

FARMER MAC II LLC

FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2010 AND FROM INCEPTION THROUGH
DECEMBER 31, 2009

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Report of Independent Auditors

To the Board of Directors and Members
of Farmer Mac II LLC:

We have audited the accompanying balance sheet of Farmer Mac II LLC (the "Company") as of December 31, 2010, and the related statements of operations, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 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.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

March 30, 2011



Deloitte & Touche LLP
Suite 800
1750 Tysons Boulevard
McLean, VA 22102-4219
USA
Tel: +1 703 251 1000
Fax: +1 703 251 3400
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of
Farmer Mac II LLC
Washington, DC

We have audited the accompanying balance sheet of Farmer Mac II (the "Company") as of December 31, 2009, and the related statement of member's equity, and cash flows for the period from December 10, 2009 ("Inception") through December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Farmer Mac II LLC as of December 31, 2009, and the results of their operations and their cash flows for the period from Inception through December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

January 11, 2010

Member of
Deloitte Touche Tohmatsu

FARMER MAC II LLC
BALANCE SHEETS

	As of December 31,	
	2010	2009
	<i>(in thousands)</i>	
Assets:		
Cash and cash equivalents	\$ 15,388	\$ 10
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	36,117	-
Total Farmer Mac Guaranteed Securities	36,117	-
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	-
Interest receivable	22,689	-
Other assets	397	-
Total Assets	\$ 1,392,035	\$ 10
Liabilities and Members' Equity:		
Liabilities:		
Intercompany borrowings	\$ 124,000	\$ -
Accounts payable and accrued expenses	637	-
Total Liabilities	124,637	-
Members' Equity:		
Preferred stock, par value \$1,000 per share, 250,000 shares authorized, issued and outstanding as of December 31, 2010 (redemption value \$250,000,000)	241,853	-
Common stock, no par value	1,020,168	10
Accumulated other comprehensive loss	(8,119)	-
Retained earnings	13,496	-
Total Members' Equity	1,267,398	10
Total Liabilities and Members' Equity	\$ 1,392,035	\$ 10

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENT OF OPERATIONS

	For the Year Ended December 31, 2010	
	<i>(in thousands)</i>	
Interest income:		
USDA and Farmer Mac Guaranteed Securities	\$	41,367
Interest expense		2,066
Net interest income		39,301
Non-interest loss:		
Losses on trading assets		(3,890)
Other income		4
Non-interest loss		(3,886)
Non-interest expense:		
General and administrative		1,212
Non-interest expense		1,212
Net income		34,203
Preferred stock dividends		(20,707)
Net income available to common stockholders	\$	13,496

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF MEMBERS' EQUITY

	For the Year Ended December 31, 2010		From Inception Through December 31, 2009	
	Shares	Amount	Shares	Amount
	<i>(in thousands)</i>			
Preferred stock:				
Balance, beginning of period	-	\$ -	-	\$ -
Issuance of preferred stock	250	241,853	-	-
Balance, end of period	250	\$ 241,853	-	\$ -
Common stock:				
Balance, beginning of period		\$ 10		\$ -
Issuance of common stock		1,020,158		10
Balance, end of period		\$ 1,020,168		\$ 10
Retained earnings:				
Balance, beginning of period		\$ -		\$ -
Net income		34,203		-
Preferred stock dividends		(20,707)		-
Balance, end of period		\$ 13,496		\$ -
Accumulated other comprehensive loss:				
Balance, beginning of period		\$ -		\$ -
Change in unrealized loss on available-for-sale securities		(8,119)		-
Balance, end of period		\$ (8,119)		\$ -
Total Members' Equity		\$ 1,267,398		\$ 10
Comprehensive income:				
Net income		\$ 34,203		\$ -
Change in accumulated other comprehensive loss		(8,119)		-
Comprehensive income		\$ 26,084		\$ -

See accompanying notes to financial statements.

