typically depends on the success of the related farming operation, which, in turn, depends on many variables and factors over which farmers may have little or no control, such as weather conditions, animal and plant disease outbreaks, restrictions on water supply, economic conditions (both domestic and international), demand for U.S. agricultural products, and political conditions. Farmer Mac's credit risk may also increase in the case of a loan with a balloon payment due at maturity if the borrower seeks to refinance but is unable to do so. As of December 31, 2015, 65.8 percent of the loans in the Farm & Ranch line of business included balloon payments. In addition, loans to borrowers in industries that have had historically higher delinquency rates relative to Farmer Mac's overall portfolio may present a higher risk of delinquency in future periods. For example, as of December 31, 2015, loans to borrowers in the permanent plantings and part-time farm categories comprised a combined 20.1 percent of the Farm & Ranch portfolio, but delinquencies in these combined categories comprised 31.3 percent of the aggregate delinquencies for all commodity categories. As of December 31, 2015, loans to borrowers in the Agricultural Storage and Processing category (including ethanol facilities) comprised 1.4 percent of the Farm & Ranch portfolio, but cumulative net credit losses for this category comprised 45.5 percent of the cumulative net credit losses for all categories.

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

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

Farmer Mac's guarantee and purchase commitment obligations to third parties, including Farmer Mac Guaranteed Securities and LTSPCs, are obligations of Farmer Mac only and are not backed by the full faith and credit of the United States, FCA, or any other agency or instrumentality of the United States other than Farmer Mac. As of December 31, 2015, Farmer Mac had $4.6 billion of contingent liabilities related to Farmer Mac Guaranteed Securities and LTSPCs issued to third parties, which represents Farmer Mac's exposure if all loans underlying these guarantees and LTSPCs defaulted and Farmer Mac recovered

Table of Contents

no value from the related collateral. Farmer Mac's principal sources of funds for payments on all of its liabilities, including claims that may arise under its guarantees and LTSPCs, are the liquid assets held by Farmer Mac (including cash and cash equivalents), guarantee and commitment fees, interest payments on assets held by Farmer Mac, loan repayments, repayment of principal amounts due upon maturity of AgVantage securities, and proceeds from the issuance of debt securities. If all of the loans underlying Farmer Mac's guarantees and LTSPCs defaulted and Farmer Mac recovered no value from the related collateral, the funds for payment on these guarantees and LTSPCs could be substantially less than the aggregate amount of the corresponding liabilities. It is difficult to quantify at any particular point in time the funds that would be available from interest payments, loan repayments, and maturing AgVantage securities for payment on Farmer Mac's guarantees and LTSPCs, and Farmer Mac's ability to issue debt as a source of repayment would be subject to its ability to access the debt markets and market conditions at that time. As of December 31, 2015, Farmer Mac held cash, cash equivalents, and other investment securities with a fair value of $4.0 billion that could be used as a source of funds for payment on its obligations. Although Farmer Mac believes that it remains well-collateralized on the assets underlying its guarantee and purchase commitment obligations to third parties and that the estimated probable losses for these obligations remain low relative to the amount available for payment of claims on these obligations, Farmer Mac's total contingent liabilities for these obligations exceed the amount it may have available for payment of claims on these obligations. See "Management's Discussion and Analysis—Risk Management—Credit Risk – Loans and Guarantees" for more information on Farmer Mac's management of credit risk.

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

Farmer Mac relies on interest rate swap contracts and hedging arrangements to effectively manage its interest rate risk. A significant portion of Farmer Mac's interest rate swap contracts are not cleared through swap clearinghouses, which creates swap counterparty credit risk on those non-cleared swaps. In managing this risk, Farmer Mac contracts only with counterparties that have investment grade credit ratings, establishes and maintains collateral requirements that are scaled based upon credit ratings, and enters into netting agreements. Additionally, new rules that become effective later this year will establish minimum requirements for the exchange of initial and variation margin between Farmer Mac and its swap dealer counterparties in non-cleared swaps transactions. However, failure to perform under a non-cleared derivatives contract by one or more of Farmer Mac's counterparties could disrupt Farmer Mac's hedging operations, particularly if Farmer Mac were entitled to a termination payment under the terms of the contract that it did not receive, or if Farmer Mac were unable to reposition the swap with a new counterparty. Of the $8.4 billion combined notional amount of interest rate swaps, $2.2 billion were not cleared through swap clearinghouses as of December 31, 2015. As of December 31, 2015, Farmer Mac's credit exposure to interest rate swap counterparties was $6.4 million excluding netting arrangements and $47,000 including netting arrangements.

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

Farmer Mac is exposed to credit risk from issuers of AgVantage securities. Each AgVantage security is a general obligation of an issuing institution secured by eligible loans in an amount at least equal to the outstanding principal amount of the security and guaranteed by Farmer Mac. However, most of Farmer Mac's AgVantage exposure is concentrated in a small number of issuers. Farmer Mac seeks to manage its risk to AgVantage counterparties by reviewing each institution for which Farmer Mac has AgVantage exposure and requiring those institutions to meet Farmer Mac's standards for creditworthiness. In addition, Farmer Mac requires some level of overcollateralization (currently between 102 percent and 125 percent of the principal amount of the securities issued) and in some cases, compliance by the counterparty with specified financial covenants for the life of the related AgVantage securities, for AgVantage securities secured by Farm & Ranch loans. As of December 31, 2015, nearly all of the AgVantage securities outstanding had been issued by three counterparties. A default by any of these counterparties could have a significant adverse effect on Farmer Mac's business, operating results, and financial condition.

