

FEDERAL AGRICULTURAL MORTGAGE CORP  
Form 10-Q  
November 09, 2009

As filed with the Securities and Exchange Commission on  
November 9, 2009

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2009

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)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

As of November 2, 2009 the registrant had 1,030,780 shares of Class A Voting Common Stock, 500,301 shares of Class B Voting Common Stock and 8,610,918 shares of Class C Non-Voting Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The following information concerning Farmer Mac's interim unaudited condensed consolidated financial statements is included in this report beginning on the pages listed below:

Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008	3
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2008	5
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FEDERAL AGRICULTURAL MORTGAGE CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)

	September 30, 2009	December 31, 2008
(in thousands)		
<b>Assets:</b>		
Cash and cash equivalents	\$ 274,894	\$ 278,412
<b>Investment securities:</b>		
Available-for-sale, at fair value	924,041	1,072,096
Trading, at fair value	97,438	163,763
Total investment securities	1,021,479	1,235,859
<b>Farmer Mac Guaranteed Securities:</b>		
Available-for-sale, at fair value	2,609,185	1,511,694
Trading, at fair value	890,976	939,550
Total Farmer Mac Guaranteed Securities	3,500,161	2,451,244
<b>Loans:</b>		
Loans held for sale, at lower of cost or fair value	646,420	66,680
Loans held for investment, at amortized cost	85,706	718,845
Allowance for loan losses	(4,892)	(10,929)
Total loans, net of allowance	727,234	774,596
Real estate owned, at lower of cost or fair value	10,637	606
Financial derivatives, at fair value	21,099	27,069
Interest receivable	56,206	73,058
Guarantee and commitment fees receivable	54,472	61,109
Deferred tax asset, net	15,150	87,793
Prepaid expenses and other assets	52,399	117,561
<b>Total Assets</b>	<b>\$ 5,733,731</b>	<b>\$ 5,107,307</b>
<b>Liabilities, Mezzanine Equity and Stockholders' Equity:</b>		
<b>Liabilities:</b>		
<b>Notes payable:</b>		
Due within one year	\$ 3,155,589	\$ 3,757,099
Due after one year	1,962,591	887,999
Total notes payable	5,118,180	4,645,098
Financial derivatives, at fair value	127,607	181,183
Accrued interest payable	37,388	40,470
Guarantee and commitment obligation	48,811	54,954
Accounts payable and accrued expenses	44,979	20,532
Reserve for losses	7,585	5,506
<b>Total Liabilities</b>	<b>5,384,550</b>	<b>4,947,743</b>
<b>Mezzanine Equity:</b>		
Series B redeemable preferred stock, par value \$1,000, 150,000 shares authorized, issued and outstanding	144,216	144,216
<b>Stockholders' Equity:</b>		
<b>Preferred stock:</b>		

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Series C, stated at redemption/liquidation value, \$1,000 per share, 100,000 shares authorized, 57,000 and 9,200 issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	57,000	9,200
Common stock:		
Class A Voting, \$1 par value, no maximum authorization	1,031	1,031
Class B Voting, \$1 par value, no maximum authorization	500	500
Class C Non-Voting, \$1 par value, no maximum authorization	8,609	8,601
Additional paid-in capital	96,547	95,572
Accumulated other comprehensive income/(loss)	18,139	(47,412)
Retained earnings/(accumulated deficit)	23,139	(52,144)
<b>Total Stockholders' Equity</b>	<b>204,965</b>	<b>15,348</b>
Total Liabilities, Mezzanine Equity and Stockholders' Equity	\$ 5,733,731	\$ 5,107,307
See accompanying notes to condensed consolidated financial statements.		