FARMER MAC II LLC
STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 2010	From Inception Through December 31, 2009
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net income	\$ 34,203	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on USDA and Farmer Mac Guaranteed Securities	9,410	-
Net change in fair value of trading securities	3,890	-
Increase in interest receivable	(4,677)	-
Decrease in other assets	672	-
Increase in other liabilities	576	-
Net cash provided by operating activities	44,074	-
Cash flows from investing activities:		
Purchases of USDA and Farmer Mac Guaranteed Securities	(407,070)	-
Proceeds from repayment of USDA and Farmer Mac Guaranteed Securities	273,166	-
Net cash used in investing activities	(133,904)	-
Cash flows from financing activities:		
Issuance costs of preferred stock	(8,147)	-
Proceeds from issuance of common stock	10,000	10
Dividends paid on preferred stock	(20,645)	-
Proceeds from intercompany borrowings	124,000	-
Net cash provided by financing activities	105,208	10
Net increase in cash and cash equivalents	15,378	10
Cash and cash equivalents at beginning of period	10	-
Cash and cash equivalents at end of period	\$ 15,388	\$ 10

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting and reporting policies of Farmer Mac II LLC (the “Company”) conform to accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. These financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Farmer Mac II LLC for the periods presented. The Company initiated business operations in January 2010. As such, no comparative statement of operations is presented in the accompanying financial statements.

2. Description of the Business

On December 10, 2009, Farmer Mac II LLC was formed as a Delaware limited liability company. The Company was established to operate the Farmer Mac II program. Under the Farmer Mac II program, the Company purchases the portion of loans guaranteed by the United States Department of Agriculture (the “USDA Guaranteed Securities”) pursuant to the Consolidated Farm and Rural Development Act (7 U.S.C. §§ 1921 et. seq.). The Company’s principal source of revenue is net interest income earned on the portfolios of USDA Guaranteed Securities and USDA Guaranteed Securities that have Farmer Mac’s guarantee of timely payment of principal and interest in addition to the USDA Guarantee (“Farmer Mac Guaranteed Securities”), together referred to as “USDA and Farmer Mac Guaranteed Securities.”

3. Related Party Transactions

Farmer Mac II LLC is an operating subsidiary of the Federal Agricultural Mortgage Corporation (“Farmer Mac”). In December 2009, the Company issued common stock to Farmer Mac, the sole Member of the Company as of December 31, 2009, in exchange for cash, as the initial transaction after formation of the Company. On January 25, 2010, Farmer Mac transferred substantially all of the Farmer Mac II program business, including \$1.2 billion of USDA and Farmer Mac Guaranteed Securities and \$19.1 million in accrued interest receivable and other assets, to Farmer Mac II LLC in exchange for all of the preferred stock and \$1.0 billion of additional common stock in the Company. Farmer Mac simultaneously sold the preferred stock to third party investors.

The Company entered into an uncommitted intercompany borrowing facility with Farmer Mac in the aggregate principal amount of up to \$300.0 million and pays an administrative fee to Farmer Mac in connection with each borrowing under the facility. As of December 31, 2010, there were \$124.0 million of borrowings outstanding under the facility. During 2010, the Company incurred interest expense of \$2.1 million for borrowings under this facility. Principal on loans

under the facility is payable on the last business day of each calendar month but, with Farmer Mac approval, may be refinanced in whole or in part, on a month-by-month basis, provided that no event of default under the facility has occurred and is continuing. The interest rate on loans is Farmer Mac's estimated cost of funds plus a credit spread capped at 0.50 percent. Farmer Mac earned \$0.1 million in guarantee fees during 2010, which reduce interest income, related to the Farmer Mac II Guaranteed Securities owned by Farmer Mac II LLC.

Pursuant to a Secondment Agreement and a Management and Administrative Services Agreement, Farmer Mac provides various services to the Company, including management of the day-to-day business and marketing, administrative, accounting and reporting, risk management and other activities of the Company, including access to and use of office space within Farmer Mac's corporate offices and information technology services. During 2010, the cost of these services was \$0.6 million.

The Company has agreed to reimburse Farmer Mac for all expenses reasonably incurred by or on its behalf by Farmer Mac in the course of the performance by Farmer Mac employees under the Secondment and Management and Administrative Services Agreements, subject to certain caps. The Company has agreed to indemnify Farmer Mac and its respective officers, directors, and employees against any and all out of pocket liabilities, losses, damages, costs and expenses incurred by them arising out of a claim against any of them to the extent that it directly results from the provision under the Secondment or Management and Administrative Services Agreements.

The Company has an Administrator Agreement with Zions First National Bank ("Zions"). Zions is the largest holder of Farmer Mac's outstanding Class A voting stock and a large holder of Farmer Mac's outstanding Class C non-voting common stock as of December 31, 2010. Farmer Mac from time to time enters into or engages in various business transactions with Zions. Zions received fees of \$0.3 million, netted out of interest income, in connection with the Administrator Agreement during 2010.