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

Farmer Mac maintains an investment portfolio that can be drawn upon for liquidity needs. In addition to cash and cash equivalents (such as U.S. Treasury securities and short-term money market instruments), this portfolio consists of investment securities, including securities guaranteed by U.S. Government agencies and GSEs, GSE-issued preferred stock, corporate debt obligations, and auction-rate certificates. Though some of these investment securities do not qualify for purposes of calculating liquidity under the regulatory requirements prescribed by FCA, they still may be drawn upon for Farmer Mac's liquidity needs. Farmer Mac regularly reviews concentration limits to ensure that its investments are appropriately diversified and comply with policies approved by Farmer Mac's board of directors and with applicable FCA regulations, but Farmer Mac is still exposed to credit risk from issuers of the investment securities it holds. For example, as of December 31, 2015, Farmer Mac held at fair value, as part of its liquidity investment portfolio, $20.0 million of corporate debt securities, $83.4 million of asset-backed securities principally backed by U.S. Government-guaranteed student loans (including $44.9 million of auction-rate certificates), and $1.1 billion of investment securities guaranteed by GSEs. A default by multiple issuers of investment securities held by Farmer Mac, or by a single issuer of investment securities in which Farmer Mac is more heavily concentrated, could have an adverse effect on Farmer Mac's business, operating results, and financial condition.

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

Farmer Mac is subject to interest rate risk due to the possible timing differences in the cash flows of the assets it holds and related liabilities. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar duration and cash flow characteristics so that they will perform similarly as interest rates change. Through Farmer Mac's issuances of debt securities in the form of discount notes and medium-term notes coupled with interest rate swap contracts that adjust the characteristics of the debt issued, Farmer Mac seeks to match its liabilities closely with the cash flow and duration characteristics of its loans and other assets. However, the ability of borrowers to prepay their loans prior to the scheduled maturities increases the risk of asset and liability cash flow mismatches. In a changing interest rate environment, these cash flow mismatches could reduce Farmer Mac's earnings if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments, particularly if Farmer Mac's related funding costs cannot be correspondingly repaid. In addition, if assets repay more slowly than anticipated and the associated debt issued to fund the assets must be reissued at a higher yield, Farmer Mac's earnings could be adversely affected. As of December 31, 2015, of all the outstanding business volume held on Farmer Mac's balance sheet, $4.9 billion had a fixed interest rate and $6.4 billion had an indexed or non-indexed adjustable interest rate.

Farmer Mac is also subject to another type of interest rate risk due to changes in its cost of funds relative to floating rate market indexes (such as LIBOR) on some of the floating rate assets it holds, which is referred to as "basis risk." Some of Farmer Mac's floating rate assets reset on rate adjustment dates on the basis of a floating rate market index, whereas the related debt that Farmer Mac issued to fund those assets until their maturities may be refinanced on the basis of Farmer Mac's cost of funds at a particular time. Basis risk arises from the potential variability between the rates at which those floating rate assets reset and the rates at which Farmer Mac can issue or refinance debt to fund those assets until their maturities. Farmer Mac is also subject to basis risk on some of its fixed rate assets as a result of its use of pay-fixed interest rate swaps, combined with a series of discount note or medium-term note issuances, as an alternative source of effectively fixed rate funding. This risk arises because the rates at which Farmer Mac refinances its funding for some fixed rate assets through the issuance of discount notes or medium-term notes may vary from the agreed-upon rates based on the floating rate market index received by Farmer Mac on the associated swaps. If the rates on Farmer Mac’s discount notes or medium-term notes deteriorate relative to LIBOR during the time between when its indexed floating rate assets were first funded and when Farmer Mac refinances the associated debt or in cases when Farmer Mac uses pay-fixed swaps to fund its fixed rate assets, Farmer Mac is exposed to a commensurate reduction in its net effective spread. Conversely, if the rates on Farmer Mac’s discount notes or medium-term notes improve relative to LIBOR during that time or in cases when Farmer Mac uses pay-fixed swaps to fund its fixed rate assets, Farmer Mac would benefit from a commensurate increase in its net effective spread. Although Farmer Mac seeks to issue debt of sufficient maturity to reduce the frequency of required refinancing of that debt over the life of the associated asset, it may not be able to successfully do so, which could adversely impact its business, operating results, and financial condition. As of December 31, 2015, Farmer Mac held $5.8 billion of floating-rate assets in its lines of business and its liquidity investment portfolio that reset on the basis of floating rate market indexes, primarily one-month and three-month LIBOR. As of the same date, Farmer Mac also had $1.8 billion of interest rate swaps outstanding where Farmer Mac pays a fixed rate of interest and receives a floating rate of interest.

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

Farmer Mac enters into financial derivatives transactions to hedge interest rate risks inherent in its business and measures its financial derivatives at fair value. Although Farmer Mac's financial derivatives provide effective economic hedges of interest rate risk, changes in the fair values of financial derivatives can cause volatility in net income and in capital, particularly if those financial derivatives are not designated in hedge accounting relationships or if there is any ineffectiveness in a hedge accounting relationship. As interest rates increase or decrease, the fair values of Farmer Mac's derivatives change based on the position Farmer Mac holds relative to the specific characteristics of the derivative. Farmer Mac's core capital that is available to meet its statutory minimum capital requirement can be affected by changes in the fair values of financial derivatives, as noted above. Adverse changes in the fair values of Farmer Mac's financial derivatives that are not designated in hedge accounting relationships and any hedge ineffectiveness that results in a loss would reduce the amount of core capital available to meet this requirement, which could result in regulatory enforcement action against Farmer Mac if it were unable to meet the requirement. In 2015 and 2014, Farmer Mac recorded unrealized gains of $1.9 million and unrealized losses of $21.8 million, respectively, from changes in the fair values of its financial derivatives as a result of movements in interest rates during those years.

