

FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K/A
June 01, 2011

As filed with the Securities and Exchange Commission on
June 1, 2011

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2010.

or

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
(State or other jurisdiction of
incorporation or organization)

52-1578738
(I.R.S. employer identification number)

1133 Twenty-First Street, N.W., Suite 600,
Washington, D.C.
(Address of principal executive offices)

20036
(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

Class A voting common stock

Class C non-voting common stock

Exchange on which registered

New York Stock Exchange

New York Stock Exchange

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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 No

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 No

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 No

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 No

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.

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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

Yes No

The aggregate market values of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant were \$12,317,821 and \$121,443,133, respectively, as of June 30, 2010, based upon the closing prices for the respective classes on June 30, 2010 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 4, 2011, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 8,753,160 shares of Class C non-voting common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's 2011 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part II and Part III of this Annual Report on Form 10-K as described herein).

EXPLANATORY NOTE

This Amendment No. 1 to the Federal Agricultural Mortgage Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed March 16, 2011, is being filed to amend and restate the following items:

- The Statements of Cash Flows in Part II, Item 8 ("Financial Statements") are being amended and restated for the full years 2009 and 2010, as set forth in the Consolidated Statements of Cash Flows and in Note 15, RESTATEMENT OF ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOWS, and as described in Note 2(b), SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CASH AND CASH EQUIVALENTS AND STATEMENTS OF CASH FLOWS.
- Management's Report on Internal Control over Financial Reporting is being amended to reflect the identification of a material weakness in conjunction with the restatement.
- The Report of Independent Registered Public Accounting Firm is being amended to reflect the identification of a material weakness in conjunction with the restatement.
- Part II, Item 9A, Controls and Procedures, is being amended to address management's re-evaluation of disclosure controls and procedures and reflect the identification of a material weakness in internal control over financial reporting in conjunction with the restatement.
 - To include a complete copy of Exhibit 10.43 (a redacted version of which had previously been filed in conjunction with a request for confidential treatment) and amended exhibit schedule (Item 15).
- Part IV, Item 15 also has been amended to include the currently dated certifications from the Corporation's Principal Executive Officer and Principal Financial Officer as required by section 302 and 906 of the Sarbanes Oxley Act of 2002. The certifications are attached to this Amendment No. 1 as Exhibits 31.3, 31.4 and 32.1.

This Amendment No. 1 to the Annual Report on Form 10-K also restates the interim financial statements for the three and nine months ended September 30, 2010 and 2009, and the three and six months ended June 30, 2010 and 2009 as set forth in Note 16, RESTATEMENT OF QUARTERLY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited).

The restatements impacted only the classification of items in operating activities and investing activities set forth in the consolidated statements of cash flows and had no impact on the net increase in cash and cash equivalents as previously reported. In addition, the restatements had no effect on the Corporation's Consolidated Balance Sheets, Consolidated Statements of Operations, or Consolidated Statements of Changes in Equity. This Form 10-K/A has not been updated for other events or information subsequent to the date of the filing of the original Form 10-K, except as noted above.

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Item 8. Financial Statements

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (AS RESTATED)

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

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

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

Under the supervision and with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, Farmer Mac's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010. In making this assessment, the Corporation's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on its evaluation under the COSO criteria, management initially concluded that the Corporation's internal control over financial reporting as of December 31, 2010 was effective. Subsequently, in second quarter 2011, management concluded that the Corporation did not maintain effective controls over the appropriate classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows. On May 10, 2011, the Corporation's Board of Directors authorized management to restate the Corporation's previously issued condensed consolidated statements of cash flows for the three, six and nine month periods ended March 31, 2010, and June 30 and September 30, 2010 and 2009, respectively, and its consolidated statements of cash flows for the years ended December 31, 2010 and 2009. Accordingly, management has concluded that the control deficiency that resulted in incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows constituted a material weakness as of December 31, 2010. Solely as a result of this material weakness, management has revised its earlier assessment and now has concluded that Farmer Mac's internal control over financial reporting was not effective as of December 31, 2010.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Federal Agricultural Mortgage Corporation

In our opinion, the accompanying consolidated balance sheet as of December 31, 2010 and the related consolidated statements of operations, changes in equity, and cash flows for the year then ended present fairly, in all material respects, the financial position of the Federal Agricultural Mortgage Corporation ("Farmer Mac" or the "Company") at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Management and we previously concluded that Farmer Mac maintained effective internal control over financial reporting as of December 31, 2010. However, management has subsequently determined that a material weakness in internal control over financial reporting related to the incorrect classification of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statement of cash flows existed as of that date. Accordingly, management's report has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to incorrect classifications of proceeds from the repayments of certain loans between operating and investing activities on the consolidated statements of cash flows existed at that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in the accompanying Management's Report on Internal Control over Financial Reporting. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2010 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express an opinion on these financial statements and on Farmer Mac's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. As discussed in Notes 2 and 15 to the consolidated financial statements, Farmer Mac has restated its 2010 consolidated financial statements to correct an error.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

March 16, 2011, except for the effects of the restatement described in Notes 2 and 15 to the consolidated financial statements and the matters described in Management's Report on Internal Control over Financial Reporting, as to which the date is June 1, 2011.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

As discussed in Note 15 to the consolidated financial statements, the consolidated statement of cash flows for the year ended December 31, 2009 has been restated.

/s/ Deloitte & Touche LLP

McLean, Virginia
March 16, 2010
(August 4, 2010 as to Note 14 and June 1, 2011 as to Note
2(b) and Note 15)

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

Series B redeemable preferred stock, par value \$1,000 per share, 150,000 shares authorized, issued and outstanding as of December 31, 2009 (redemption value \$150,000,000)

Equity:

Preferred stock:

Series C, par value \$1,000 per share, 100,000 shares authorized, 57,578 shares issued and outstanding	57,578	57,578
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Common stock:

Class A Voting, \$1 par value, no maximum authorization, 1,030,780 shares outstanding	1,031	1,031
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Class B Voting, \$1 par value, no maximum authorization, 500,301 shares outstanding	500	500
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Class C Non-Voting, \$1 par value, no maximum authorization, 8,752,711 shares outstanding as of December 31, 2010 and 8,610,918 shares outstanding as of December 31, 2009	8,753	8,611
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Additional paid-in capital	100,050	97,090
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Accumulated other comprehensive income	18,275	3,254
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Retained earnings	50,837	28,127
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Total Stockholders' Equity	237,024	196,191
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Non-controlling interest - preferred stock	241,853	-
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Total Equity	478,877	196,191
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Total Liabilities, Mezzanine Equity and Equity	\$9,479,914	\$6,138,813
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See accompanying notes to consolidated financial statements.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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