Transactions between Farmer Mac II LLC and Farmer Mac are conducted on an arms-length basis.

4. Significant Accounting Policies

Cash and cash equivalents and Statement of Cash Flows

The Company considers highly liquid investment securities with original maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents is a reasonable estimate of their approximate fair value. Changes in the balance of cash and cash equivalents are reported in the statement of cash flows. Non-cash activity for the year ended December 31, 2010 included the transfer, at fair value, of \$1.3 billion of USDA and Farmer Mac Guaranteed Securities and related accrued interest from Farmer Mac in exchange for Company common and preferred stock. Interest paid during the year ended December 31, 2010 totaled \$1.7 million.

Income Taxes

Effective January 25, 2010, the Company became a multi-member LLC and is treated as a partnership for federal and state income tax purposes. As such, the taxable income that results from the Company's operations is passed through to its members who are responsible for paying the taxes on that income. Accordingly, the Company has made no accrual for income taxes as of December 31, 2010 and paid no income taxes in 2010.

Prior to January 25, 2010, the Company was a single member LLC and was treated as a disregarded entity for federal and state income tax purposes.

The Company, by virtue of its relationship with Farmer Mac, is exempt from state and local income taxes.

Fair Value Measurements

The Company accounts for all USDA and Farmer Mac Guaranteed Securities at fair value on a recurring basis. The Company categorizes these securities into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the security. The three levels used to classify fair value measurements are described as follows:

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.

The Company estimates the fair value of its USDA and Farmer Mac Guaranteed Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. As of December 31, 2010, the Company classifies all its assets measured at fair value as level 3 because there is limited market activity and therefore little or no price transparency. On a sample basis, the Company corroborates the fair value of its securities by obtaining a secondary valuation from an independent third party pricing service.

New Accounting Standards

Accounting for Transfers of Financial Assets

On December 23, 2009, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that codifies recent accounting guidance related to transfers of financial assets. The new guidance eliminates the concept of a qualified special

purpose entity, changes the requirements for derecognizing financial assets and enhances information reported to financial statement users by increasing the transparency or disclosures about transfers of financial assets and an entity's continuing involvement with transferred financial assets. The Company adopted the ASU on January 1, 2010 and the impact of adoption was not material to its financial position, results of operations or cash flows.

Variable Interest Entities ("VIEs")

On December 23, 2009, the FASB issued an ASU that codifies recent accounting guidance on consolidation of VIEs. The new guidance replaces the quantitative-based risks-and-rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity. The ASU requires additional disclosures about a reporting entity's involvement with VIEs and about any significant changes in risk exposure as a result of that involvement. The Company adopted this ASU on January 1, 2010.

The Company's involvement in VIEs is limited to beneficial interests in Farmer Mac Guaranteed Securities trusts that are on the Company's balance sheet, effective with the transfer of assets on January 25, 2010. The Company evaluated the conditions for consolidation and determined that it did not have the power to direct the activities that most significantly affect the economic performance of the trust because it does not control default mitigation decisions. Therefore, the Company did not consolidate any VIEs under the new accounting guidance. The maximum exposure to loss related to its involvement in the VIEs is the carrying amount of Farmer Mac Guaranteed Securities on the balance sheet; however, because of the USDA guarantee, the Company does not expect losses and does not expect to provide an allowance for losses. The assets of Farmer Mac II LLC would be available to creditors of Farmer Mac, as sole common equity holder, only after all obligations owed to creditors of and preferred equity holders in Farmer Mac II LLC had been satisfied.

Fair Value Measurements and Disclosures

On January 21, 2010, the FASB issued an ASU that amends FASB guidance on fair value measurements and disclosures to add new requirements for disclosures about transfers into and out of levels 1 and 2 and separate disclosures about purchases, sales, issuance, and settlements relating to level 3 measurements. The new standard also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The ASU was effective for first quarter 2010 reporting except for the level 3 activity disclosures, which are effective in first quarter 2011. Adoption of the new accounting guidance did not have a significant impact on the Company's fair value disclosures.