Table of Contents

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

Farmer Mac uses derivatives contracts to help manage its interest rate risk. Changes in interest rates have required, and in the future may require, Farmer Mac to post cash or investment securities to its derivative counterparties to reflect the changes in fair market values of Farmer Mac's derivatives as a result of the changes in interest rates. For example, as of December 31, 2015, Farmer Mac posted $38.0 million of cash as collateral for its derivatives in net liability positions. If changes in interest rates were to result in a significant decrease in the fair value of Farmer Mac's derivatives, Farmer Mac would be required to post a significant amount of cash, cash equivalents, or investment securities, possibly within a short period of time, to satisfy its obligations under its derivatives contracts. Farmer Mac's derivatives contracts currently contain provisions establishing minimum threshold collateral amounts, ranging between $15 million and $25 million, below which Farmer Mac is not required to post collateral, though these amounts may be reduced to zero upon the occurrence of specified credit events such as insolvency, receivership, failure to make a payment under the contract when due, or failure to continue as an instrumentality of the United States. The amount required to be posted would increase if Farmer Mac also experienced a credit event triggering full collateralization of its derivatives positions without any minimum threshold. Additionally, new rules that become effective later this year will establish minimum requirements for the exchange of initial and variation margin between Farmer Mac and its swap dealer counterparties in non-cleared swaps transactions. These rules or the evolving norms of the derivatives industry as a result of these rules may cause some or all of Farmer Mac's swap counterparties to seek to amend the provisions in their derivatives contracts with Farmer Mac related to the minimum threshold collateral amounts below which Farmer Mac would not be required to post collateral for currently existing swaps and/or swaps entered into in the future, which could significantly increase the amount of collateral Farmer Mac is required to post or could require a full collateralization of Farmer Mac's derivatives positions. As of December 31, 2015, the amount that would have been required for full collateralization of Farmer Mac's derivatives positions given the fair value of Farmer Mac's derivatives at that time was $45.2 million. If Farmer Mac were required to significantly increase the amount of collateral it is required to post or fully collateralize its derivatives position in an adverse interest rate environment, it could have a negative effect on Farmer Mac's liquidity position and operating results.

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

Incorrect estimates and assumptions by management in connection with the preparation of Farmer Mac's consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of Farmer Mac's consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. For example, as of December 31, 2015, Farmer Mac's assets and liabilities recorded at fair value included financial instruments valued at $6.1 billion whose fair values were estimated by management in the absence of readily determinable fair values (in other words, level 3). These financial instruments measured as level 3 represented 39 percent of total assets and 69 percent of financial instruments measured at fair value as of December 31, 2015. Further information regarding fair value measurement is included in "Management's Discussion and Analysis—Critical Accounting Policies—Fair Value Measurement." If management makes incorrect assumptions or estimates, Farmer Mac may understate or overstate reported financial results, which could materially and adversely affect Farmer Mac's business, operating results, reported assets and liabilities, financial condition, and capital levels.

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

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

Farmer Mac relies on market observations to determine the fair value of its investment securities, although the market data Farmer Mac relies upon may not reflect the actual sale conditions that Farmer Mac would face when selling its investment securities. For example, the market value of auction-rate certificates held by Farmer Mac depends in large part on the amounts and timing of the expected cash flows on these securities, which may be highly uncertain. Therefore, a change in the amounts or timing of cash flows could materially alter the market price of those securities. Subsequent valuations of these and other investment securities, in light of factors then prevailing, may result in significant changes in the value of Farmer Mac's investment securities. For example, the current market values for the auction-rate certificates and GSE subordinated debt held by Farmer Mac are significantly below their amortized cost due to widening credit spreads after purchase. As of December 31, 2015, the fair values of Farmer Mac's auction-rate certificates and GSE subordinated debt were $44.9 million and $66.2 million, respectively, compared to Farmer Mac's amortized cost of $46.5 million and $70.0 million, respectively, for each of these classes of investment securities.

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

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

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

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

Table of Contents

unable to continue to retain and attract qualified employees, Farmer Mac's performance or financial condition could be materially adversely affected.

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

Farmer Mac relies heavily on information systems, including from third parties, to conduct and manage its business operations. These information systems encompass an integrated set of hardware, software, infrastructure, and trained personnel organized to facilitate the planning, control, coordination, and decision-making processes occurring within Farmer Mac. As Farmer Mac's reliance on information systems has increased, so have the risks posed to its systems, including the effect of events that would threaten the confidentiality, integrity, or availability of Farmer Mac's information resources, known as cyber incidents. Farmer Mac has undertaken preventive measures and devotes significant resources to regularly audit, upgrade, and maintain its information systems and cyber security program according to industry best practices. Specifically, Farmer Mac's cyber security program routinely assesses Farmer Mac's cyber security risk profile and seeks to ensure there are sufficient measures and safeguards in place to mitigate the risks identified. However, Farmer Mac may not be able to prevent, address on a timely and adequate basis, or fully mitigate the negative effects associated with a successful cyber attack on Farmer Mac's or its third party information systems, which could adversely affect Farmer Mac's business, operating results, or financial condition. A failure or interruption in any of Farmer Mac's information systems could result in a disruption or malfunction of its operations, which could adversely affect Farmer Mac's ability to conduct business with its lenders, loan servicers, service providers, or other counterparties, result in financial loss, or cause damage to Farmer Mac's reputation.

