



08-11-09

## **Farmer Mac reports steady improvement, despite ethanol losses**

**By Jon H. Harsch**

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Following the Federal Agricultural Mortgage Corporation (Farmer Mac) second quarter earnings report released Monday, Farmer Mac President and CEO Michael Gerber said in an upbeat earnings conference call that “Farmer Mac continues to improve its financial condition, reduce risk and strengthen its position in the marketplace. These changes have positioned Farmer Mac to take advantage of business opportunities and, in turn, to begin to regenerate shareholder value for the long term and fulfill our mission of providing liquidity and risk and capital management tools to rural America.”

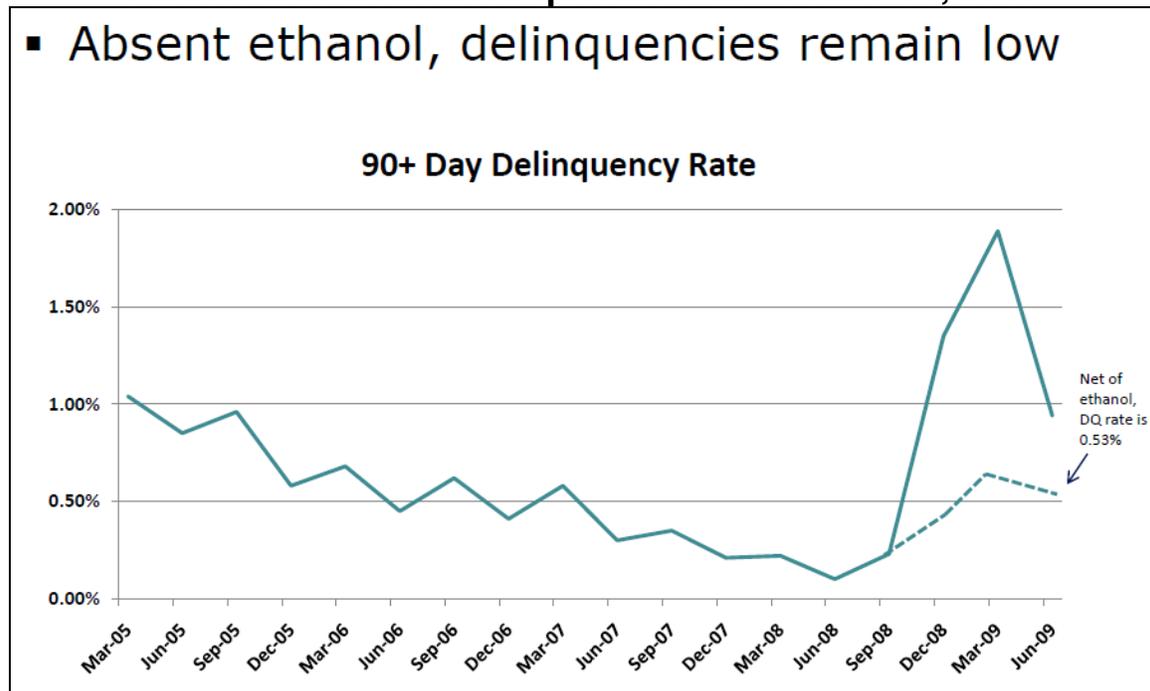
Farmer Mac’s 2Q09 results show net income of \$25.4 million or \$2.49 per diluted common share for the three months ended June 30, 2009. That compares with 2Q08 net income of \$21.4 million or \$2.13 per diluted common share, and \$33.5 million or \$3.31 per diluted common share for 1Q09. Farmer Mac’s core earnings were \$4.7 million for 2Q09 compared to \$4.8 million for 1Q09 and \$7.1 million for 2Q08. Farmer Mac’s total for loans, guarantees and commitments grew to \$10.4 billion during the second quarter.

The major drag on Farmer Mac performance continues to be the ethanol industry. Gerber said that following bankruptcies, “four of Farmer Mac’s ethanol loans were transferred to real estate owned during second quarter.” He added the good news that Farmer Mac found buyers for three of the four bankrupt ethanol plants during third quarter 2009 and that “pressure on the industry has moderated somewhat in recent months, with the cost of corn declining and the price of ethanol increasing.” But he cautioned that “input costs and ethanol prices remain volatile” and that the ethanol industry “still faces challenges for the foreseeable future.” He also warned that “While ethanol has improved somewhat, the dairy industry is facing difficult times.”

Due largely to ethanol, Gerber said “Core earnings have been volatile during the past four quarters as we’ve made adjustments to our balance sheet to remove risk.” He said that “While we believe these challenges can be managed within the day-to-day operations of Farmer Mac, those impacts will be felt for a few more quarters as we complete our adjustments. We remain committed, however, to working through these issues and we believe those efforts are beginning to show benefits.”

Excluding the ethanol loans, Farmer Mac saw 90-day delinquencies drop to \$23.5 million (0.53 percent of the portfolio) as of June 30, 2009, compared to \$27.7 million (0.61 percent of the portfolio) as of March 31, 2009. Farmer Mac’s 90-day delinquencies, including ethanol loans, were \$42.3 million (0.95 percent of the portfolio) as of June 30, 2009, compared to \$86.2 million (1.90 percent of the portfolio) as of March 31, 2009. The large decrease for ethanol loans from first quarter was because, as noted above, “four of Farmer Mac’s ethanol loans were transferred to real estate owned during second quarter.”

### Farmer Mac Loan Delinquencies as of June 30, 2009



Source: Farmer Mac

Gerber said that Farmer Mac’s capital surplus “currently stands at \$100 million, compared to \$67 million at March 31, 2009 and \$13 million at December 31, 2008. GAAP earnings were \$25.4 million compared to \$33.5 million in the first quarter and losses in both the 3rd and 4th quarters of 2008. In addition, our portfolio of loans, guarantees and commitments grew to \$10.4 billion during the quarter. These improvements reflect our continuing efforts to stabilize the company. As of June 30th, Farmer Mac’s core capital totaled \$296.1 million compared with \$250.3 million as of March 31st, 2009 and \$207 million as of December 31st, 2008. Farmer Mac’s core capital as of June 30th, 2009 exceeded the statutory minimum capital requirement by \$100 million.”

“With lenders in both the agricultural and rural utilities sectors continuing to face capital market and economic challenges,” Gerber said, “Farmer Mac represents an important source of liquidity and risk in capital management to help lenders meet the increasing borrowing needs of their customers and our capital position remains an important factor in our ability to support those efforts.”

For more details on Farmer Mac’s second quarter ’09 results, go to: <http://www.agri-pulse.com/uploaded/2Q09FarmerMac.pdf>