Loan Modifications When the Loan Is Part of a Pool That Is Accounted for as a Single Asset

On April 29, 2010, the FASB issued ASU 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*, which established that modifications of loans that are accounted for within a pool under the guidance for acquisitions of credit-impaired loans do not result in the removal of those loans from the pool, even if the modification of those loans would otherwise be considered a troubled debt restructuring. Loans

accounted for individually under the guidance for acquisitions of credit-impaired loans continue to be subject to the accounting provisions for troubled debt restructurings. The ASU was effective for third quarter 2010 reporting. Adoption of ASU 2010-18 did not have a material effect on Farmer Mac II LLC's financial position, results of operations or cash flows.

Embedded Credit Derivatives

On March 5, 2010, the FASB issued ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives*, which amends and clarifies the accounting for credit derivatives embedded in interests in securitized financial assets. The new guidance addresses situations where an embedded credit derivative requires bifurcation and separate measurement. The ASU was effective for third quarter 2010. Adoption of ASU 2010-11 did not have a material effect on Farmer Mac II LLC's financial position, results of operations or cash flows.

Credit Quality of Financing Receivables and the Allowance for Credit Losses

On July 21, 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires more robust and disaggregated disclosures to assist financial statement users in understanding more clearly an entity's credit risk exposures to finance receivables and the related allowance for credit losses. The new and amended disclosure requirements focus on five areas: nonaccrual and past due loans; allowance for credit losses; impaired loans; credit quality information; and modifications. The disclosures that relate to information as of the end of a reporting period will be effective for periods ending on or after December 15, 2010 and information related to activity that occurs during a reporting period will be effective for the first interim or annual period beginning after December 15, 2010. Since ASU 2010-20 only requires additional disclosures, it did not have an impact on Farmer Mac II LLC's financial position, results of operations or cash flows.

5. USDA and Farmer Mac Guaranteed Securities

The following table sets forth information about USDA and Farmer Mac Guaranteed Securities as of December 31, 2010.

	December 31, 2010		
	Available- for-Sale	Trading	Total
USDA Guaranteed Securities	\$ 1,005,679	\$ 311,765	\$ 1,317,444
Farmer Mac Guaranteed Securities	36,117	-	36,117
Total	<u>\$ 1,041,796</u>	<u>\$ 311,765</u>	<u>\$ 1,353,561</u>
Amortized cost	\$ 1,049,915	\$ 315,655	\$ 1,365,570
Unrealized gains	4,643	106	4,749
Unrealized losses	(12,762)	(3,996)	(16,758)
Fair value	<u>\$ 1,041,796</u>	<u>\$ 311,765</u>	<u>\$ 1,353,561</u>

Farmer Mac transferred these assets at their fair value, which resulted in an unamortized premium of \$39.1 million being recorded by Farmer Mac II LLC. This premium is being amortized over the estimated remaining lives of the underlying USDA-guaranteed portions. The USDA Guaranteed Securities classified as trading relate to securities for which the fair value option was elected by Farmer Mac prior to transfer of the securities to the Company. Farmer Mac II LLC maintained the fair value option election for these securities.

The temporary unrealized losses presented above are principally due to changes in interest rates from the date of transfer of the assets contributed by Farmer Mac to December 31, 2010. The USDA and Farmer Mac Guaranteed Securities are backed by the full faith and credit of the United States. Therefore, Farmer Mac II LLC has concluded that none of the unrealized losses on its available-for-sale securities represents other-than-temporary impairment as of December 31, 2010. Farmer Mac II LLC does not intend to sell these securities and it is not more likely than not that Farmer Mac II LLC will be required to sell the securities before recovery of the amortized cost basis. Farmer Mac II LLC did not sell any USDA and Farmer Mac Guaranteed Securities during the year ended December 31, 2010.

The table below presents a sensitivity analysis for the Company's USDA and Farmer Mac Guaranteed Securities as of December 31, 2010.

	<u>December 31, 2010</u>	
	<i>(dollars in thousands)</i>	
Fair value of beneficial interests retained in USDA and Farmer Mac Guaranteed Securities	\$	1,353,561
Weighted-average remaining life (in years)		3.9
Weighted-average prepayment speed (annual rate)		10.9%
Effect on fair value of a 10% adverse change	\$	(19)
Effect on fair value of a 20% adverse change	\$	(19)
Weighted-average discount rate		4.2%
Effect on fair value of a 10% adverse change	\$	(9,704)
Effect on fair value of a 20% adverse change	\$	(19,192)

These sensitivities are hypothetical. Changes in fair value based on 10 percent or 20 percent variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In fact, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might amplify or counteract the sensitivities.