The secure transmission, processing, and storage of Farmer Mac's confidential, proprietary, and other information assets through Farmer Mac's or its third party information systems is instrumental to Farmer Mac's operations. Any action that results in unauthorized access to Farmer Mac's information systems by third parties, including through viruses, malware, cyber attacks, or other information system breaches, could disrupt Farmer Mac's operations, corrupt its data, or result in the misappropriation, unauthorized release, loss, or destruction of the confidential, proprietary, or other information assets of its lenders, loan servicers, service providers, or other counterparties. Similar to many other financial institutions, Farmer Mac faces regular attempts by third parties to gain unauthorized access to its information systems. To Farmer Mac's knowledge, no cyber incident has resulted in unauthorized access to Farmer Mac's or its customers' confidential, proprietary, or other information . However, any future instance in which unauthorized access to Farmer Mac's information systems or sensitive information is obtained could cause Farmer Mac to experience prolonged operational interruption, damage to its reputation, material loss of business, legal liability, or increased costs from private data exposure, which could adversely affect Farmer Mac's business, operating results, or financial condition.

Table of Contents

Farmer Mac depends on third-party vendors, including loan servicers, information systems providers, and other service providers, to protect confidential information from unauthorized access and dissemination, and these vendors' failure to do so could result in liability for Farmer Mac or damage Farmer Mac's reputation, which could have a negative effect on Farmer Mac's business, operating results, or financial condition.

Farmer Mac relies on third-party vendors, including loan servicers, information systems providers, and other service providers, to perform various functions for Farmer Mac. In the course of these activities, these vendors collect and have access to a variety of confidential or proprietary information, including, among others, sensitive financial information, information presented to Farmer Mac's board of directors, information provided to Farmer Mac's regulators, information about the lenders that participate in Farmer Mac's lines of business, and personal financial information about the borrowers with loans included in one of Farmer Mac's lines of business. Any unauthorized access to a vendor's information systems by third parties, including through viruses, malware, cyber attacks, or other information system breaches, could result in the misappropriation and unauthorized release of the confidential or proprietary information entrusted to Farmer Mac. Also, any vendor's employees or agents that have access to confidential or proprietary information could inadvertently disseminate the information to unauthorized third parties. Any unauthorized access to or dissemination of confidential or proprietary information could result in liability for Farmer Mac or damage Farmer Mac's reputation, either of which could have a negative effect on Farmer Mac's business, operating results, or financial condition.

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

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

The trading price for Farmer Mac's Class C non-voting common stock may be volatile due to market influences, trading volume, or the effects of equity awards for Farmer Mac's officers, directors, and employees.

The trading price of Farmer Mac's Class C non-voting common stock has at times experienced substantial price volatility and may continue to be volatile. For example, from January 2015 to December 2015, the closing price of the stock ranged from $22.41 per share to $33.01 per share. The trading price may fluctuate in response to various factors, including short sales, hedging, the presence or absence of a share

Table of Contents

repurchase program, or stock market influences in general that are unrelated to Farmer Mac's operating performance. In September 2015, Farmer Mac implemented a share repurchase program under which it is authorized to repurchase up to $25 million of its Class C non-voting common stock until September 2017. As of December 31, 2015, approximately $14.5 million of this authorization remained. In addition, as a component of compensation for officers, directors, and employees, Farmer Mac typically grants equity awards each year that are based on the Class C non-voting common stock, including stock appreciation rights and restricted stock that vest over time or upon the achievement of specified performance goals. Sales of stock acquired upon vesting or the exercise of equity awards by Farmer Mac's officers, directors, or employees, whether pursuant to an established trading plan or otherwise, could adversely affect the trading price of Farmer Mac's Class C non-voting common stock. These factors may be exacerbated during periods of low trading volume for Farmer Mac's Class C non-voting common stock, which averaged approximately 39,000 shares daily during 2015, and may have a prolonged negative effect on its trading price or increase price volatility.

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

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

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

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

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

The ownership of Farmer Mac's two classes of voting common stock is currently concentrated in a small number of institutions. Approximately 44 percent of Farmer Mac's Class A voting common stock is held by three financial institutions, with 31 percent held by one institution. Approximately 97 percent of Farmer Mac's Class B voting common stock is held by five FCS institutions (two of which are related to each other through a parent-subsidiary relationship). Three of those five FCS institutions may be deemed to have entered into a voting arrangement regarding the election of directors to Farmer Mac's board of directors.

Table of Contents

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

(a)Farmer Mac has three classes of common stock outstanding – Class A voting common stock, Class B voting common stock, and Class C non-voting common stock. Ownership of Class A voting common stock is restricted to banks, insurance companies, and other financial institutions or similar entities that are not institutions of the FCS. Ownership of Class B voting common stock is restricted to institutions of the

Table of Contents

FCS. There are no ownership restrictions on the Class C non-voting common stock. Under the terms of the original public offering of the Class A and Class B voting common stock, Farmer Mac reserved the right to redeem at book value any shares of either class held by an ineligible holder.

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

As of March 1, 2016, there were 983 registered owners of the Class A voting common stock, 77 registered owners of the Class B voting common stock, and 919 registered owners of the Class C non-voting common stock.