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FEDERAL AGRICULTURAL MORTGAGE CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(in thousands, except per share amounts)			
<b>Interest income:</b>				
Investments and cash equivalents	\$ 6,345	\$ 20,395	\$ 22,303	\$ 97,305
Farmer Mac Guaranteed Securities	27,668	28,470	81,232	67,007
Loans	8,815	11,718	28,196	35,192
Total interest income	42,828	60,583	131,731	199,504
Total interest expense	23,031	39,260	68,593	135,885
Net interest income	19,797	21,323	63,138	63,619
Provision for loan losses	(3,098)	(731)	(939)	(731)
Net interest income after provision for loan losses	16,699	20,592	62,199	62,888
<b>Non-interest income/(loss):</b>				
Guarantee and commitment fees	8,168	7,281	23,486	20,574
(Losses)/gains on financial derivatives	(7,733)	(19,021)	15,506	(29,691)
Gains/(losses) on trading assets	25,047	(14,507)	56,707	(21,664)
Other-than-temporary impairment losses	(1,621)	(97,108)	(3,994)	(102,452)
Gains/(losses) on sale of available-for-sale investment securities	63	(85)	2,913	65
Gains on sale of loans and Farmer Mac Guaranteed Securities	-	1,531	1,581	1,531
Gains on repurchase of debt	-	840	-	840
Other income	874	192	1,209	1,315
Non-interest income/(loss)	24,798	(120,877)	97,408	(129,482)
<b>Non-interest expense:</b>				
Compensation and employee benefits	2,896	3,748	10,493	11,327
General and administrative	2,432	4,061	8,332	8,331
Regulatory fees	512	513	1,537	1,538
Real estate owned operating costs, net	203	15	208	102
Provision/(recoveries) for losses	89	(91)	2,079	(91)
Non-interest expense	6,132	8,246	22,649	21,207
Income/(loss) before income taxes	35,365	(108,531)	136,958	(87,801)
Income tax expense/(benefit)	13,097	(2,973)	47,721	3,463
Net income/(loss)	22,268	(105,558)	89,237	(91,264)
Preferred stock dividends	(4,368)	(578)	(12,434)	(1,698)
Net income/(loss) available to common stockholders	\$ 17,900	\$ (106,136)	\$ 76,803	\$ (92,962)
<b>Earnings/(loss) per common share and dividends:</b>				
Basic earnings/(loss) per common share	\$ 1.77	\$ (10.55)	\$ 7.58	\$ (9.33)
Diluted earnings/(loss) per common share	\$ 1.74	\$ (10.55)	\$ 7.54	\$ (9.33)
Common stock dividends per common share	\$ 0.05	\$ 0.10	\$ 0.15	\$ 0.30

See accompanying notes to condensed consolidated financial statements.



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

	Nine Months Ended	
	September 30, 2009	September 30, 2008
	(in thousands)	
<b>Cash flows from operating activities:</b>		
Net income/(loss)	\$ 89,237	\$ (91,264)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Net amortization of premiums and discounts on loans, investments and Farmer Mac Guaranteed Securities	3,123	3,752
Amortization of debt premiums, discounts and issuance costs	10,982	66,790
Proceeds from repayment and sale of trading investment securities	644	6,507
Purchases of loans held for sale	(122,421)	(38,461)
Proceeds from repayment of loans held for sale	51,896	14,747
Net change in fair value of trading securities and financial derivatives	(104,312)	30,954
Amortization of transition adjustment on financial derivatives	124	222
Other-than-temporary impairment losses	3,994	102,452
Gains on sale of loans and Farmer Mac Guaranteed Securities	(1,581)	(1,531)
Gains on sale of available-for-sale investment securities	(2,913)	(65)
Gains on repurchase of debt	-	(840)
Total provision for losses	3,018	640
Deferred income taxes	73,629	(11,316)
Stock-based compensation expense	2,159	3,389
Decrease in interest receivable	16,852	34,238
Decrease/(increase) in guarantee and commitment fees receivable	6,637	(2,581)
Decrease/(increase) in other assets	24,287	(41,561)
Decrease in accrued interest payable	(3,082)	(17,484)
Increase in other liabilities	11,725	8,911
Net cash provided by operating activities	63,998	67,499
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale investment securities	(41,721)	(1,160,501)
Purchases of Farmer Mac Guaranteed Securities	(1,952,704)	(305,584)
Purchases of loans held for investment	(48,147)	(86,024)
Purchases of defaulted loans	(19,631)	(1,746)
Proceeds from repayment of available-for-sale investment securities	148,544	445,154
Proceeds from repayment of Farmer Mac Guaranteed Securities	690,741	219,341
Proceeds from repayment of loans	37,308	101,964
Proceeds from sale of available-for-sale investment securities	207,879	351,256
Proceeds from sale of Farmer Mac Guaranteed Securities	24,232	649,723
Proceeds from sale of real estate owned	31,056	-
Proceeds from sale of loans held	358,953	-
Net cash (used in)/provided by investing activities	(563,490)	213,583
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of discount notes	40,680,191	105,086,822
Proceeds from issuance of medium-term notes	2,962,189	1,486,903
Payments to redeem discount notes	(41,077,281)	(104,926,504)
Payments to redeem medium-term notes	(2,103,000)	(1,979,660)