6. Fair Value Disclosures

The following tables present additional information about the Company's securities measured at fair value on a recurring basis. Net transfers reflect the contribution of the securities by Farmer Mac at fair value on the date of transfer.

Level 3 Assets and Liabilities Measured at Fair Value for the Year Ended December 31, 2010

	Beginning Balance	Net Transfers In	Purchases and Repayments, net	Unrealized Losses included in Income	Unrealized Losses included in Other Comprehensive Loss	Ending Balance
Recurring:						
Assets:						
Farmer Mac Guaranteed Securities:						
Available-for-sale	\$ -	\$ 37,630	\$ (183)	\$ -	\$ (1,330)	\$ 36,117
Total Farmer Mac Guaranteed Securities	-	37,630	(183)	-	(1,330)	36,117
USDA Guaranteed Securities:						
Available-for-sale	-	756,113	256,355	-	(6,789)	1,005,679
Trading (1)	-	421,279	(105,624)	(3,890)	-	311,765
Total USDA Guaranteed Securities	-	1,177,392	150,731	(3,890)	(6,789)	1,317,444
Total Assets at fair value	\$ -	\$ 1,215,022	\$ 150,548	\$ (3,890)	\$ (8,119)	\$ 1,353,561

(1) Unrealized losses are attributable to assets still held as of December 31, 2010 and are recorded in Losses on trading assets.

The following table sets forth the estimated fair values and the carrying amounts for financial assets and liabilities as of December 31, 2010 in accordance with FASB guidance on disclosures about fair value of financial instruments.

	December 31, 2010	
	Fair Value	Carrying Amount
Financial assets:		
Cash and cash equivalents	\$ 15,388	\$ 15,388
Farmer Mac Guaranteed Securities	36,117	36,117
USDA Guaranteed Securities	1,317,444	1,317,444
Interest receivable	22,689	22,689
Financial liabilities:		
Intercompany borrowings	\$ 124,000	\$ 124,000
Interest payable	383	383

The carrying amount of cash and cash equivalents, interest receivable, intercompany borrowings and interest payable is a reasonable estimate of their approximate fair value. The Company estimates the fair value of its USDA and Farmer Mac Guaranteed Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved.

7. Members' Equity

As of December 31, 2010, there were 250,000 shares of preferred stock issued and outstanding. The preferred stock is non-cumulative perpetual preferred stock. The dividend rate is 8.875% per annum up to but excluding the payment in first quarter 2015, adjusts at that time to 10.875% up to but excluding the payment in first quarter 2020, then adjusts to its perpetual rate of three-month LIBOR plus 8.211%.

The following table presents the dividends declared on Farmer Mac II LLC Preferred Stock during and subsequent to 2010.

Date Dividend Declared	Per Share Amount	For Period Beginning	For Period Ending	Date Paid
March 10, 2010	\$ 16.0200	January 25, 2010	March 29, 2010	March 30, 2010
June 2, 2010	22.1875	March 30, 2010	June 29, 2010	June 30, 2010
August 5, 2010	22.1875	June 30, 2010	September 29, 2010	September 30, 2010
December 2, 2010	22.1875	September 30, 2010	December 29, 2010	December 30, 2010
February 3, 2011	22.1875	December 30, 2010	March 29, 2011	*

* The dividend declared on February 3, 2011 is scheduled to be paid on March 30, 2011.

The holders of the preferred stock generally have no voting rights; however, under certain circumstances, including non-payment of dividends for four quarterly periods, the holders of preferred stock are entitled to elect a total of two of the five directors of Farmer Mac II LLC.

There was \$1.0 billion and \$10,000 of no-par value common stock outstanding as of December 31, 2010 and 2009, respectively. No common stock dividends have been declared as of December 31, 2010.