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

	Sales Prices			
	Class A Stock		Class C Stock	
	High	Low	High	Low
	(per share)			
2016				
First quarter (through March 1, 2016)	$29.99	$26.09	$33.92	$26.36
2015				
Fourth quarter	$27.04	$24.75	$32.77	$25.67
Third quarter	27.98	25.50	29.48	22.41
Second quarter	29.20	23.43	33.01	29.06
First quarter	28.25	19.64	32.80	26.43
2014				
Fourth quarter	$24.98	$20.03	$33.82	$26.40
Third quarter	26.50	22.75	33.75	28.34
Second quarter	28.50	22.60	35.82	29.52
First quarter	28.55	22.41	33.37	29.36

The dividend rights of all three classes of Farmer Mac's common stock are the same, and dividends may be paid on common stock only when, as, and if declared by Farmer Mac's board of directors in its sole discretion, subject to compliance with applicable capital requirements and payment of dividends on any outstanding preferred stock. On February 6, 2014, Farmer Mac's board of directors declared a quarterly dividend of $0.14 per share on Farmer Mac's common stock payable for first quarter 2014. That dividend rate was paid quarterly through fourth quarter 2014. On February 5, 2015, Farmer Mac's board of directors declared a quarterly dividend of $0.16 per share on Farmer Mac's common stock payable for first quarter 2015. That dividend rate was paid quarterly through fourth quarter 2015. On March 2, 2016, Farmer Mac's board of directors declared a quarterly dividend of $0.26 per share on Farmer Mac's common stock payable on March 31, 2016. See "Business—Finance—Equity Issuance" for more information on Farmer Mac's common stock.

Farmer Mac seeks to provide a competitive return on its common stockholders' investments through the payment of cash dividends while retaining sufficient capital to support future growth in its business and to meet regulatory requirements and metrics established by Farmer Mac's board of directors. Farmer Mac

Table of Contents

expects to maintain a growing and sustainable common dividend and to target a common dividend payout ratio of its core earnings to common stockholders that is anticipated to grow over time to approximately 30 percent. However, the declaration and payment of future dividends to holders of Farmer Mac's common stock are at the discretion of Farmer Mac's board of directors and depend on many factors, including Farmer Mac's financial condition, actual results of operations and earnings, the capital needs of Farmer Mac's business, regulatory requirements, and other factors that Farmer Mac's board deems relevant. Farmer Mac's ability to pay dividends on its common stock is also subject to the payment of dividends on its outstanding preferred stock. Applicable FCA regulations require Farmer Mac to provide FCA with 15 days' advance notice of certain capital distributions. Farmer Mac's ability to declare and pay dividends could be restricted if it were to fail to comply with applicable capital requirements. See Note 9 to the consolidated financial statements for more information about Farmer Mac's capital position and see "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements" for more information on the capital requirements applicable to Farmer Mac.

Information about securities authorized for issuance under Farmer Mac's equity compensation plans appears under "Equity Compensation Plans" in Farmer Mac's definitive proxy statement to be filed on or about April 1, 2016. That portion of the definitive proxy statement is incorporated by reference into this Annual Report on Form 10-K.

Farmer Mac is a federally chartered instrumentality of the United States, and its common stock is exempt from registration under Section 3(a)(2) of the Securities Act. One type of transaction related to Farmer Mac's common stock occurred during fourth quarter 2015 that was not registered under the Securities Act and not otherwise reported on a Current Report on Form 8-K:

- On October 7, 2015, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 140 shares of its Class C non-voting common stock to the three directors who elected to receive such stock in lieu of a portion of their cash retainers. The number of shares issued to the directors was calculated based on a price of $25.93 per share, which was the closing price of the Class C non-voting common stock on September 30, 2015, the last business day of the third quarter, as reported by the New York Stock Exchange.

Table of Contents

Performance Graph. The following graph compares the performance of Farmer Mac's Class A voting common stock and Class C non-voting common stock with the performance of the New York Stock Exchange Composite Index (the "NYSE Comp") and the Standard & Poor's 500 Diversified Financials Index (the "S&P 500 Div Fin") over the period from December 31, 2010 to December 31, 2015. The graph assumes that $100 was invested on December 31, 2010 in each of: Farmer Mac's Class A voting common stock; Farmer Mac's Class C non-voting common stock; the NYSE Comp; and the S&P 500 Div Fin. The graph also assumes that all dividends were reinvested into the same securities throughout the past five years. Farmer Mac obtained the information contained in the performance graph from SNL Financial.

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

(b) Not applicable.

Table of Contents

(c) The table below sets forth information regarding Farmer Mac's purchases of shares of its outstanding Class C non-voting common stock during the quarter ended December 31, 2015:

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(1)	Approximate Maximum Dollar Value That May Yet Be Purchased Under the Plan
	(Dollars in thousands, except per share information)			
Period:				
October 1, 2015 – October 31, 2015	66,559	$28.16	66,559	$20,338
November 1, 2015 – November 30, 2015	88,141	30.00	88,141	17,694
December 1, 2015 – December 31, 2015	103,245	31.03	103,245	14,490
Total	257,945	29.94	257,945	

(1) On September 8, 2015, Farmer Mac's board of directors approved a share repurchase program authorizing Farmer Mac to repurchase up to $25 million of its outstanding Class C non-voting common stock until September 7, 2017. Repurchases of Class C non-voting common stock will be made at management's discretion from time to time in the open market at prevailing market prices, through private transactions, or block trades, in each case subject to compliance with all SEC rules and other legal requirements, and may be made in part under one or more Rule 10b5-1 plans. The timing and amount of repurchases will depend on market conditions, share price, applicable legal requirements, and other factors.