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Tax benefit from tax deductions in excess of compensation cost recognized	-	381
Proceeds from common stock issuance	29	5,722
Purchases of common stock	-	(830)
Proceeds from preferred stock issuance	47,800	-
Dividends paid	(13,954)	(4,700)
Net cash provided by/ (used in) financing activities	495,974	(331,866)
Net decrease in cash and cash equivalents	(3,518)	(50,784)
Cash and cash equivalents at beginning of period	278,412	101,445
Cash and cash equivalents at end of period	\$ 274,894	\$ 50,661

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Note 1.

Accounting Policies

The interim unaudited condensed consolidated financial statements of the Federal Agricultural Mortgage Corporation (“Farmer Mac” or the “Corporation”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These interim unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations and cash flows of Farmer Mac for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been condensed or omitted as permitted by SEC rules and regulations. The December 31, 2008 condensed consolidated balance sheet presented in this report has been derived from the Corporation’s audited 2008 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the condensed consolidated financial position, condensed consolidated results of operations and condensed consolidated cash flows as of the dates and for the periods presented. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited 2008 consolidated financial statements of Farmer Mac included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 16, 2009. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year. Farmer Mac evaluated subsequent events through November 9, 2009. Below is a summary of Farmer Mac’s significant accounting policies.

## (a) Cash and Cash Equivalents and Statements of Cash Flows

Farmer Mac considers highly liquid investment securities with original maturities of three months or less at the time of purchase to be cash equivalents. Changes in the balance of cash and cash equivalents are reported in the condensed consolidated statements of cash flows. During the three and nine months ended September 30, 2009, Farmer Mac refinanced \$100 million and \$500 million, respectively, of certain Farmer Mac Guaranteed Securities - Rural Utilities. For the nine months ended September 30, 2009, the cash flows related to these transactions are presented gross in the condensed consolidated statements of cash flows, whereas the six months ended June 30, 2009 reflected a net presentation. The following table sets forth information regarding certain cash and non-cash transactions for the nine months ended September 30, 2009 and 2008.

	For the Nine Months Ended	
	September 30, 2009	September 30, 2008
	(in thousands)	
<b>Cash paid for:</b>		
Interest	\$ 58,994	\$ 88,012
Income taxes	10,500	25,069
<b>Non-cash activity:</b>		
Transfer of loans held for investment to real estate owned	41,086	-
Loans acquired and securitized as Farmer Mac Guaranteed Securities	17,224	79,757
Issuance of Series B redeemable preferred stock (net of deferred offering costs)	-	61,039
Reclassification of unsettled trades with the Reserve Primary Fund from Cash and cash equivalents to Prepaid expenses and other assets	-	42,489
Transfers of investment securities from available-for-sale to trading from the effect of adopting the fair value option	-	600,468
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to trading from the effect of adopting the fair value option	-	428,670
Transfers of Farmer Mac II Guaranteed Securities from held-to-maturity to available for sale	-	493,997
Transfers of Farmer Mac I Guaranteed Securities from held-to-maturity to available for sale	-	25,458
Transfers of available-for-sale investment securities to available-for-sale Farmer Mac Guaranteed Securities - Rural Utilities	-	902,420
Transfers of trading investment securities to trading Farmer Mac Guaranteed Securities - Rural Utilities	-	459,026
Transfers of Farmer Mac I Guaranteed Securities to loans held for sale	288,012	-
Transfers of loans held for investment to loans held for sale	617,072	-
Exchange of GSE preferred stock - transfer from trading to available-for-sale	90,657	-

## (b) Allowance for Losses

As of September 30, 2009, Farmer Mac maintained an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs, Farmer Mac I Guaranteed Securities and Farmer Mac Guaranteed Securities – Rural Utilities in accordance with ASC 450-20, Loss Contingencies (formerly FASB Statement No. 5) and ASC 310-35, Receivables – Subsequent Measurement (formerly FASB Statement No. 114).

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

estimate of probable losses as of the end of a period is lower than the estimate at the beginning of the period.

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

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

Farmer Mac separately evaluates the cooperative lender obligations of loans and loans underlying its Farmer Mac Guaranteed Securities in its Rural Utilities program to determine if there are probable losses inherent in the securities or the underlying rural utilities loans.