8. Quarterly Financial Information (Unaudited)

	2010 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
	<i>(in thousands)</i>			
Interest income:				
USDA and Farmer Mac Guaranteed Securities	\$ 11,180	\$ 12,114	\$ 10,157	\$ 7,916
Interest expense	1,114	748	204	-
Net interest income	<u>10,066</u>	<u>11,366</u>	<u>9,953</u>	<u>7,916</u>
Non-interest (loss)/income:				
(Losses)/gains on trading assets	(5,963)	(2,066)	5,657	(1,518)
Other income	2	-	1	1
Non-interest (loss)/income	<u>(5,961)</u>	<u>(2,066)</u>	<u>5,658</u>	<u>(1,517)</u>
Non-interest expense:				
General and administrative	316	210	324	362
Non-interest expense	<u>316</u>	<u>210</u>	<u>324</u>	<u>362</u>
Net income	3,789	9,090	15,287	6,037
Preferred stock dividends	(5,547)	(5,546)	(5,546)	(4,068)
Net (loss)/income available to common stockholders	<u>\$ (1,758)</u>	<u>\$ 3,544</u>	<u>\$ 9,741</u>	<u>\$ 1,969</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of financial condition and results of operations should be read together with the financial statements and related notes to the financial statements that appear elsewhere in this report. The discussion below is not necessarily indicative of future results.

Overview

In January 2010, Farmer Mac II LLC initiated operations upon the issuance of its preferred stock and common stock to Farmer Mac as consideration for the contribution by Farmer Mac to Farmer Mac II LLC of substantially all of the assets, totaling \$1.3 billion, comprising the Farmer Mac II program business. Through its Farmer Mac II program, Farmer Mac II LLC purchases USDA-guaranteed portions of farm ownership loans, farm operating loans, business and industry loans, community facilities loans and other portions of loans that are fully guaranteed as to principal and interest by the USDA ("USDA Guaranteed Securities"). Farmer Mac II LLC also holds USDA Guaranteed Securities that have Farmer Mac's guarantee of timely payment of principal and interest in addition to the USDA Guarantee ("Farmer Mac Guaranteed Securities"). During the period from initiation of operations through December 31, 2010, the Company purchased \$407.1 million of USDA Guaranteed Securities. As of December 31, 2010, the Farmer Mac II LLC portfolio consisted of \$36.1 million in Farmer Mac Guaranteed Securities and \$1.3 billion of USDA Guaranteed Securities.

Critical Accounting Policies and Estimates

The preparation of Farmer Mac II LLC's financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the amounts reported in the financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policy that is both important to the portrayal of Farmer Mac II LLC's financial condition and results of operations and requires complex, subjective judgments is the accounting policy for fair value measurement. For a discussion of Farmer Mac II LLC's accounting policy on fair value measurement, see note 4 in the Notes to Financial Statements.

Results of Operations

Net interest income was \$39.3 million for the year ended December 31, 2010. During 2010, Farmer Mac II LLC borrowed \$124.0 million under the uncommitted Farmer Mac borrowing facility. Interest expense for the year ended December 31, 2010 was \$2.1 million.

Non-interest loss was \$3.9 million for the year ended December 31, 2010, primarily due to changes in the fair value of USDA Guaranteed Securities classified as trading.

Non-interest expense was \$1.2 million for the year ended December 31, 2010, primarily related to legal fees and contract services provided by Farmer Mac under Secondment and Management and Administrative Services Agreements.

Balance Sheet Analysis

The primary assets related to the Farmer Mac II line of business are the USDA Guaranteed Securities and Farmer Mac Guaranteed Securities. From January 25, 2010 when the assets were transferred from Farmer Mac, the amount of these securities increased by \$138.5 million to \$1.4 billion as of December 31, 2010.

Liquidity and Capital Resources

The funding and liquidity needs of the Farmer Mac II program business are driven by the purchase and retention of USDA Guaranteed Securities. The primary sources of funds to meet these needs are principal and interest payments received on those securities. Farmer Mac II LLC also has access to a \$300 million uncommitted borrowing facility from Farmer Mac, against which the company had \$124.0 million in outstanding borrowings as of December 31, 2010. Principal on loans under the facility is payable on the last business day of each calendar month but, with Farmer Mac approval, may be refinanced in whole or in part, on a month-by-month basis, provided that no event of default under the facility has occurred and is continuing. The interest rate on loans is Farmer Mac's estimated cost of funds plus a credit spread capped at 0.50 percent. The amount of the uncommitted borrowing facility was increased to \$500 million on March 25, 2011.

Farmer Mac II LLC had \$15.4 million in cash and cash equivalents as of December 31, 2010, compared to \$10,000 as of December 31, 2009.

As of December 31, 2010, Farmer Mac II LLC had members' equity of \$1.3 billion comprised primarily of \$241.9 million of preferred stock and \$1.0 billion of common stock.