Table of Contents

Item 6. Selected Financial Data

The selected consolidated financial data presented below is summarized from Farmer Mac's consolidated balance sheet data as of December 31, 2015 and the five-year period then ended, as well as selected results of operations data for the five-year period then ended. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

	As of December 31,				
Summary of Financial Condition:	2015	2014	2013	2012	2011
	(dollars in thousands)				
Cash and cash equivalents	$1,210,084	$1,363,387	$749,313	$785,564	$817,046
Investment securities	2,775,516	1,939,188	2,484,075	2,499,629	2,184,490
Farmer Mac Guaranteed Securities	5,426,621	5,453,901	5,091,600	4,766,258	4,289,272
USDA Securities	1,917,319	1,771,532	1,612,013	1,590,783	1,491,905
Loans, net	3,962,044	3,520,075	3,193,248	2,729,774	2,894,156
Total assets	15,540,354	14,287,821	13,361,780	12,622,201	11,883,508
Notes payable:					
Due within one year	9,111,461	7,353,953	7,338,781	6,567,366	6,087,879
Due after one year	4,967,036	5,471,186	5,001,169	5,034,739	4,104,882
Total liabilities	14,986,634	13,505,992	12,787,311	12,029,239	11,328,975
Stockholders' equity	553,517	545,801	332,616	351,109	312,680
Non-controlling interest[(1)]	203	236,028	241,853	241,853	241,853
Capital:					
Statutory minimum capital requirement	$462,070	$421,328	$398,531	$374,037	$348,649
Core capital	564,536	766,296	590,671	518,993	475,163
Capital in excess of minimum capital requirement	102,466	344,968	192,140	144,956	126,514
Selected Financial Ratios:					
Return on average assets[(2)]	0.32 %	0.28 %	0.55 %	0.36 %	0.13 %
Return on average common equity[(3)]	13.83 %	12.42 %	28.17 %	22.21 %	8.18 %
Average equity to assets[(4)]	3.69 %	3.18 %	2.63 %	2.71 %	2.57 %
Average total equity to assets[(5)]	4.48 %	4.91 %	4.49 %	4.68 %	4.84 %

(1) On May 14, 2014, Farmer Mac purchased $6.0 million of FALConS from certain holders. On March 30, 2015, Farmer Mac II LLC redeemed all of the outstanding shares of Farmer Mac II LLC Preferred Stock which, in turn, triggered the redemption of all of the outstanding FALConS on that same day.

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

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

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

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

Table of Contents

Summary of Operations:	For the Year Ended December 31, 2015	2014	2013	2012	2011
	(in thousands, except per share amounts)				
Interest Income:					
Net interest income after provision for loan losses	$124,654	$71,308	$109,934	$128,922	$130,090
Non-interest income:					
Guarantee and commitment fees	14,077	14,694	15,627	14,330	15,426
Gains/(losses) on financial derivatives, hedging activities and trading assets	2,516	16,983	30,945	(19,522)	(89,190)
Gains/(losses) on asset sales and debt repurchases	9	(238)	3,575	18	269
(Losses)/gains on the sale of real estate owned	(1)	137	1,236	878	974
Lower of cost or fair value adjustment on loans held for sale	—	—	—	(5,943)	8,887
Other income	2,305	1,714	3,057	3,341	6,850
Non-interest income/(loss)	18,906	33,290	54,440	(6,898)	(56,784)
Non-interest expense	35,482	31,492	33,107	30,908	28,659
Income before income taxes	108,078	73,106	131,267	91,116	44,647
Income tax expense	34,239	2,824	33,752	22,156	5,797
Net income	73,839	70,282	97,515	68,960	38,850
Less: Net income attributable to non-controlling interest	(5,139)	(22,192)	(22,187)	(22,187)	(22,187)
Preferred stock dividends	(13,182)	(9,839)	(3,495)	(2,879)	(2,879)
Loss on retirement of preferred stock	(8,147)	—	—	—	—
Net income attributable to common stockholders	$47,371	$38,251	$71,833	$43,894	$13,784
Allowance for Losses Activity:					
Provision for /(release of) losses	$208	$(3,166)	$448	$1,875	$(2,347)
Net charge-offs	3,772	41	4,004	2,501	252
Ending balance	6,563	10,127	13,334	16,890	17,516
Earnings Per Common Share and Dividends:					
Basic earnings per common share	$4.33	$3.50	$6.64	$4.19	$1.32
Diluted earnings per common share	4.19	3.37	6.41	3.98	1.28
Common stock dividends per common share	0.64	0.56	0.48	0.40	0.20

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information included in this report is consolidated to include the accounts of Farmer Mac and its three subsidiaries – Farmer Mac Mortgage Securities Corporation, Farmer Mac II LLC, and Contour Valuation Services, LLC. This discussion and analysis of financial condition and results of operations should be read together with Farmer Mac's consolidated financial statements and the related notes to the consolidated financial statements for the fiscal years ended December 31, 2015, 2014, and 2013.

Overview

Farmer Mac increased its outstanding business volume by $1.3 billion, or 9 percent, during 2015 to $15.9 billion as of December 31, 2015. The primary drivers of this increase were the addition of $522.3 million of Rural Utilities loans under LTSPCs (the first time Farmer Mac has provided LTSPCs on loans in the Rural Utilities line of business) and net loan growth of $417.8 million in the Farm & Ranch line of business. Farmer Mac also added a $300.0 million revolving floating rate AgVantage facility during 2015. Farmer Mac's net effective spread improved $5.7 million in

2015 compared to 2014. Credit quality remained stable for the year.

Table of Contents

On March 30, 2015, Farmer Mac completed the capital restructuring initiative that began during 2014 to enhance its Tier 1 capital position. Under this initiative, Farmer Mac issued an aggregate of $150 million of non-cumulative preferred stock during the first half of 2014 and used the proceeds of these preferred stock offerings and cash on hand to cause Farmer Mac II LLC to redeem all of the outstanding shares of Farmer Mac II LLC Preferred Stock on its first redemption date. The redemption of the Farmer Mac II LLC Preferred Stock on March 30, 2015 triggered the immediate redemption of all of the related outstanding Farm Asset Linked Capital Securities ("FALConS"), which were the trust securities owned by investors that represented interests in the Farmer Mac II LLC Preferred Stock. The preferred stock issued in 2014 qualifies as Tier 1 capital for Farmer Mac. The Farmer Mac II LLC Preferred Stock did not constitute a Tier 1 capital-eligible security for Farmer Mac and was scheduled to step up in dividend rate by 2.0 percent on March 30, 2015. Going forward, Farmer Mac expects to decrease its preferred stock dividend payments by $14.1 million after-tax annually, compared to previous years in which the Farmer Mac II LLC Preferred Stock and the related FALConS were outstanding.