Farmer Mac also analyzes assets in its portfolio for impairment. Farmer Mac's impaired assets include:

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

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

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

The following table summarizes the changes in the components of Farmer Mac’s allowance for losses for the three and nine months ended September 30, 2009 and 2008:

	September 30, 2009			September 30, 2008		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
(in thousands)						
<b>For the Three Months Ended:</b>						
Beginning balance	\$ 1,810	\$ 7,496	\$ 9,306	\$ 1,592	\$ 2,197	\$ 3,789
Provision/(recovery) for losses	3,098	89	3,187	731	(91)	640
Charge-offs	(16)	-	(16)	-	-	-
Recoveries	-	-	-	6	-	6
Ending balance	\$ 4,892	\$ 7,585	\$ 12,477	\$ 2,329	\$ 2,106	\$ 4,435
<b>For the Nine Months Ended:</b>						
Beginning balance	\$ 10,929	\$ 5,506	\$ 16,435	\$ 1,690	\$ 2,197	\$ 3,887
Provision/(recovery) for losses	939	2,079	3,018	731	(91)	640
Charge-offs	(7,741)	-	(7,741)	(108)	-	(108)
Recoveries	765	-	765	16	-	16
Ending balance	\$ 4,892	\$ 7,585	\$ 12,477	\$ 2,329	\$ 2,106	\$ 4,435

No allowance for losses has been provided for loans underlying AgVantage securities or securities issued under the Farmer Mac II program (“Farmer Mac II Guaranteed Securities”). Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is collateralized by eligible loans in an amount at least equal to the outstanding principal amount of the security. As of September 30, 2009, there were no probable losses inherent in Farmer Mac’s AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. As of September 30, 2009, Farmer Mac had not experienced any credit losses on any AgVantage securities. The guaranteed portions collateralizing Farmer Mac II Guaranteed Securities are guaranteed by the United States Department of Agriculture (“USDA”). Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of September 30, 2009, Farmer Mac had not experienced any credit losses on any Farmer Mac II Guaranteed Securities.

The table below summarizes the components of Farmer Mac's allowance for losses as of September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
	(in thousands)	
Allowance for loan losses	\$ 4,892	\$ 10,929
Reserve for losses:		
On-balance sheet Farmer Mac I Guaranteed Securities	-	869
Off-balance sheet Farmer Mac I Guaranteed Securities	1,511	535
LTSPCs	6,074	4,102
Farmer Mac Guaranteed Securities - Rural Utilities	-	-
<b>Total</b>	<b>\$ 12,477</b>	<b>\$ 16,435</b>

As of September 30, 2009, Farmer Mac individually analyzed \$44.5 million of its \$216.4 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining \$171.9 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. Farmer Mac's specific allowance for under-collateralized assets was \$1.5 million as of September 30, 2009 and \$8.6 million as of December 31, 2008. Farmer Mac's non-specific or general allowances were \$11.0 million as of September 30, 2009 and \$7.8 million as of December 31, 2008.

Farmer Mac recognized interest income of approximately \$0.4 million and \$2.0 million on impaired loans during the three and nine months ended September 30, 2009, respectively, compared to \$1.0 million and \$3.1 million, respectively, during the same periods in 2008. During the three and nine months ended September 30, 2009, Farmer Mac's average investment in impaired loans was \$184.6 million and \$168.0 million, respectively, compared to \$46.9 million and \$42.2 million, respectively, for the same periods in 2008.

#### (c) Financial Derivatives

Farmer Mac enters into financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of certain assets, future cash flows or debt issuance, not for trading or speculative purposes. Farmer Mac enters into interest rate swap contracts to adjust the characteristics of its short-term debt to match more closely the cash flow and duration characteristics of its longer-term loans and other assets, and also to adjust the characteristics of its long-term debt to match more closely the cash flow and duration characteristics of its short-term assets, thereby reducing interest rate risk and often times deriving an overall lower effective cost of borrowing than would otherwise be available to Farmer Mac in the conventional debt market. Farmer Mac also recognizes certain contracts and commitments as derivatives when the characteristics of those contracts and commitments meet the definition of a derivative in ASC Topic 815, Derivatives and Hedging ("ASC 815").

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

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

The following tables summarize information related to Farmer Mac’s financial derivatives as of September 30, 2009 and December 31, 2008:

		September 30, 2009			
Notional	Fair Value	Weighted-Average Pay	Weighted-Average Receive	Weighted-Average	Weighted-Average Remaining