On September 8, 2015, Farmer Mac's board of directors approved a share repurchase program authorizing Farmer Mac to repurchase up to $25 million of its outstanding Class C non-voting common stock over the next two years. As of December 31, 2015, Farmer Mac had repurchased approximately 362,000 shares of Class C non-voting common stock at a cost of approximately $10.5 million under the share repurchase program. Farmer Mac also increased the quarterly dividend on all three classes of its common stock by 63 percent from $0.16 per share in each quarter of 2015 to $0.26 per share beginning in first quarter 2016. This represents the fifth consecutive year that Farmer Mac has increased its quarterly dividend from the prior year, and Farmer Mac believes that the most recent increase is supported by Farmer Mac's earnings potential and overall capital position.

Farmer Mac completed its cash management and liquidity initiative in fourth quarter 2014. As described above, Farmer Mac completed its capital restructuring initiative in first quarter 2015. The effects of both of these initiatives are explained in the comparisons of financial results between 2015, 2014, and 2013. Both of these initiatives are described in more detail in Farmer Mac's 2014 Annual Report on Form 10-K filed with the SEC on March 16, 2015.

Net Income and Core Earnings

Farmer Mac's net income attributable to common stockholders for 2015 was $47.4 million, compared to $38.3 million and $71.8 million, respectively, for 2014 and 2013. The increase in 2015 from 2014 and decrease in 2014 from 2013 were primarily attributable to the effects of unrealized fair value changes on financial derivatives and hedged assets, which was a $7.1 million after-tax gain in 2015, compared to a $6.5 million after-tax loss in 2014, and a $29.4 million after-tax gain in 2013. For more information about changes in net income attributable to common stockholders, see "—Results of Operations."

Farmer Mac's non-GAAP core earnings for 2015 were $47.0 million, compared to $53.0 million in 2014 and $54.9 million in 2013.

The $6.0 million decrease in core earnings in 2015 compared to 2014 was primarily attributable to: (1) the absence in 2015 of the net economic benefit of the cash management and liquidity initiative completed in 2014, which was $11.4 million after netting the related incremental after-tax financing costs over the term of the initiative with the tax benefit recognized in 2014, and (2) the loss of $5.6 million after-tax in preferred dividend income resulting from the fourth quarter 2014 redemption of $78.5 million of high-yielding preferred stock previously held in Farmer Mac's investment portfolio. Also contributing to the

Table of Contents

decrease was a $2.6 million after-tax increase in operating expenses primarily due to higher compensation costs resulting from the consolidation of Contour Valuation Services, LLC (Farmer Mac's appraisal subsidiary) and higher legal fees, consulting fees, and information services expenses related to corporate strategic initiatives. Credit-related expenses increased $2.3 million after-tax primarily due to provisions for losses in 2015 compared to releases from the allowance for losses in 2014. The decrease in core earnings in 2015 compared to 2014 was offset in part by: (1) a $7.7 million after-tax increase in net effective spread resulting from net growth in outstanding business volume, excluding the effect of the October 1, 2014 redemption of Farmer Mac's investment in $78.5 million of high-yielding preferred stock, and (2) a $7.6 million after-tax decrease in preferred dividend expense resulting from the redemption of all outstanding shares of Farmer Mac II LLC Preferred Stock in first quarter 2015.

The $1.9 million decrease in core earnings in 2014 compared to 2013 was primarily attributable to the effects of the capital restructuring initiative, which increased preferred dividend expense in 2014 by $6.3 million after-tax. Core earnings for 2013 included a $2.0 million after-tax gain on the sale of an available-for-sale investment security on which Farmer Mac realized tax benefits of $1.1 million, as well as a $1.0 million after-tax gain from the repurchase of debt, neither of which recurred in 2014. Also contributing to the decrease was a $1.9 million after-tax decrease in net effective spread resulting from the redemption of Farmer Mac's investment in $78.5 million of high-yielding preferred stock. Operating expenses increased $1.2 million after-tax in 2014 compared to 2013 due to increases in compensation expense and other costs related to corporate strategic initiatives. The decrease in core earnings was offset in part by the $11.4 million net economic benefit resulting from the cash management and liquidity initiative and a $1.8 million after-tax reduction in credit-related expenses due to releases from the allowance for losses in 2014.

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

Net Effective Spread

Net effective spread was $119.4 million for 2015 compared to $113.7 million and $116.6 million, respectively, for 2014 and 2013. In percentage terms, net effective spread for 2015 was 0.87 percent, compared to 0.91 percent and 0.96 percent, respectively, for 2014 and 2013.

For 2015 compared to 2014, the contraction in net effective spread in percentage terms was attributable to the loss of $6.5 million in preferred dividend income (5 basis points) from the October 2014 redemption of the high-yielding preferred stock previously held in Farmer Mac's investment portfolio and a higher average balance in cash and cash equivalents intended to increase Farmer Mac's liquidity position, partially offset by a shift towards products earning higher spreads. The year-over-year increase in dollars was primarily attributable to growth in outstanding business volume.

For 2014 compared to 2013, the contraction in net effective spread was primarily attributable to the loss of $2.1 million in preferred dividend income resulting from the October 2014 redemption of the high-yielding preferred stock previously held in Farmer Mac's investment portfolio (2 basis points). Also contributing to the decrease was a $2.2 million decrease in interest income received from non-accruing Farm & Ranch loans.

Table of Contents

Business Volume

Farmer Mac added $3.2 billion of new business volume during 2015. The new business volume included purchases of $748.4 million of newly originated Farm & Ranch loans, purchases of $743.2 million of AgVantage securities, Rural Utilities loans added under LTSPCs of $522.3 million, Farm & Ranch loans added under LTSPCs of $427.8 million, purchases of $363.6 million of USDA Securities, the addition of a $300.0 million revolving floating rate AgVantage facility, Rural Utilities loan purchases of $108.3 million, and purchases of $13.3 million of Farmer Mac Guaranteed USDA Securities. Taking into account maturities and paydowns on existing assets, Farmer Mac's outstanding business volume was $15.9 billion as of December 31, 2015, an increase of $1.3 billion from December 31, 2014.

Capital

As of December 31, 2015, Farmer Mac's core capital level was $564.5 million, $102.4 million above the minimum capital level required by Farmer Mac's statutory charter. As of December 31, 2014, Farmer Mac's core capital level was $766.3 million, which was $345.0 million above the minimum capital requirement. The decrease in capital in excess of the minimum capital level was due primarily to the redemption of the Farmer Mac II LLC Preferred Stock in first quarter 2015.

Credit Quality

Farmer Mac continued to maintain favorable credit quality, as substandard assets and the total allowance for losses in terms of both dollars and percentage of the Farm & Ranch portfolio decreased from their respective levels in 2014. During 2015, Farmer Mac reduced its total allowance for losses by $3.6 million, primarily attributable to the charge-off of the specific allowance in the amount of $3.7 million for two Agricultural Storage and Processing loans that financed one canola facility. As of December 31, 2015, Farmer Mac's 90-day delinquencies were $32.1 million (0.56 percent of the Farm & Ranch portfolio), compared to $18.9 million (0.35 of the Farm & Ranch portfolio) as of December 31, 2014. The primary cause of the increase in 90-day delinquencies during 2015 was the delinquency of those two Agricultural Storage and Processing loans. Although those two loans were outstanding and delinquent at December 31, 2015, Farmer Mac collected funds in the amount of $9.8 million to pay them off in January 2016. For more information about Farmer Mac's credit metrics, including 90-day delinquencies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans and Guarantees."

Critical Accounting Policies and Estimates

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

Allowance for Losses

Farmer Mac maintains an allowance for losses to cover estimated probable losses incurred as of the balance sheet date on loans held for investment ("allowance for loan losses") and loans that underlie off-

Table of Contents

balance sheet Farmer Mac Guaranteed Securities and LTSPCs ("reserve for losses") based on available information. For purposes of this accounting policy, the allowance for loan losses and the reserve for losses are described collectively as the "allowance for losses" because the estimation methodology is identical for loans that are held for investment and for loans that underlie off-balance sheet Farmer Mac Guaranteed Securities and LTSPCs. Disaggregation by commodity type is performed, where appropriate, in analyzing the need for an allowance for losses.

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

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

General Allowance for Losses

Farm & Ranch

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

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

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

Table of Contents

Rural Utilities

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

Specific Allowance for Impaired Loans

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

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

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

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

Fair Value Measurement

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

69

Table of Contents

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price) and establishes a hierarchy for ranking fair value measurements. In determining fair value, Farmer Mac uses various valuation approaches, including market and income approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. When available, the fair value of Farmer Mac's financial instruments is based on quoted market prices, valuation techniques that use observable market-based inputs, or unobservable inputs that are corroborated by market data. Pricing information obtained from third parties is internally validated for reasonableness prior to use in the consolidated financial statements.

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

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

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

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

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

See Note 13 to the consolidated financial statements for more information about fair value measurement.

Table of Contents

Results of Operations

Farmer Mac's net income attributable to common stockholders for 2015 was $47.4 million, or $4.19 per diluted common share, compared to $38.3 million, or $3.37 per diluted common share, for 2014 and $71.8 million or $6.41 per diluted common share, for 2013. Farmer Mac's non-GAAP core earnings for 2015 were $47.0 million, or $4.15 per diluted common share, compared to $53.0 million, or $4.67 per diluted common share for 2014 and $54.9 million, or $4.90 per diluted common share, for 2013.

Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings is a useful alternative measure in understanding Farmer Mac's economic performance, transaction economics, and business trends. Core earnings principally differs from net income attributable to common stockholders by excluding the effects of fair value fluctuations, which are not expected to have a cumulative net impact on financial condition or results of operations reported in accordance with GAAP if the related financial instruments are held to maturity, as is generally expected. Core earnings also differs from net income attributable to common stockholders by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of Farmer Mac's core business. Accordingly, the loss from retirement of the Farmer Mac II LLC Preferred Stock in first quarter 2015 has been excluded from core earnings because it is not a frequently occurring transaction and not indicative of future operating results. This is also consistent with Farmer Mac's previous treatment of these types of origination costs associated with securities underwriting that are capitalized and deferred during the life of the security. The inclusion of the effects of the cash management and liquidity initiative in core earnings is consistent with the inclusion in core earnings of the investment portfolio losses recognized in 2008 and 2009 that generated the capital loss carryforwards related to the tax benefits recognized in 2014. However, the interest expense, realized gains, and tax benefits for 2014 related to the cash management and liquidity initiative are not expected to significantly affect Farmer Mac's earnings beyond 2014.

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

Table of Contents

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

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

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands, except per share amounts)		
Net income attributable to common stockholders	$47,371	$38,251	$71,833
Less the after-tax effects of:			